



## Hybrid LTC Insurance Is Popular, But Be Careful

It has been outselling traditional stand-alone LTC policies for many years. **By Ben Mattlin**

**H**YBRID LONG-TERM-CARE INSURANCE—THE coverage that’s added onto life insurance or an annuity to help pay for ongoing custodial care of a client at places such as nursing homes—has been outselling traditional stand-alone LTC policies for many years. In fact, in 2017—from which the most recent figures are available—roughly 260,000 hybrid policies were sold while only 66,000 traditional LTC plans were, says Catherine Theroux, a spokesperson for industry data cruncher LIMRA.

Experts caution, however, that hybrid LTC isn’t right for everyone. There are potential downsides, and not all hybrids are alike.

### Key Advantages

The reasons for the popularity of hybrids are manifold. First, while stand-alone LTC premiums have risen precipitously in recent years, hybrid premiums tend to remain stable, since most are paid up front. Second, it’s usually easier for cli-

ents to qualify for hybrid LTC coverage because the underwriting standards tend to be less restrictive.

But perhaps most important, hybrid policies solve for the “use it or lose it” problem. That is, clients will receive benefits one way or the other—either through a long-term-care need or as a death benefit, or both. Traditional LTC policies, on the other hand, only pay out if the client experiences a qualifying need. If that doesn’t happen, the years of premium payments are wasted.

Yet these combination plans have a downside. “Hybrids lack some of the customization of stand-alone LTC insurance,” says Suk Pau, vice president and managing partner at the Wealth Consulting Group in Cupertino, Calif. “A stand-alone product can let you set the benefit period or amount, whereas these are less flexible in hybrid policies.”

In advising clients about their LTC insurance options, Pau says it’s a good idea to ask what’s important to them. “What is your biggest concern?” she says. This helps you find the product that best fits each client’s particular circumstances.

“For example, for people without heirs or who live by themselves, stand-alone LTC policies may be more appropriate,” she says, since these clients may not need a life insurance death benefit. On the other hand, clients who “face long-term progressive diseases may benefit from hybrid LTCs with an inflation rider,” she adds. “Clients need to work with financial advisors experienced with LTC policies ... because not every policy underwriter works in the same way.”

### Identify Clients' Needs

While hybrid policies are great for some, other clients are talked into coverage they don't actually need. “Many people don't need the life insurance,” says Derek Holman, co-founder and managing director of EP Wealth Advisors, a fee-only certified financial planner in Torrance, Calif. “This makes the premiums more than a traditional stand-alone LTC policy [and] can create more risk if you decide you no longer need the policy down the road.”

He suggests advisors help their clients weigh all their options, including self-insuring (i.e., doing without LTC coverage). “I have seen people purchase LTC insurance [because] they're told they need it,” Holman says, even if they don't. In any case, he recommends comparing at least three quotes before choosing any policy.

With hybrid policies, the details can be tricky. In many cases, payouts for LTC benefits reduce a hybrid policy's cash value or its death benefit. “This could leave little or no money to heirs if care is needed for an extended period of time,” says F. Michael Zovistoski, a managing director at UHY Advisors NY in Albany, N.Y. “Consequently, if there is a true death benefit need, a hybrid policy should not be the only product [purchased], as it may not be available if the long-term-care payments are substantial.”

### Two Types Of Hybrids

Bill Nash, the Charlotte, N.C.-based senior vice president and head of MoneyGuard Distribution at Lincoln Financial Group, a top seller of combination products, explains that, broadly speaking, there

are two flavors of LTC hybrid products.

First, there are those that can spend down an entire death benefit for LTC expenses, possibly leaving nothing for heirs. But there are also those with an “extension of benefits” rider that can continue LTC payments beyond the limits of the death benefit. “The extension rider allows LTC benefit payments to continue after the entire death benefit has been paid, providing additional funds of potentially two to three times the death benefit,” says Nash.

### Tax Considerations

Another consideration is that, to date, stand-alone LTC insurance premiums are generally tax-deductible. That may not be the case with all hybrid policies. “The IRS code is unclear as to if premiums paid on hybrid plans are tax deductible or not, and the determination will need to be made on specific facts and circumstances,” says Zovistoski. “Potential purchasers should consult with their tax advisors prior to purchasing the hybrid policy to see how much, if any, of the premiums may be tax-deductible as a medical expense.”

### Comparing Costs

The tax implications aside, many hybrid plans charge high up-front premiums, whereas traditional plans typically charge a monthly, quarterly or annual premium for the life of the policy. Lately, though, that's been changing. A growing number of hybrid-policy issuers are offering extended payment schedules.

“Today's hybrid products are seeing significant traction with multi-pay designs that could potentially be extended as long as 20 years,” says Nash at Lincoln Financial. “Also, it's worth noting that while the up-front costs for a hybrid may typically be higher than a traditional product, hybrids may be less expensive over the long term, as traditional products are subject to rate increases and their payments recur throughout one's life. Hybrid rates are often guaranteed.”

Consider, too, that hybrids may not actually cost more overall because they guarantee some sort of payout—wheth-

er for LTC or as a death benefit. Clients can be sure of receiving something in return, which is not necessarily true of traditional LTC insurance.

If cost is a consideration, Kimberly Foss of Empyryon Wealth Management in Rosville, Calif., lists a number of ways to save. Some plans offer couples discounts, for instance. Some states are part of the federally mandated Long-Term Care Partnership Program, which rewards the purchase of private LTC insurance by making it easier to qualify for Medicaid. Also, Health Savings Accounts can be used to fund LTC policies, she says.

### Not One-Size-Fits-All

“Hybrid policies can be tailored to meet consumers' needs,” adds Chuck Piacentini, vice president of insurance regulation and associate general counsel at the Washington, D.C.-based American Council of Life Insurers. “There are a number of product options that enable consumers to build a product with benefits and premiums that meet their needs and their budgets.”

Still, the appeal of a hybrid policy as a simple way to cover all your bases at once can be deceptive. Most “do not leverage your premium dollar for LTC as much as pure LTC policies do, which is the main reason for acquiring LTC coverage,” notes Len Hayduchok, CEO of Dedicated Financial Services in Hamilton, N.J. “For some clients, getting the hybrid is putting one foot in the LTC pool,” he explains.

If clients truly want LTC insurance, he says, they should make sure the coverage is comprehensive. Otherwise they may be fooling themselves. Hayduchok prefers policies that guarantee lifetime LTC benefits, without a limited benefits period. That's why, though he's not big on life insurance with LTC benefits in general, he singles out one from State Life Insurance Co., a division of OneAmerica.

Dennis Martin, president of OneAmerica's Individual Life and Financial Services unit in Indianapolis, says his company offers “many choices in benefit periods for hybrid LTC, including up-

to-lifetime benefits. Clients can choose the benefit period they feel is appropriate based on their goals and their overall financial picture.”

**Watch Benefit Limitations**

But Aaron Schindler, a certified financial planner and geriatric care manager at Care Concierge NY in New York City, says it’s vital to be clear about payout dollars. “The benefit amount and period of an LTC life rider is usually dependent on the size of a life policy death benefit,” he notes. “Many LTC riders allow the period of coverage to

grow [but] keep a lid on the amount of monthly benefit dollars.”

That’s particularly a problem if the policy is purchased when the buyer is young. The younger the client, the better the odds of being healthy enough to qualify—and to lock in lower rates. Yet by the time the client might actually need benefits, the benefit dollars won’t go as far because of inflation. Look for a strong inflation-protection rider, he says.

It’s also smart to understand what sorts of situations qualify for benefits. “Look at the policy benefit language for getting a claim approved,” advises Schindler. “Is

the policy stating permanent chronic condition,” as opposed to a short-term infirmity such as a broken hip?

Some policies are “much more flexible than others,” he says, depending on whether they cover privately hired in-home health aides or just institutional care, and whether they reimburse for expenses or pay providers directly. “Be careful what you buy,” says Schindler. **FA**

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**Gresham**

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a health-care surrogate or proxy? Do the client’s written preferences include “quality of life” conditions for dealing with paralysis or dementia, or offer end-of-life instructions? Family relationships can be complicated and difficult. Who is trusted to help and who is really looking out for your client? Get those people involved.

Helping clients “peel the onion” of health care empowers them to share their preferences—a crucial step if you want to customize solutions and better estimate their cost. Some people might not like doctors or hospitals, but every-

one has opinions about health care. They care a lot about where and how they receive care. They have thoughts about death, about losing independence, about retirement “homes,” about cremation and open caskets. They know if they want to be kept alive or be allowed to die peacefully. They care about whether death happens after a heroic operation or at home with hospice care.

They know all these things because they learned them from watching family and friends get sick, get old—and die. They know what they don’t want to happen to them. Many don’t want to talk about it, but many more really do.

So we have to try. Tread slowly, but

with a plan. Be objective. It’s critical to talk about health care, but it’s also emotional and difficult for many people. As I’ve written many times, the highest value of a real advisor is to help change behavior, and helping people understand better the importance of preparation for healthy aging is about the most important work you can do. **FA**

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**Political Beta**

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Barry Ritholtz, chairman and chief investment officer at Ritholtz Wealth Management, who has researched and written about the intersection of politics and investing, vetoes politics-focused investing.

He noted the stock market still rose when Democrats hated then-President George W. Bush’s tax cuts, and the markets rallied under President Barack Obama, whom Republicans said would be bad for business.

Wall Street doesn’t speak with one voice, he says, though he adds that it is thought of as more right-of-center politically, being anti-tax and anti-regulation in general.

Although the MAGA fund uses a rules-based index, Ritholtz says the rationale that companies that give money to one political party or another will somehow translate into better performance is flawed. “Why would that lead to better performance?” he asks.

He says he would be interested in academic research that looks at what

elements of corporate lobbying and political donations might be correlated with improved market performance.

“That’s an argument that says we’ve identified a specific corporate behavior that results in long-term positive market return. Well, fantastic. That’s something everybody should be happy to put their money in,” he says. **FA**

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