LONG-TERM CARE INSURANCE: TRADITIONAL VS.HYBRID?

Will you one day incur expenses relating to your long-term care? Of course, no one knows, but here are a few statistics from the National Association of Insurance Commissioners:

*Life expectancy after age 65 is now 18.6 years vs. just 13 extra years for a 65-year old in 1940. The longer people live, the greater the chance they'll need help due to chronic conditions.

*About 70% of people who reach age 65 are expected to need some form of long-term care at least once in their lifetime.

*About 11 million Americans of all ages require long-term care, but only 1.4 million live in nursing homes.

*About 35% of people who reach age 65 are expected to enter a nursing home at least once in their lifetime. Of those who are in a nursing home, the average stay is a year.

*From 2015 to 2055, the number of people aged 85 and older will almost triple from over six million to over 18 million. This growth is certain to lead to an increase in the number of people who need long-term care.

So, while you may never have to pay any expenses relating to long-term care, the odds are high that you probably will.

People shopping for long-term care insurance policies have two categories to choose from: traditional policies or hybrid policies.

Traditional LTC Policies

With traditional long-term care policies you choose your benefit amount (e.g., $200/day), your benefit period (e.g., 5 years), your elimination period (e.g., 180 days), and whether you want to include extras such as inflation protection. Traditional policies offer the ability to customize your insurance to match your financial and family situation.

However, traditional polices also have some hurdles that purchasers must deal with, such as:

Use it or Lose it. Since they may never need to use their long-term care policy, consumers may feel they are wasting their money. While policies do offer a “return of premium” rider (refunds some or your entire premium if policy benefits are not used), this is an expensive rider and seldom elected. Of course, we also buy insurance on our cars and homes and hope we never get in a wreck or that our house burns down – nevertheless, this is a mental block for many consumers.

Future Premium Price Increases. Your long-term care premium is not locked in for your lifetime, as many consumers have discovered. Premiums can and will jump up as insurance companies deal with escalating claims and lower lapse rates than anticipated.

Hybrid LTC Policies

Hybrid policies use a life insurance policy or annuity contract and incorporate long-term care benefits into these policies. Long-term care benefits paid out of a LTC Hybrid Life policy are a form of an accelerated death benefit and therefore reduce the future death benefit of the policy. These policies overcome the concerns of “use it or lose it” and future premium price increases of traditional policies. Because of this, many consumers find the hybrid policies to be more palatable. In addition, people with existing life policies with substantial cash value may be interested in the ability to exchange the cash in an old life policy into a hybrid policy.

While hybrid policies may certainly fit the need for some consumers, they also have downsides. They are not as flexible or customizable as traditional policies and also don’t provide for any future inflation protection.

So, with regard to long-term care insurance, what's the consumer to do? My suggestion to someone considering the purchase of a long-term care policy is to get quotes and compare both these alternatives and fully understand the pros and cons of both approaches.

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