Bill Boersma - Blog

Have Your Cake and Eat It Too

Today's commentary is simply a product discussion; the life insurance / long term care combo product. This is by no means a new concept and there have been companies with such a product for quite some time but lately there seems to be a noticeable increase in interest for these types of policies.

When people get to be in their fifties, sixties and seventies they tend to start considering long term care needs because they have seen either their friends go through the difficulties of long term care or because they have dealt with it directly with their own parents. Either way, many people start to think about what they can do to not be a burden on their families, either financially or from a caretaker perspective.

Some perennial complaints from consumers regarding traditional long term care policies include "It's a waste of money if I never need it" or "My friend bought one and the premiums keep going up". Many of them are drawn to the combination products which pay out long term care benefits if needed and death benefit if long term care ended up not being required.

Many clients are asking their professional advisors to weigh in on the benefits of such contracts, whether they have been brought to the consumers attention by an agent or by the media. The products are offered by a limited number of companies and they come in a variety of flavors. Some have guaranteed death benefits and some have guaranteed cash values. Some are available as policies with ongoing premium payments and some as lump sums which also act as savings vehicles with no income tax consequences at death.

> One perennial complaint from consumers regarding traditional long term care policies is "It's a waste of money if I never need it"…

Here is an example of one popular product in the market:

The premium for a Universal Life insurance policy in the amount of $250,000 (lifetime guarantee) issued on a male age 65 as a preferred nonsmoker is $5,188. The product, written by John Hancock, offers a long term care benefit rider (the rider works as an acceleration of death benefit). The amount of the rider is chosen at issue as a percentage of the death benefit on a monthly basis (1%, 2% or 4%). Using the 2% as an example, the cost of the policy is increased to $5,633 a year. If the insured receives long term care services, the rider reimburses the expenses paid up to a max of the 2% monthly benefit or in this example $5,000 (2% of the death benefit). The benefit period for the 2% rider is at least 50 months or until the whole of the death benefit is depleted. The portion of your benefit not used for long term care expenses will be paid to the heirs as a death benefit upon the insured's death. The policy offers an additional rider that doubles the amount of benefit available for the long term care services. Adding this rider onto this same policy increases the premium to $5,990. The rider increases the benefit period from 50 months to 100 months and offers a residual death benefit of $25,000 after the depletion of the base death benefit (the lesser of 10% of the initial death benefit or $25,000) and LTC benefits. There are many ways to build this type of policy.

Of course these products are not the same as having a stand alone life insurance policy and/or a long term care insurance. Some consumers will have a desire or need for both. Sometimes I am surprised by how well these products are resonating with consumers and we see more than a few consumers rolling the cash values of existing life insurance policies into these "combo" products because of the LTC benefits. As the products go, some policies focus more on death benefit, some more on LTC benefits and some more on guaranteed cash values, but as popular as they are becoming, it behooves you to understand them as your clients will probably be a sooner or later.

Bill Boersma, Founder
Opportunity Concepts, LLC

OBJECTIVE INFORMATION DRIVES INFORMED DECISIONS

MCKAY TOWER
146 MONROE CENTER, SUITE 710
GRAND RAPIDS, MI 49503
(616) 456-1000
OPPORTUNITYCONCEPTS.COM