

## Choices in Long Term Care Health Insurance Long Term Care Hybrid Policies

From A.M. Hyers

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Until recently, consumers had few choices when it came to long term care health insurance. Traditional policies, which provided a certain amount of selected coverage, were the norm. Policies could be designed to cover care expenses for a few months, or much longer, even providing benefits for the insured's lifetime. For example, consumers could purchase coverage that would provide \$100 a day in benefits for a period of three years. When calculated, the \$100 daily benefit multiplied by 365 days in a year for 3 years would create a \$109,500 "pool of money" available for care. This pool of money would pay for care in a nursing home, assisted living facility, adult day care, or in the personal residence of the policyholder once certain criteria had been met.

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### **What Happens When the Money is Gone?**

When the pool of money was depleted, the traditional long term care policy would provide no more benefits. However, if the long term health insurance policy was never used, the owner would lose the investment of his or her premium payments. Thus, some seniors opted not to purchase these policies, deciding instead to rely on their families or current savings in the event that care became necessary.

### **What About Paying for it Out of Pocket?**

With the cost of health care rising rapidly, and a single day in a nursing home costing \$175 or more in major cities, self insuring is a risky proposition. Relying on family is an alternative, but not necessarily a viable one. Unfortunately, most families do not have the time, resources or ability to provide around the clock care to a loved one.

### **The "Return of Premium" Rider**

The insurance industry realized that consumer needs were not always being met with long term care insurance policies. While traditional long term care health insurance policies were satisfactory for some, many others wanted more guarantees in the event their long term care policy was never used. Thus, these traditional policies added a "return of premium" rider. If the policy was not used over a set period of time, say 10 years, then the insurance company would return a portion of the premiums to the policy owner or a family member. This, like any other rider, came at an additional expense to the purchaser.

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## **The Hybrid or Linked Long Term Care Insurance Policy**

In response to customer and agent demand, insurance companies have designed what can be best described as hybrid or linked policies. These policies combine the benefits of an annuity or life insurance agreement with a traditional long term care contract. With hybrid policies, the consumer has the guarantee of long term care benefits or, if no care is needed, the promise of insurance benefits to themselves and their beneficiaries.

### **How do Hybrid Long Term Care Insurance Policies Work?**

Hybrid policies work in several ways. One policy links long term care to a life insurance policy. With this plan, the insured deposits a set premium into a policy. Depending on the age, gender and health of the client- an immediate pool of money is created for long term care. At the same time, an immediate death benefit is created in life insurance. Take, for example, a healthy 65 year old non-smoking woman with \$175,000 in liquid assets. If she deposits \$50,000 into this account, approximately \$87,000 in long term care benefits would be created immediately. There would also be a death benefit to her beneficiaries of approximately \$87,000 created from the life insurance component of this account. At an additional cost, she can select a benefit rider which would provide approximately \$260,000 in long term care benefits as oppose to the original \$87,000. In this example, she receives guarantees on her investment as well as protection from the high costs associated with a nursing home stay. In addition, she would still have \$125,000 in assets at her disposal.

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