UNDERSTANDING THE DIFFERENT TYPES OF LONG-TERM CARE INSURANCE

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UNDERSTANDING LONG-TERM CARE INSURANCE

Long-Term Care Insurance (LTCi) provides assistance for costs incurred due to an unforeseen long-term health issue(s), typically lasting longer than 90 days, which results in the insured needing assistance in performing 2 of the 6 regular activities of daily living (ADL's); eating, bathing, dressing, transferring, toileting and/or continence, or suffering from a severe cognitive impairment.

Let's look at 3 Long-Term Care solutions tailored to meet your clients' specific needs:

1. Asset-Based LTCi
2. Life Insurance with LTC or Chronic Illness rider(s)
3. Traditional LTCi

ASSET-BASED LONG-TERM CARE

In today's market, Asset-Based LTC products are the most popular version of LTCi purchased. Asset-Based LTC products approach long-term care coverage with provisions covering premature death, policy surrender and LTC benefits on a "guaranteed" use-it-or-use-it basis. They are constructed on either a life insurance or an annuity chassis that is designed specifically to provide "guaranteed" accelerated LTC benefits in a tax-efficient/tax-free manner in accordance with the current per diem limits.

Asset-Based LTC policies are typically purchased with a single-sum premium; however, there are a few products that offer the ability to structure the premiums on a flexible/annual basis. In addition, once established, premium payments and/or benefit levels cannot be changed by the insurance carrier.

For clients looking for a more stable/guaranteed means to protect their retirement income, investment assets and/or family members from the undue risks, costs and stress that come with a catastrophic long-term care event, but also want to maintain control/liquidity of their investment, an Asset-Based LTC product may be the best option to consider.

LIFE INSURANCE WITH LONG-TERM CARE RIDER

Another growing segment in the LTCi marketplace is the utilization of a long-term care acceleration rider on a permanent life insurance policy. Like the Asset-Based LTC products, a life insurance with LTC rider approaches long-term care coverage with a use-it-or-use-it mindset. Typically, a life insurance with LTC rider is purchased with an individual's primary objective being to leave money to heirs; however, in the event of a long-term care event, the life insurance policy acts as the initial source to pay for the incurred costs, thereby reducing the policy death benefit and legacy to the beneficiaries on a dollar-for-dollar basis.

Although they seem very similar, there are technically 2 different types of acceleration riders available on permanent life insurance policies;

1. Long-Term Care rider(s) - which are filed under the IRC 7702(b) provision
2. Chronic Illness rider(s) - which are filed under the IRC 101(g) provision

In most cases, the utilization of both forms is possible, given the same triggering events as all other LTCi products. These two versions differ in that the Chronic Illness 101(g) riders require that the long-term care triggering event is a chronic condition, such as Parkinson's disease, and the insured is expected not to recover. Due to this stipulation, the benefit cannot be started and stopped as needed. Also, the Chronic Illness 101(g) riders do not require the agent to be health licensed or have LTC CE to sell it because this rider is not viewed by the IRS as a true health insurance/LTCi replacement rider. Only the Long-Term Care 7702(b) rider is viewed as a true health insurance/LTCi replacement and the benefit can be turned on and off as the need requires.

TRADITIONAL LTCI

Traditional LTC insurance is the oldest and most well-known type of LTC insurance. Traditional LTCi products approach long-term care coverage on a use-it-or-lose-it basis. In today's marketplace, Traditional LTCi requires the insured to pay a yearly premium for the life of the policy or until the insured has met the 2 of 6 activities of daily living or severe cognitive impairment qualification necessary to file a claim.

Although Traditional LTCi products are guaranteed renewable, the initial implemented annual premium is not guaranteed for the life of the contract; therefore, it is possible that the insurance carrier increases the required annual premium sometime in the future and/or in situations where the client is on a strict budget, the client will be forced to decrease the available benefits if/when this premium increase occurs. Unfortunately, the added benefits of guaranteed premiums, shorter premiums or lifetime benefits are no longer available with Traditional LTCi products available today.

The 2 biggest advantages with Traditional LTCi are:

1. Typically the cheapest means to insure against an LTCi event; however, this comes at the added risk of unknown premium requirements, unknown future benefits and/or lack of cash value liquidity.
2. Only Traditional LTCi is approved for individual state partnership programs (state requirements vary).