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Life Insurance

Hedging Your Bets With Hybrid Life Insurance and Long-Term-Care Policies

It seems strange to pay for something you might not use, especially if it's an expensive purchase. Long-term-care insurance is no exception.

A traditional policy would cost a 55-year-old woman $1,390 per year for $164,000 worth of benefits; a 55-year-old man would pay $1,060, according to the American Association for Long-Term Care Insurance's 2015 price index. That may be why less than 5 million people held long-term-care insurance policies in 2013, according to research published by the Insurance Information Institute.

But forgoing long-term-care insurance doesn't mean that you won't need — and have to pay for — long-term care. A semi-private room in a nursing home costs an average of $80,300 per year, according to a 2015 survey by Genworth. A home health aide costs an average of $45,760 per year.

Which coverage should be priority? Fortunately, there are hybrid policies that provide both long-term-care coverage and life insurance benefits, so you can guarantee that your premiums won't go to waste.

Hybrids combine life insurance and long-term care

Ordinarily, long-term care insurance and permanent life insurance are two different products that you purchase separately.

Life insurance pays the death benefit to your beneficiaries when you die. Permanent life insurance policies allow you to accumulate cash value within the policy, which you can eventually borrow against or use to pay premiums. Long-term-care insurance, on the other hand, defrays costs if you spend time in a long-term-care facility or need in-home help.

Hybrid policies — also called linked-benefit policies — combine the two. Your benefit level can be used either for long-term care or life insurance, or partially for both.

"You know you're going to get something in return for your premium. You can either use the [long-term-care] benefits, or you can get the death benefit," says Daniel Glanville, a financial advisor with Precision Wealth Management in Colorado Springs, Colorado.

Keep in mind that "the death benefit and the long-term-care benefit of these plans are typically linked, which means that accessing the policies to pay for … long-term care … will reduce the death benefit," says Tommy Smoot, vice president at New York Life.

There are a few other important differences:

- **Cost and payment structure.** Hybrid policies are typically funded in one lump sum or payments over a certain number of years, totaling at least $50,000. This can make them a tough sell for middle-income families. On the other hand, this structure protects consumers from the premium hikes common in long-term-care policies.

- **Benefits.** In general, hybrid policies have lower benefit levels per-dollar than traditional long-term-care policies, and they may not offer other features, like inflation protection. With medical costs rising, this could ding you in the future. For example, you might buy a policy big enough to cover three years of long-term care today and find that it only covers two years of care when you make a claim. Traditional long-term-care policies are "the best for individuals whose primary objective is long-term-care coverage," Smoot says.

- **Partnerships.** Middle-income Americans often qualify for the Long-Term Care Partnership Program, a joint federal-state program that allows long-term-care insurance buyers who've exhausted their benefits to get financial help through Medicaid while still protecting some assets. Only traditional long-term-care policies are eligible for this program.

There's no one answer for long-term-care needs

If you're still not sure whether a hybrid is better for you than a stand-alone policy, your first consideration should be your life insurance needs. If your home is paid off and your children are self-supporting, you probably don't need life insurance, and you'd be better off buying a long-term-care insurance policy.

And in order to purchase a hybrid policy in the first place, you'll need to have some cash lying around. These policies are a good fit for people "who have assets between emergency funds and legacy funds," Smoot says. "Linked-benefit plans can allow you to reposition assets to cover both of these needs."

Even if you do need both long-term care and life insurance, and have the money handy, you may want to consider whether the up-front payment for a hybrid policy is the best use of your money. If you're comfortable with investing and stock market risk, you might prefer self-insuring for long-term care rather than buying a policy.

And if neither a standalone nor a hybrid policy seems to fit, you do have other choices. Many life insurance policies offer accelerated benefit riders, which allow you to draw on your death benefit ahead of time to fund long-term care and other costs. There are eligibility requirements to access accelerated death benefits, such as permanent confinement to a nursing home or a long-term need for services.

Permanent life insurance policies also allow loans and withdrawals from cash value, if you have enough. You could use this money toward long-term-care costs, although your death benefit will be reduced if the loans are not repaid.

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