What is a Hybrid LTC Insurance Plan?

Since 2014, Hybrid Long Term Care Insurance policies have been the dominant product solution for families planning to transfer the financial burden of needing chronic care, a risk that is both probable and sizeable. Many families, and their professional advisors, are apprehensive about Long Term Care Insurance, due to the highly publicized rate increases on traditional plans, along with the "use it or lose it" product design. Below are common questions related to product options, along with explanations on how these products generally work.

Why is it called a "Hybrid" Long Term Care Insurance policy?

A Hybrid Long Term Care Insurance policy is technically a life insurance policy with a long term care insurance rider (therein lies the "hybrid"). Unlike most life insurance riders, which are added to plans to supplement the primary benefit of the life insurance protection (the death benefit), the leading benefit of these plans is not the life insurance death benefit, but the robust (and typically fully guaranteed) long term care benefits. Many market-leading products guarantee a fixed premium (amount and duration), the LTC insurance pool of benefits, the inflation protection on the LTC insurance benefits, the return of premium rider and the life insurance death benefit. When exploring market options, confirming the contractual guarantees in a product is vitally important.

How does it work?

The simplest way to connect with these plans is to consider the three ways the benefits can ultimately be used:

- "Live" – If the insured lives a long life and needs care, there is a large pool of LTC insurance benefits that can be accessed each month as soon as they qualify for claim. Benefit periods can range from two years to one's lifetime.
- "Die" – If the insured passes away and doesn't use the LTC insurance benefits, an income-tax-free death benefit is payable to the policyowner's elected beneficiaries. Generally speaking, any LTC insurance benefits that are used prior to one's passing reduce the death benefit pool dollar-for-dollar. Even if the death benefit pool is completely depleted due to the amount of LTC insurance claims paid, there is still a residual death benefit payable to help the surviving family with final expenses.
- "Quit" – Plans can be structured to return some or all of the premiums back to the policyowner should he/she decide the insurance is no longer needed. While very rarely ever used, this provides policy owners with peace of mind.

One generally qualifies for claim by being unable to perform two of six "activities of daily living" (eating, bathing, transferring, dressing, toileting, continence) or having a cognitive impairment, such as dementia. The insured individual's condition is certified by their personal physician for claims purposes.

How is this different than "Traditional" Long Term Care Insurance policies?

Traditional Long Term Care Insurance policies do not offer a "fixed" (or guaranteed) premium and, in today's market, the premium must be paid over the course of one's lifetime or until he/she files a claim. Premium rate increases on in-force policies have become commonplace (across the market – no carrier is immune) and can be quite regular and large. These increases confront clients with a very difficult dilemma of paying a higher premium or acceding lower benefits (maybe both), without knowing if more increases will come in the future.

Most traditional plans also do not offer a return of premium option, should a policyowner wish to surrender the plan, nor do they generally offer a death benefit if the insurance is not used. For these reasons, "traditional" plans are a very small part of today's market and have been abandoned by all but a few insurance carriers.

Is this another name for "Nursing Home Care?"

No. In fact, 73% of claims are paid for home health care (1). The primary goal for many long term care insurance policy owners is to stay at home as long as possible before needing care in a facility. Generally speaking, long term care insurance policies pay for the spectrum of care, from adult day care all the way to full time care in a skilled nursing facility.

Are there differences in "hybrid" plans from one carrier to the next?

Yes. While all true hybrid plans will have the "Live, Die, Quit" design, each carrier will have slight variances in how they structure the duration of premium payments, pay the benefits, duration of benefit periods, etc. For example, some plans pay an "indemnity" style claims benefit, which provides the client with the monthly maximum benefit amount as soon as he/she qualifies for claim, while other plans may pay a "reimbursement" benefit that requires policyowners (or their loved ones) to submit receipts and be reimbursed up to the monthly maximum. In addition, not all hybrid plans have fully guaranteed benefits, so like any insurance plan, it's very important to know what is and is not guaranteed by contract.

How do people generally pay for these plans?

It really depends on the age and asset composition of each family. For those with cash values dormant in a whole life or universal life insurance policy, where the death benefit is no longer a primary objective, a 1035 exchange can be leveraged to pay some or all of the required premium. Alternatively, for those with cash sitting on the sideline or sitting in a low yield account, repositioning the asset into a hybrid plan, while maintaining the "in case of fire, break glass" return of premium feature can be appealing. For others, the premium is paid annually through earned income. Many people who are planning for retirement find a "pay to 65" design to be very attractive, but lifetime payments can be available as well with select carriers.

Can one do better just investing the money instead of buying a policy?

Imagine being in a bear market having to access (potentially) five figure per month distributions for chronic care, while one's spouse is still needing income from the portfolio for regular living expenses. The result could be disastrous. At age 85, the typical internal rate of return on the long term care insurance policy benefits are in the 6-7% range and these benefits generally pay income tax free (making the tax-equivalent yield quite high). If the Long Term Care insurance benefits are used (and government statistics state 70% over age 65 will need care), it would be quite difficult to match the benefits.

Are Chronic Illness Riders and Hybrid Long Term Care policies the same?

In short, no. Though they may be marketed as such, Chronic Illness Riders are not the same as qualified Long Term Care riders available on hybrid plans and that fact will be disclaimed in the footnotes on nearly every page of the illustration. Chronic illness riders only accelerate the death benefit, or a percentage of the death benefit, rather than having an "extension of benefits" that provide a robust pool of funds available for long term care claims. Beware particularly of Chronic Illness Riders without itemized up front charges – when the charges are unknown until the time of claim, the expected benefit can be far less than expected, resulting in a harsh planning error.

At what age should one consider purchasing a Hybrid Long Term Care Insurance policy?

It is good practice to start the discussion in one's early fifties. In that age bracket, there are relatively few insurability issues, a lot of leverage on premium dollars, and there are ample remaining working years to pay the premium prior to retirement. Premium costs increase particularly when clients enter their sixties and, by age seventy, nearly half of all applicants are rejected/declined due to health, so the earlier the purchase is made, the better. LTC insurance underwriting has a "pass/fail" feel to it, with no opportunity for "rated" cases, so seeking insurability while one is young and healthy is important.

Hybrid plans are offered by many highly rated insurance companies and can be very customizable depending upon one's goals and objectives. Working with an insurance or financial professional to explore product options is good practice and can lead to the acquisition of a significant asset for the entire family.

(1) American Association for Long Term Care Insurance, 2022, www.aaltci.org