Choices in Long Term Care Health Insurance

Long Term Care Hybrid Policies

From A.M. Hyers

Until recently, consumers had few choices when it came to long term care health insurance. Traditional policies, which provided a certain amount of selected coverage, were the norm. Policies could be designed to cover care expenses for a few months, or much longer, even providing benefits for the insured's lifetime. For example, consumers could purchase coverage that would provide $100 a day in benefits for a period of three years. When calculated, the $100 daily benefit multiplied by 365 days in a year for 3 years would create a $109,500 "pool of money" available for care. This pool of money would pay for care in a nursing home, assisted living facility, adult day care, or in the personal residence of the policyholder once certain criteria had been met.

What Happens When the Money is Gone?

When the pool of money was depleted, the traditional long term care policy would provide no more benefits. However, if the long term health insurance policy was never used, the owner would lose the investment of his or her premium payments. Thus, some seniors opted not to purchase these policies, deciding instead to rely on their families or current savings in the event that care became necessary.

What About Paying for it Out of Pocket?

With the cost of health care rising rapidly, and a single day in a nursing home costing $175 or more in major cities, self insuring is a risky proposition. Relying on family is an alternative, but not necessarily a viable one. Unfortunately, most families do not have the time, resources or ability to provide around the clock care to a loved one.

The "Return of Premium" Rider

The insurance industry realized that consumer needs were not always being met with long term care insurance policies. While traditional long term care health insurance policies were satisfactory for some, many others wanted more guarantees in the event their long term care policy was never used. Thus, these traditional policies added a "return of premium" rider. If the policy was not used over a set period of time, say 10 years, then the insurance company would return a portion of the premiums to the policy owner or a family member. This, like any other rider, came at an additional expense to the purchaser.

The Hybrid or Linked Long Term Care Insurance Policy

In response to customer and agent demand, insurance companies have designed what can be best described as hybrid or linked policies. These policies combine the benefits of an annuity or life insurance agreement with a traditional long term care contract. With hybrid policies, the consumer has the guarantee of long term care benefits or, if no care is needed, the promise of insurance benefits to themselves and their beneficiaries.

How do Hybrid Long Term Care Insurance Policies Work?

Hybrid policies work in several ways. One policy links long term care to a life insurance policy. With this plan, the insured deposits a set premium into a policy. Depending on the age, gender and health of the client- an immediate pool of money is created for long term care. At the same time, an immediate death benefit is created in life insurance. Take, for example, a healthy 65 year old non-smoking woman with $175,000 in liquid assets. If she deposits $50,000 into this account, approximately $87,000 in long term care benefits would be created immediately. There would also be a death benefit to her beneficiaries of approximately $87,000 created from the life insurance component of this account. At an additional cost, she can select a benefit rider which would provide approximately $260,000 in long term care benefits as oppose to the original $87,000. In this example, she receives guarantees on her investment as well as protection from the high costs associated with a nursing home stay. In addition, she would still have $125,000 in assets at her disposal.

Long Term Care Insurance Linked to an Annuity

Another example of these combination long term care health insurance policies links long term care benefits to a single premium deferred annuity. This product begins as an annuity with either a lump sum deposit or structured deposits made over time. If no care is needed, the annuity gains interest functioning like any other fixed annuity. But if the owner/annuitant needs care in a nursing home or elsewhere, a formula will be used to determine the amount of the monthly benefit available to the client. Taking the example used earlier, a healthy 65 year old woman who deposited $150,000 into this account would have the advantages of tax-deferred, safe growth in the annuity and approximately $4,700 a month of long term care benefits for 36 months. At an additional cost, a benefit rider added to this policy would provide the $4,700 monthly benefit for her lifetime. On these types of policies, the additional benefit rider is usually a wise purchase in order to obtain maximum guarantees.

The Latest in Long Term Care Hybrid Insurance Policies

The newest addition to the hybrid marketplace is the long term care annuity. This product also functions exactly like a fixed annuity, but has a long term care multiplier built into the policy. There is no premium rider attached to this medically underwritten annuity policy. Instead, a portion of the internal return in the contract is used to pay for the long term care benefit. Long term care coverage is calculated based on the amount of coverage selected when the policy is purchased. The insurance company offers a payout of 200% or 300% of the aggregate policy value over two or three years after the annuity account value is depleted. For example, a policyholder with a $100,000 annuity who had selected and aggregate benefit limit of 300% and a two year benefit factor would have an additional $200,000 available for long term care expenses after the initial $100,000 policy value was depleted. The policy owner would spend down the $100,000 annuity value over a two year period and then receive the additional $200,000 over a four year period or longer. In this example the contract pays $50,000 a year for a minimum of six years, but care will last longer if less benefit is needed. Again, if long term care is never needed the annuity value would be paid out lump sum to any named beneficiary.

Will a Hybrid Policy Work for You?

These scenarios are only basic examples of how hybrid policies work. That is to say, the coverage will be different from person to person depending on age, health, gender, premiums and benefits requested. In order to get an accurate proposal, an illustration would be required from the insurance company. These innovative products can meet consumer demands and provide more guarantees by combining traditional long term care insurance with the advantages of life insurance or annuity policies. Thus, consumers who utilize hybrid policies can avoid self-insuring against catastrophic long term care related expenses and have the peace of mind associated with a comprehensive plan.

A.M. Hyers owns and operates Ohio Insurance Plan. To learn more about long term care policies and other insurance products visit: www.ohioinsuranceplan.com