Paying for Long Term Care with a Hybrid Life Insurance Policy

My Comments: Long Term Care and the associated costs have become an increasingly obvious existential risk faced by people in retirement. We're living longer and longer and despite our best efforts, we tend to become more goofy and less healthy as we age.

If we can no longer function on our own, of if we have a family member capable of helping, there is still the need for timely and sometimes extended assistance. Mindful we're in an essentially free market economy, someone is going to have to pay for that assistance when our family members are exhausted.

Medicare does not have a mandate to care for us. Medicaid does have such a mandate but before it comes into play, we have to almost exhaust our personal resources before we become eligible.

So what is the best way to pay for it? The insurance industry has increasingly experienced a burnout and many companies have dropped out of the business. Those who remain are increasing their premiums along the lines of 12% or more every year. That's hard on most consumers. Here's a viable option but you need to buy it while you still can.

The embedded video below features Jamie Hopkins of The American College. This is the organization where I earned by CLU and ChFC designations some 40 years ago.

by Jamie Hopkins – Professor of Retirement at The American College – October 10, 2018

While traditional stand-alone long-term care insurance (LTC) products have seen a drop in popularity in the past several years as a result of companies leaving the marketplace and of spiraling policy premiums, life insurance-backed long-term care financing strategies have experienced tremendous growth. In 2017, life-LTC hybrid policies increased by about 5 percent to 260,000 new policies sold. To put this in perspective, only 70,000 stand-alone policies were sold in 2017, but over 750,000 had been sold back in 2000. Furthermore, new premiums paid for these hybrid policies increased by over 18 percent, and about 25 percent of all new U.S. life insurance premiums paid went to policies that offer benefits for long-term care or chronic illness. While there have been a few new products developed in the stand-alone long-term care insurance market like one rolled out in the summer of 2018 by New York Life, most of the recent developments have been in the hybrid-based life insurance market.

[youtube https://www.youtube.com/watch?v=uuvv8Aj-jQ0]

Despite the growth of the life-LTC hybrid policy marketplace, many people still do not have a definitive understanding of the differences in options now available. Generally speaking, life insurance-based long-term care combination products (often called hybrid or asset-based products) fall into two main categories: 1) linked-benefit products under 26 U.S.C. §

7702(b) and 2) accelerated death-benefit riders under 26 U.S.C. § 101(g). Linked benefits under 7702(b) are closer to true long-term care benefits and can be marketed as such, while accelerated death-benefit or chronic illness riders under 101(g) cannot be marketed as long-term care insurance, even though the benefits can be used for long-term care expenses.

The more common type of benefit on existing life insurance policies is the 101(g) accelerated death-benefit rider. These riders often have no additional up-front charge and are just included as part of the policy; however, this is not always the case, as some policies do charge extra for the rider up front. The rider cannot be marketed as long-term care coverage and the policy cannot pay out anything in excess of the life insurance death-benefit face amount. Typically, the amount of money that can be accelerated and paid out before death is determined by a number of factors including age, gender, class of policy, interest rate, and policy death-benefit amount. All accelerated benefits for chronic illness require indemnity payment. (Indemnity pays a monthly or daily cash benefit and reimbursement pays benefits based on actual incurred expenses). For instance, the higher the interest rate and the younger you are when you file a claim for accelerated death benefits, the more the death benefit will be discounted.

"There are a growing number of insurers offering optional 101(g) riders that are underwritten, charge a premium and permit the acceleration of the entire death benefit without requiring that the condition be deemed permanent. Typically, 2 percent, 4 percent or the HIPAA daily maximum can be selected at the time of policy issue," says Bill Borton, a long-term care specialist at W.R. Borton & Associates in Marlton, N.J. "Boomers like them because they are indemnity and pay cash, rather than the 7702(b) riders that typically reimburse care from qualified caregivers."

Under a chronic illness rider, the individual must be certified as "chronically ill" by a licensed health care practitioner as being unable to perform at least two activities of daily living, be disabled at a similar level, or have severe cognitive impairment. Activities of daily living are defined as 1) eating, 2) toileting, 3) transferring, 4) bathing, 5) dressing, and 6) continence. The receipt of benefits is generally treated as income tax free as long as they do not exceed certain HIPAA daily limits.