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Some Clients Need Flexibility to Plan Long-Term Care Funding

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The past few years have seen a challenging long-term care insurance (LTCi) environment, thanks to a very persistent block of business and depressed interest rates, among other factors. It's a market that has been chock full of in-force rate hikes, increased new business premiums, carrier departures, and limitation of benefits and features. This all is taking place while, one could argue, the need and concern for long-term care funding continues to increase.

Now more than ever, addressing the long-term care funding problem

involves more "planning" than "selling." While the purchase of a traditional long-term care insurance plan will remain the foundation of long-term care funding needs, there is an option that might allow additional flexibility in some clients' overall strategy.

The trend in the life insurance industry has been to offer policies with riders that allow for an acceleration of the death benefit for those in a chronically ill situation. For all intents and purposes, the triggering definitions are very similar to those of a long-term care insurance policy. The purchase of such a life insurance plan, and earmarking the death benefit for use as a "long-term care pool of money" instead of purchasing a stand-alone long-term care insurance product, might be worth consideration. Perhaps your client may want to consider a strategy to purchase an LTCi policy in combination with life insurance with an accelerated death benefit (ADB) rider, or a life policy with ADB rider might be used to offset a shortfall of benefits on an in-force LTCi plan. A positive feature of most life policies with ADB rider is that the entire benefit will be paid out to someone – either to the insured through the chronically ill death benefit acceleration or to the beneficiary via the income-tax-free death benefit.

A difficulty in long-term care planning is and has always been that there are no crystal balls. Advisors simply do not know when, how or even if a client will use their long-term care insurance policy. Inherently, therefore, a ubiquitous objection out there is: "What happens if I don't use my long term care coverage?" When the client purchases a life insurance policy with the accelerated death benefit rider, that objection is moot. If a client has a chronically ill claim for less than the full amount of the death benefit, the bulk of the unused death benefit is payable to the named beneficiary. With many of the plan designs, even if all of the death benefit has been "used up," a residual death benefit is payable to bring the plan to closure.

Don't get me wrong – the pros and cons of this approach must be explored in relationship to a client's particular situation and weighed compared to a purchase of a "regular" long-term care insurance plan. Often the life insurance plan with an ADB rider has a higher cost than a similar initial long-term care pool of money. Is it worth it to the client to assure all benefits are paid out?

The ADB riders do not allow for any inflation protection. A client who ends up with a long-term care claim after paying premiums for many years might end up woefully short of "full blown" long-term care protection.

Be wary of the definitions that trigger the chronically ill ADB rider. Those definitions can vary from contract to contract. Most often, they tend to follow the definitions of "chronically ill" we've come to accept as appropriate triggers, but policy language should be reviewed to ensure that is the case. There may be restrictions as to when and how a client can access the accelerated death benefits. The structure of payments varies from company to company. Some allow for the plan to mimic the payout pattern of a traditional LTCi plan. Others allow only for annual or some other periodic withdrawals. The prudent planner will scrutinize these definitions and payout structures to help better identify a fit for their client's particular situation.

A life insurance plan with an ADB rider for chronically ill situations can provide a client with stable premiums and the assurance that the full amount of the benefit is paid out. In many situations, this plan will appeal to a client as an alternative or an addition to a long-term care insurance plan

As with any planning process, it's important to consider optional strategies for a client as the market changes and new alternatives come available. Another tool to address the conundrum of long-term care funding is purchasing a life insurance contract with an accelerated death benefit rider for chronically ill situations. When all is said and done, it might end up providing the flexibility that a client needs in order to implement something to address long-term care funding concerns instead of doing nothing at all.

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