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Hybrid Life Insurance: Combination of Long-Term Care and Life Insurance

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A “combination” or “hybrid” life insurance policy incorporates a long-term care rider into a permanent life insurance policy. Hybrid policies are often an attractive alternative to long-term care insurance policies, which tend to be more expensive and are becoming increasingly less available.

A combination policy will in many cases appeal to middle-aged people who might otherwise have to pay hefty long-term care costs.

Policy Structure

How the policy is structured is often very important: the long-term care rider should be attached to the life insurance policy at its inception, as riders are rarely permitted to be added to an existing life insurance policy.

Requirements

For most life insurance or long-term care insurance policies, an applicant is required to submit to a medical exam, and combination life insurance policies are no different in that respect. Medical records and physician statements may also be requested or required.

How It Works

A combination policy works in roughly the following manner: The insured usually pays a single lump-sum premium in exchange for a number of years of long-term care insurance coverage. Normally, it will be for less than 10 years of coverage. The insurance policy provides a “pot” of money that is worth several times the premium payment for long-term care costs. To the extent that the money is used to pay for the insured’s long-term care needs during lifetime, the money in the pot is reduced accordingly. When the insured dies, the policy pays a death benefit to persons whom the insured designates as beneficiaries equal to the money left in the pot at the time of the insured’s death.

So, for example, if all of the money from the pot was used during the insured's lifetime to pay for his or her long-term care costs, then nothing will be left in the pot at his or her death; and so the death benefit would ordinarily be zero, unless the policy terms guarantee a baseline percentage or amount at death. Conversely, if nothing is paid from the policy for long-term care coverage during the insured's lifetime, then the beneficiaries' death benefit will equal the full amount of insurance coverage – basically, the same amount of money that could have been applied to the insured's long-term care costs during lifetime.

Cost

Currently, the average cost of these policies is $75,000. As with any insurance policy, the insured needs to be certain about what will (and will not) be covered under the policy. Long-term care benefits ordinarily begin when the insured cannot perform 2 of the 6 "activities of daily life," which are bathing, dressing, eating, "toileting", transferring and caring for incontinence.

Such policies offer the ability to save (and to receive additional benefits from) money that might otherwise ultimately have to be "spent down" to qualify for Medical Assistance benefits. The insurance premium is typically level over time, and some policies also allow the insured to pull the full premium amount after a period of time. However, the policy is a large, upfront investment and is considered to be permanent life insurance. If the goal is to replace income for family members, a term life insurance policy may be more appropriate.

Tax Treatment

With regards to tax treatment, the policy will provide long-term care benefits that are income tax-free as long as they do not exceed the actual cost of care. The combination policy typically will have a cash value, but this value will grow tax-deferred as long as the policy is not surrendered or accessed for cash value. If the insured dies with benefit left, the death benefit will be distributed tax free.

See also: How Long-Term Care Enhances Asset Protection

Questions?

If you have questions about long-term care insurance, Medicaid, or other elder law issues, contact one of our Elder Law Attorneys or call 814-459-2800 for a consultation and to learn more about how we help families preserve assets and gain peace of mind.

ELDER LAW FAQs

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