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Why Are the New Hybrid LTC Policies So Popular?

A long-term LTC planner looks at why the market is the way it is.

By **Romeo Raabe** | March 28, 2018

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Hybrid insurance policies for long-term care (LTC) are very popular and becoming more so each year. Lets look at some of the reasons why.

Traditional LTC insurance policies had some significant price increases. These were the first time insurance plans were conceived to cover what had always been done by the wives of our children in the 1950's. They were put together by actuaries who had no data on how they would be used, or who would be the recipients of such care. Thus they were sold too cheaply to people they never should have been sold to.

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That, of course is a recipe for trouble and trouble did occur. The insurers found that hardly anyone drops a LTC policy, especially as they aged and knees, hips, and other things got older. When care is needed soon, you look forward to benefiting from the insurance. Thus price increases happened to keep the pool of this business able to pay claims.

The great majority of these traditional policies also contained an option that increased the benefits 5% compound every year to keep up with the increasing costs of care.

Then the hybrids came out, life hybrid and annuity hybrid. The life version gives the insured a percentage, typically 2% or 4% of the death benefit monthly when LTC is needed. This adds cost, and typically comes out of the cash accumulation of that life policy. The annuity option gives you back the money much faster, and possibly multiplied somewhat to pay for care.

If you do not need LTC, you get the life insurance. Why buy the traditional policy if this locks in your premium and you get to collect one way or the other. The life insurance agents familiar with life and annuities understand and like them. The insurance companies love them since without that all important inflation to keep up with costs, they significantly limit what they must pay at claim time. Everybody is happy.

Everybody is happy except the purchaser who needs care 30 years later at age 80 or 85. The benefit numbers that looked wonderful 30 years ago are now a drop in the bucket compared to the bills for care at time of claim. These hybrid policies are still new. They have not been around for 30 years. The lump sums available for claim still seems like a lot.

It is not the lump sum available, but the monthly claim received that pays for care. The care providers need to be paid monthly. If your available cash flow and the hybrid, non-inflating insurance benefit is insufficient to pay for the care you need, you will start using assets. Spending down to Medicaid impoverishment is what the insurance was supposed to protect against.

Today the traditional policies have learned how much to charge and who not to offer them to. If you compare a traditional policy today (with the included 5% compound inflation on benefits) to a hybrid policy (with the included 5% compound inflation on benefits), you will find the traditional LTC policy much less expensive. If you need life insurance at this point in your life, or want money back at death, buy a life policy from a life company.

But most hybrid policies are sold without any inflation on their LTC benefits. If you are not advised of this danger, and do not think to ask about this problem, you may be quite happy until you need to use the policy 30 years later.

Time will tell the size of the problem. I have a traditional policy with 5% compound inflation and it has just kept up with the increasing costs over the years. Every facility in town wants me, and I am not that good looking. Many of the assisted living type facilities will not allow you in unless you can assure them that you have the funds available to pay for at least two years. I can, good luck to you if you cannot. The nursing home must take you on Medicaid if they accept Medicare for short recovery care. I want a very nice assisted living facility when my time comes.

— Read NAIFA Starts Long Term Care Center (https://www.thinkadvisor.com/2018/03/20/naifa-starts-long-term-care-center/) on ThinkAdvisor.

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