ADVANCED MARKETS INSIGHT

Hybrid Long-Term Care Insurance

M Financial Group's Advanced Markets Insights are designed to help clients understand sophisticated planning strategies and their applications.

M Financial Group continues to lead the industry in insurance due care and client advocacy, providing valuable insight and analysis that delivers significant value to clients.

Hybrid Long-Term Care (Hybrid LTC) insurance offers a compelling alternative to traditional Long-Term Care (LTC) insurance, primarily because it addresses one of the common objections to LTC insurance:

- LTC benefits will not be needed.
- There will be nothing to show for the premium paid.

What is Long-Term Care?

Long-Term Care (LTC) is a specialized set of services required when and individual suffers from a chronic illness, or an accident renders them physically or cognitively unable to care for themselves. These services can be very costly and many people choose to protect themselves against this risk by purchasing LTC insurance. LTC is not medical care and is not limited to nursing homes.

The Cost of Long-Term Care

LTC costs are significant and vary widely depending on where care is received. Below are sample costs by level of care from the John Hancock 2011 Cost of Care Survey.

Location	Nursing Home: Private Room	Nursing Home: Semi-Private Room	Assisted Living	Home Health Care Aid	Adult Day Care
	Daily	Daily	Monthly	Hourly	Daily
New York City, NY	$440	$441	$5,918	$19	$125
San Francisco, CA	$378	$281	$3,793	$26	$80
Naples, FL	$283	$247	$3,640	$21	$55
Minneapolis, MN	$198	$164	$3,457	$27	$64
Baton Rouge, LA	$151	$138	$2,053	$17	$63

The majority of costs associated with the chronic conditions that require LTC are not covered by most health insurance. Similar to health insurance, Medicare is designed to cover acute medical care. In most cases, Medicare will only pay a portion of expenses for the first 100 days of care, and only if acute care is received in a hospital setting.

Medicaid programs are generally designed to provide care for those who would otherwise not be able to afford it. Medicaid requires participants to spend-down most of their assets to qualify for assistance.

LTC insurance policies are intended to offer tax-free benefits for the care of chronic conditions, protecting assets that would otherwise be severely depleted by the cost of LTC.

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What is Hybrid Long Term Care Insurance?

Hybrid LTC insurance offers a combination of life insurance and LTC benefits. Similar to other forms of LTC insurance, benefits are generally triggered by a loss of the ability to perform qualifying activities of daily living (ADLs). In a Hybrid LTC policy, the life insurance death benefit is accelerated to cover qualifying LTC expenses. The policy may also offer an Extension of Benefits Rider (EOBR) providing additional coverage to continue LTC benefits for qualifying services after the initial specified amount of death benefit is exhausted. If LTC benefits are never needed, a death benefit is paid to beneficiaries upon the death of the insured.

Traditional or Hybrid Long-Term Care Insurance?

	Traditional LTC	Hybrid LTC
Policy Structure	More choice in the design of the policy, including the benefit period, premium paying period, elimination period, Cost of Living Adjustment (COLA) features, and optional benefits.	Fewer choices for benefit and elimination periods. COLA may be available. Often funded by a single payment as a reallocation of current assets to provide a single premium life and LTC solution.
Insurance Coverage	LTC insurance coverage only.	Offers added simplicity of having only one insurance policy with funds available as a death benefit if LTC is not needed.
Benefits	Provided for qualifying LTC services, structured as either reimbursement or indemnity benefits.	Reimbursement for qualifying LTC services; includes a death benefit and a cash value element to the policy.[1]
Tax Incentives[2]	Tax-deductibility of premiums; benefits are generally paid income tax-free.	Possible tax-deductibility of premiums; benefits generally paid income tax-free.

Tax Considerations

The Health Insurance Portability and Accountability Act defines the federal tax treatment of insurance policies that provide LTC coverage. Policies that meet certain criteria are designated as "qualified LTC insurance" and receive certain tax incentives. The cost of coverage may be deductible and benefits are generally paid income tax-free under IRC Section 104(a)(3). If LTC benefits are not utilized, a death benefit is paid to beneficiaries, income tax-free in most circumstances under IRC Section 101(a)(1).

1 Partial withdrawals and policy loans taken from a MEC are taxable under federal income-tax law to the extent that there is any gain in the policy. An additional tax of 10% of the taxable amount may be payable unless the owner is at least age 59 ½ or satisfies another exemption from payment of the additional tax. Distributions from a Hybrid LTC insurance policy generally will reduce the amount of funds available for LTC benefits payable as death benefits and/or the amount of any Return of Premium.

2 The deductibility of LTC insurance premiums is dependent on many factors including, but not limited to, the form of insurance, the filing form of the premium payor (married, single, corporation), and IRS deduction limits. Clients should consult with their professional tax advisors prior to the purchase of any LTC insurance.

For More Information

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