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Three Ways to Buy Long-Term Care Insurance

by

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When shopping for long-term care insurance, three options present themselves: a stand-alone long-term care, or LTC, policy, a fixed annuity with LTC benefits and a life insurance policy with an LTC rider.

Which option is right for you?

"Each has its pros and cons," says Jesse Slome, executive director of the American Association for Long-Term Care Insurance, an industry trade group.

Here's a condensed look at the main considerations surrounding each form of long-term care insurance coverage.

Long-Term Care Policy

According to the nonprofit Insured Retirement Institute, there are four risks to a stand-alone LTC policy: They can be expensive, they acquire no cash value, the premiums may increase, and the underwriting can be time-consuming.

Jim Sullivan, a CPA and personal financial specialist based in Naperville, Ill., confirms that the cost and "premium creep" are top concerns for his clients.

"Affordability is a big issue. If you buy a policy and after a couple of years you just can't afford it anymore, the likelihood is that you're going to drop it, and then all that money is wasted," he says. "Most of my clients have opted for the simpler form of life insurance with a long-term care rider."

Slome says the traditional LTC policy's biggest sales obstacle has led to the proliferation of hybrid life and annuity products with which it now competes.

"People have this misconception that if they buy long-term care and don't use it, they've wasted their money," he says. "We don't look at any other form of insurance that way. That's what makes the sales pitch for hybrid products attractive."

Slome says that if viewed in the same light as home or auto insurance, an LTC policy "is a much more affordable way to cover the larger risk because you're paying small amounts every year." In his view, that means you're keeping more of your money invested for retirement, the returns on which will help offset your LTC premiums along the way.

Sullivan agrees: "If you're looking for pure long-term care protection, dollar for dollar you can't really beat a good long-term care policy," he says. "I would rather see a client get a smaller policy they are comfortable with and can afford than a policy with a risk that they're going to drop it."

Fixed Annuity With LTC Benefits

Fixed annuities, those CD-like investment vehicles that can provide an income stream for life, are a tough sell in the current low interest rate environment. However, if you're a risk-averse shopper who can't pull the trigger on a use-it-or-lose-it long-term care policy, an LTC annuity may be worth exploring.

"It's generally a lot less expensive than a long-term care policy," says Jean Dorrell, a certified estate planner with Senior Financial Security in Ocala, Fla., who sells fixed annuities. "I honestly think LTC policies by themselves are a bad deal; the rates increase, and you pay into it for 10 years and drop it."

Instead, Dorrell directs her clients to a fixed annuity with LTC benefits.

"The majority of them, when you put $100,000 in, that's your $100,000 to spend, whether you need long-term care or not. But by putting the rider on for an extra 1.5 (percent), 2 (percent) or 3% per year, you may have double to use for LTC," she says. "You put that $100,000 in, you pay that rider fee for, let's say seven years -- now your (annuity) balance is, say $150,000, but you have $200,000 in there for long-term care."

The annuity approach has several advantages: You retain access to your money (although fees usually apply), the cost of the LTC rider may be less than an LTC policy, and you can obtain coverage without health underwriting if you've been turned down for a stand-alone policy.

The disadvantage: Besides that steep upfront investment, the rider fee can eat into your annuity's interest income, and you'll be locking that money up today at a relatively low rate.

"With interest rates so low, that's just not attractive," says Slome. "But annuities will take off once interest rates start to go up again."

Life Insurance With an LTC Rider

There's one important question to ask before you consider a life insurance policy with an LTC rider: Do you need life insurance?

"If you don't, why would you buy it?" Slome asks. "The life insurance companies are not giving away free life insurance to incentivize you to buy long-term care protection."

The life insurance approach to long-term care coverage is fairly straightforward: You invest in a cash-value insurance product -- whole, universal or variable universal life -- and select your LTC coverage terms in the rider. Once you trigger your long-term care insurance coverage, it comes out of your policy's death benefit, usually on a prearranged schedule. At death, your beneficiaries get what's left of your life insurance.

The upside: If you don't use the LTC, you've saved the premiums of a stand-alone policy.

The downside? "Some of the combo products I've seen with an LTC rider tend to be fairly expensive," says Sullivan.

Slome adds that because the LTC money comes out of your death benefit first, "you're just getting back your own money, and if you live beyond having spent your own money, then it will trigger the long-term care portion of the policy."

So what's your best move? Slome offers this advice: "If your need for long-term care is relatively short, meaning a year or two, consider a hybrid life product. But if your need is likely to be longer, you're going to blow through the policy and be back on your own savings. Then you're going to regret that you didn't buy a traditional long-term care policy."

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