# Life Policies With Long-Term Care Coverage

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NEW YORK — As expensive long-term care insurance policies slip in popularity, offerings that combine coverage with life insurance are getting attention as a possible method of economizing.

Typically, these hybrids involve what are called accelerated benefits: If the insured needs long-term care, a portion of the life policy's death benefit is paid out to cover expenses, and the death benefit is reduced by the same amount.

The most longstanding of these products are single-premium policies, where policyholders make one large lump-sum payment — say, of $100,000. Lincoln Financial Group, Genworth Financial Group (GNW) and New York Life Insurance and Annuity Corporation offer these policies, which typically are aimed at older Americans.

They include a guaranteed minimum death benefit, allow policyholders to recoup at least the principal if they decide to cancel the policy, and may also include a rider that extends the long-term care benefits that are paid beyond the death benefit up to a specified amount. Inflation protection may be offered for an additional fee.

More recently, to attract younger clients, other insurers have added long-term care riders to their most popular permanent life insurance policies for individuals. In these combination policies, policyholders pay premiums monthly or annually rather than as a lump sum upfront.

Hartford Financial (HIG) is planning to also make its Life Access rider available on some of its survivorship policies for couples as early as June, says Mike Roscoe, senior vice president of product management in the company's individual-markets group.

Stand-alone long-term care policies are expensive and, if policyholders never need care, the money spent on premiums is lost, making it a hard sell in today's economy. In the fourth quarter of 2008, sales of individual long-term care insurance fell by 23% compared with the same period the previous year.

Combination policies may offer a better deal. Although they cost even more than a stand-alone long-term care policy, the life insurance coverage may more than make up for that.

"They create an instant estate and provide cover if the insured needs long-term care," says Robert Quinlan, an independent insurance agent who practices in the New York City area.

Though small, the market for life insurance/long-term care combinations is growing: In 2007, 12,150 policies were sold, up 24% from the previous year, says Elaine F. Tumicki, corporate vice president of product research at LIMRA, a financial-services research organization.

Not For Everyone

Hybrid policies aren't suitable for all individuals, though.

"A key consideration is whether the client needs permanent life insurance," says Scott J. Witt, a fee-only insurance adviser and founder of Witt Actuarial Services LLC, who receives client referrals from financial advisers and other professionals.

They are not available in combination with the much-cheaper term policies that many individuals have and which only provide a death benefit if the policyholder dies while coverage is in effect. Term coverage can be purchased for periods of one to 30 years. In contrast, permanent life insurance is designed to provide coverage an entire lifetime. Permanent insurance has a death benefit and a tax-deferred build-up in cash value. Most combination products are based on universal life or whole life.

If permanent life insurance is appropriate, adding a long-term care rider may be a cost-effective option. For instance, with the Hartford's universal life policy, a 55-year-old man would pay $14,477 a year for the life premium on a policy with a $1 million death benefit and $1,570 for the long-term care rider. By comparison, a three-year comprehensive long-term care policy with a daily benefit of $150 today would cost $2,260 a year (this policy includes inflation protection of 5% a year with compound interest).

Typically, in a combination with a permanent life policy, the maximum monthly benefit under the rider is between 1% and 5% of the death benefit, up to the tax-free limit set by the Internal Revenue Service — $280/day in 2009, says Carl A. Friedrich, a consulting actuary and principal at Milliman who is an expert on combined insurance products.

These types of hybrid policies usually don't include inflation protection, so purchasers must do their own advance planning in terms of health-care costs and estates. Nursing care costs about $6,360 a month now — but would be $17,300 a month in 20 years if those costs increase at an average of 5% a year.

In light of a recent flurry of downgrades, it's crucial for clients to go with an insurer on a sound financial footing, especially in the case of a permanent policy. National ratings agencies such as Standard & Poor's, Moody's Investors Service, Fitch Inc. or A.M. Best Co can provide the latest insight.

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