Build Your Own Fully-Funded LTCI Policy with Hybrid Annuities

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A basic problem for clients looking for long-term care insurance today is that they simply may not be able to find it. Major carriers have pulled out of the market in the last year, and the policies that remain can be prohibitively expensive and contain strict qualification requirements.

Fortunately, the product market is evolving so that a relatively new method of securing tax-preferred long-term care benefits has emerged. Hybrid annuity products that combine the estate and income planning features of an annuity with the protection of long-term care insurance are becoming increasingly popular among clients looking for replacement insurance. Because the available long-term care benefits under these contracts are based on a percentage of the annuity premium value and often offer optional inflation coverage, clients may triple their initial investment to ensure long-term care needs are met, with the added bonus that those funds are not lost if care is never required.

# Annuities with Long-Term Care: The Mechanics

Typically, the value of the long-term care benefits that will be available to your client under an annuity with long-term care coverage is based on a percentage of his initial premium investment (usually 200 or 300 percent of the client’s investment). The client must also choose whether he wants to include inflation protection, which ensures that the contract value grows at a rate that is designed to keep pace with the rising costs of long-term care.

When the client needs long-term care, the costs are paid out of the accumulated value of the annuity (most contracts will specify the maximum monthly benefit based on the contract value and the coverage period chosen by the client) until the annuity value is depleted. Your clients will also usually have the option of purchasing an extended benefit, which will continue benefits after the account is depleted. Many hybrid annuity contracts will also allow a contract owner’s spouse to be covered under the same contract. While the minimum buy-in for these annuity products is around $50,000, if the client has another annuity or life insurance product that he is not using, the funding can be accomplished through a tax-free 1035 exchange.

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# Comparing the Traditional Long-Term Care Policy

While premiums paid to fund the traditional long-term care policy will continue over the life of the policy, an annuity contract with long-term care benefits is fully funded when the contract is purchased. The client will not have to worry about meeting the monthly premium payment or potential future increases in that premium.

Further, while a long-term care policy provides benefits only if the client eventually does require long-term care, the value of the annuity with long-term care benefits may be withdrawn by the client when the contract reaches maturity or passed on to the client’s heirs in the event that care is not required. Conversely, the client’s investment in a traditional policy is lost if he does not require care.

Many annuity contracts with long-term care riders will provide coverage with significantly fewer qualification requirements than a traditional policy, providing an attractive alternative for clients with preexisting conditions who may be unable to qualify for traditional policies.

Like a traditional long-term care policy, if amounts are withdrawn to pay for the client’s long-term care expenses, those amounts are taken tax-free (regardless of whether they represent the client’s investment in the contract or earnings over the accumulation period).

However, clients should be advised that some of these contracts may take years to fully mature and tie up a larger dollar value over this accumulation period. The contract may permit the client to make withdrawals during the accumulation period, but any withdrawals will reduce the amounts available to the client if care is needed.

# Conclusion

Though a hybrid annuity contract may not be the solution for all clients, for those who seek to protect themselves in the event that extended long-term care becomes necessary, finding long-term care benefits through the use of an annuity product may provide a relatively simple-to-obtain and tax-preferred alternative.