

PROS AND CONS OF COMBINATION LONG-TERM CARE POLICIES

Despite persistent and strong advice to the contrary, many consumers in their mid-fifties and older have remained stubbornly reluctant to buy long-term care insurance. An alternative for the reluctant may be policies that piggyback LTC coverage with life or annuity policies—though many financial planners believe stand-alone LTC coverage is usually better.

Consumers have been reluctant to buy stand-alone LTC insurance for several reasons: they don't want to think about long-term care, they figure they can self-insure, they hate the idea of paying premiums when they may never need the coverage, and they worry about possible future increases in their LTC premiums that they couldn't afford.

Enter the combination or linked policy. Here the consumer starts with an underlying life insurance or annuity policy—typically a large single-premium policy—and attach a long-term care insurance rider. Insurance policies might be universal life, variable universal life, or whole life, while the annuity might be deferred or immediate. If long-term care benefits need to be paid out under the rider, you in essence receive an acceleration of benefits before you would normally have received them from the underlying policy. And if you never need LTC benefits, the life insurance or annuity remains in effect for eventual use by you or your beneficiaries.

Say you buy a life insurance policy with an LTC rider and later enter a nursing home for long-term care. The insurer would pay out a fixed percentage of the policy's death benefits each month. Typically, this is around 2 percent, but might be as high as 5 percent. Thus, on a policy with a \$100,000 death benefit, you might receive \$2,000 to as much as \$5,000 a month.

With an annuity, you can tap into the accumulated value of the policy to pay for LTC needs without paying a surrender charge that's typically imposed on accelerated withdrawals. In either case, review the language of the rider carefully to be certain no surrender charges apply, or in the case of the life insurance, the policy won't lapse and create a potential tax problem.

While combination policies may sound like the best of both worlds without paying too much extra for long-term care coverage, many financial planners believe trying to serve two different needs with a single policy often serves neither need well. Consumers should review the options and ask some careful questions before buying a combination policy.

First, are you buying the underlying insurance or annuity policy out of genuine need? For example, do you really need the life insurance death benefits, such as to provide income for a survivor or to pay future estate taxes?

Second, if you genuinely need the underlying coverage, but drain some of its benefits to pay for long-term care, you've undermined its original purpose, perhaps leaving you with inadequate retirement resources or smaller life benefits for beneficiaries.

Will the LTC coverage be adequate? For example, many life policies cap the amount that can go to long-term care benefits to 50 percent of the face value of the policy. Yet the average annual cost of a private room in a nursing home is \$70,000, according to the 2004 MetLife Market Survey. A combination policy could leave you seriously short of funds if you face a long

stay in an LTC facility. That's why many planners recommend stand-alone LTC policies with coverage of five years or longer.

You may be able to buy an independent rider on the policy that provides extended LTC coverage so that you don't come up short. But now you're spending additional premium dollars that might be more effectively spent on a stand-alone LTC policy. Another strategy is to buy a short-term (thus less expensive) stand-alone LTC policy and use a combination policy as backup in case the LTC coverage runs out—or vice versa.

Inflation is another concern. Good stand-alone LTC policies carry inflation protection so that 20 years down the road the policy will still adequately cover the rising costs of long-term care. But combination policies may not provide inflation protection.

Compare features. Stand-alone LTC policies typically offer more and better benefit options than a combination policy, including new features designed to reduce consumer worries about premium increases or "wasted" premiums. LTC policy premiums also may be partially tax deductible, unlike combination policy riders.

A combination policy may be right for you—but investigate carefully before deciding.

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