M Financial Group™

ADVANCED MARKETS INSIGHT

M Financial Group's Advanced Markets Insights are designed to help clients understand sophisticated planning strategies and their applications.

M Financial Group continues to lead the industry in insurance due care and client advocacy, providing valuable insight and analysis that delivers significant value to clients.

Hybrid Life & Long-Term Care Insurance

Hybrid Life & Long-Term Care (hybrid LTC) insurance offers a compelling alternative to traditional Long-Term Care (LTC) insurance. Through an innovative approach in policy design, hybrid LTC combines the benefits of LTC coverage with the protection of life insurance.

What is Long-Term Care?

LTC encompasses a wide range of supportive and health services that are required when an individual suffers from a chronic illness, or an accident renders them physically or cognitively unable to care for themselves. These services can be very costly and many people choose to protect themselves against this risk by purchasing LTC Insurance. LTC is not medical care and is not limited to nursing homes.

The Cost of Long-Term Care

LTC costs can vary widely depending on the region and setting in which care is received. Services are typically received in the home, at an assisted living facility, in a nursing home, or at an adult daycare center.

As indicated above, the total annual cost of care is substantial and will continue to rise. For example, the national average of the cost of care for one year in a nursing home exceeds $85,000 and is growing at an average of 3.5% per year.[1]

Statistics show that an estimated 7 out of 10 Americans will need LTC at some point in their lives.[2]

Location	Nursing Home: Private Room	Assisted Living	Home Health Care Aid	Adult Day Care
	Daily	Monthly	Hourly	Daily
New York City, NY	$440	$5,918	$19	$125
San Francisco, CA	$378	$3,793	$26	$80
Naples, FL	$283	$3,640	$21	$55
Minneapolis, MN	$198	$3,457	$27	$64
Baton Rouge, LA	$151	$2,053	$17	$63

1 John Hancock 2011 Cost of Care Survey

2 2011 Sourcebook for Long-Term Care Insurance, American Association for Long-Term Care Insurance

Paying for Care

One of the most important factors to consider in planning for LTC is how to pay for the care. The majority of costs associated with chronic conditions that require LTC are not covered by most medical insurance or by government programs such as Medicare or Medicaid.

Medical insurance may provide short-term care coverage for specific medical conditions, but it is not intended to provide long term benefits to cover chronic conditions.

Similar to medical insurance, Medicare is designed to cover acute medical care. In most cases, Medicare will only pay a portion of expenses for the first 100 days of care, and only if acute care is received in a hospital setting.

Medicaid programs are generally designed to provide care for those who would otherwise not be able to afford it. Medicaid requires participants to spend-down most of their assets to qualify for assistance.

Long-Term Care Insurance

LTC insurance policies are a planning option for individuals who may need to pay for LTC expenses in the future. These policies provide not only payment for care, but also provide control, choice, and financial independence. Qualified LTC insurance policies offer tax-free benefits to cover the costs of a multitude of LTC services in a variety of settings, protecting assets that would otherwise be severely depleted by the cost of care.

Qualified LTC policies must meet certain standards with regards to service and benefit triggers including:

- Qualified LTC services: necessary diagnostic, preventative, therapeutic, curing, treating, mitigating, and rehabilitative services and maintenance or personal care services that are required by a chronically ill individual and are provided pursuant to a plan of care prescribed by a licensed health care practitioner.[3]
- Chronically ill individual: any individual who has, in the preceding 12 months, been certified by a licensed health care practitioner as:
  - being unable to perform, without substantial assistance, either hands-on or standby, from another individual, at least two activities of daily living (ADLs) for a period of at least 90 days due to a loss of functional capacity;
  - having a similar level of disability; or
  - requiring supervision to protect him or her from threats to health and safety due to severe cognitive impairment.
- The LTC insurance contract must use at least five the following six ADLs in determining whether the insured is chronically ill:[4]
  - Eating, toileting, transferring, bathing, dressing, and/or continence.
- Licensed health care practitioner: any physician (as defined in Section 1861(r)(1) of the Social Security Act) and any registered professional nurse, licensed social worker, or other individual who meets such requirements as prescribed by the Treasury.[5]

Hybrid Long-Term Care Insurance

Hybrid LTC insurance products are an enhanced version of traditional LTC insurance policies, combining the benefits of LTC coverage with the protection of life insurance. This is accomplished through an innovative approach in the policy design.

3 IRC Sec. 7702B(c)(1)

4 IRC Sec. 7702B(c)(2)(B)

5 IRC Sec. 7702B(c)(4)

In a typical hybrid LTC policy, a single premium is used to fund the insurance.[6] Often, the funds for this premium may come from repositioning a current asset, such as a savings account. If LTC is needed, the policy leverages these assets into LTC benefits that may reach as much as 4-6 times the amount of the initial deposit.[7] If benefits are not exhausted by LTC needs during the life of the insured, the policy provides an income-tax free death benefit to heirs.[8]

Many hybrid LTC policies include or offer a return of premium benefit as a policy rider. With a return of premium benefit, the policy owner is allowed to recover their initial premium upon request.

Traditional or Hybrid Long-Term Care Insurance?

	Traditional LTC Insurance	Hybrid LTC Insurance
Premium Payment Options:	Flexible premium paying period.	Often funded by a single payment as a reallocation of current assets to provide a single premium life and LTC solution.
Product Features:	More choice in the design of the policy, including the benefit period, elimination period, Cost of Living Adjustment (COLA) features, and optional benefits.	Fewer choices as to benefit and elimination period. COLA may be available.
Insurance Coverage:	LTC insurance coverage only.	Offers added simplicity of having only one insurance policy with funds available as death benefits if LTC is not needed.
Benefits:	Provided for qualifying LTC services, structured as either reimbursement or indemnity benefits.	Reimbursement for qualifying LTC services; includes a death benefit and a cash value element to the policy.[9]
Tax Incentives:[10]	Tax-deductibility of premiums; benefits are generally paid income tax-free.	Possible tax-deductibility of premiums; benefits generally paid income tax-free.

Summary

The rising cost of LTC requires careful planning to protect assets from the potential for substantial depletion. The unique policy design of hybrid LTC insurance offers a way to obtain this protection, while ensuring that wealth will not be lost if benefits are never needed.

6 Some policies will allow for multiple "limited-payment" premium schedules such as 3, 5, or 7 years. Limited pay designs may not provide certain benefits such as the Return of Premium feature.

7 LTC benefits may be subject to an elimination period before benefits commence and may be limited as to an amount and duration, selected at the time of application. Hybrid LTC polices may include an inflation protection feature that increases benefits. Premiums and benefits will vary depending on the options chose. Hybrid LTC policies are intended to meet the criteria for Qualified LTC insurance.

8 Section 101(a)(1) of the Internal Revenue Code states, as a general rule, that death proceeds are excluded from the beneficiary's gross income for federal income tax purposes, however some restrictions apply. Death benefits are adjusted for any policy loans, withdrawals, or LTC benefits paid.

9 Partial withdrawals and policy loans taken from MEC are taxable under federal income-tax law to the extent that there is any gain in the policy. An additional tax of 10% of the taxable amount may be payable unless the owner is at least age 59 ½ or satisfies another exemption from payment of the additional tax. Distributions from a hybrid LTC insurance policy generally will reduce the amount of funds available for LTC benefits payable as death benefits and/or the amount of any Return of Premium.

10 The deductibility of LTC insurance premiums is dependent on many factors including, but not limited to, the form of insurance, the filing form of the premium payor (married, single, corporation), and IRS deduction limits. Clients should consult with their professional tax advisors prior to the purchase of any LTC insurance.

For More Information

To learn more, please contact:

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