New Crop of Hybrids Ushers in the Future of LTCI

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When it comes to long-term care coverage, advising risk adverse clients has historically required a balancing act that many traditional long-term care insurance (LTCI) policies simply are not cut out for. In weighing the need for coverage against the risk of a lost investment, clients frequently decide against obtaining coverage. Fortunately, changes in the long-term care marketplace have recently inspired a new crop of products that can alleviate some concerns of clients who are already feeling the pinch of a persistently low interest rate economy. While longer lifespans and the ever-increasing cost of care have led to dramatically higher LTCI costs, new asset-based products can allow your clients to obtain affordable coverage on an almost risk-free basis, with features and tax-preferences that will likely tip the scales in favor of coverage for even the most cautious of clients.

# The Modern Long-Term Care Product

Modern LTCI often comes packaged with life insurance or an annuity product. The primary appeal of combining life insurance (or an annuity) with LTCI is that these hybrid policies eliminate the risk that the client will never require long-term care coverage. The life insurance policy or annuity will provide a standard death benefit—either in the form of death proceeds or annuity payouts—to the contract beneficiaries even if the long-term care feature is never accessed.

Most modern-day hybrid policies have evolved so that they also contain a return of premium option so that clients can access the investment during life if they decide to use the funds for other purposes, thereby eliminating the risk that a client will lose his investment simply by being fortunate enough to never require long-term care.

In order to make these hybrid products more affordable, many insurance carriers have begun giving clients the option of paying for the contract in installments—spreading the payments over ten or twenty years—rather than buying the contract in a single lump sum payment, as has traditionally been the norm for annuity hybrids. Regardless of the payment term, these contracts guarantee that the level of premium will remain constant over the term, as opposed to traditional LTCI policies that have recently seen substantial premium increases.

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Similarly, the level of benefits that the client becomes entitled to upon purchasing the contract is guaranteed and is often based upon a percentage of the funds that the client chooses to invest in the contract.

Further, it is now possible to purchase a single hybrid policy that covers a married couple, rather than only one spouse. This type of second-to-die policy, while common among solo products, is a newly emerging feature for hybrid LTCI policies.

# IRA-Funded Long-Term Care

Clients also have the option of funding LTCI with tax-deferred IRA funds. By using pre-tax dollars that the client has already contributed to an IRA account, he can fund an IRA annuity that, in term, is set up to automatically fund a hybrid life insurance-LTCI policy over a period of years.

Because periodic payments are automatically transferred from the IRA annuity to the hybrid policy issuer, the risk that your client will miss a payment is eliminated. This strategy may be especially attractive to your clients who have heavily funded tax-preferred retirement accounts but have relatively little cash on hand to fund the policy premiums.

# Conclusion

As with other financial products, evolving demand among clients has created an impetus for change in the market for LTCI. While the traditional model may no longer be viable for many clients, modern hybrid policies combine long-term care coverage with a life insurance or annuity contract to guarantee benefits, with new features and options that clients have come to expect from stand-alone financial products.