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## An easier pill to swallow

Consumers more apt to buy LTC coverage if it's combined with life insurance or annuities

**By Darla Mercado**

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In his early 60s and at the doorstep of retirement, Robert Neiswanger was considering long-term-care insurance. He acknowledged that the coverage made sense, but he couldn't come to terms with paying for something he might never need.

"I was adamant that I didn't want to pay a substantial premium and not get anything back," said Mr. Neiswanger, now 71.

The so-called use it or lose it objection is an argument that insurance agents and advisers hear frequently, especially given the high price of LTC coverage. A 65-year-old could pay more than \$7,500 in annual premiums for a \$200-a-day benefit, with inflation protection, for a five-year benefit period, according to John Hancock Life Insurance Co.

Given Mr. Neiswanger's objections, his adviser, Thom K. Hall, a partner at the Financial Strategies Institute, pointed him toward a hybrid policy that combines universal-life coverage with LTC benefits. He made a single payment of \$71,809 for the policy, which was offered through Lincoln National Corp., one of the few companies that offered such a product at the time.


The notion of combining LTC insurance with a life policy helped Mr. Neiswanger make peace with the idea of purchasing coverage. In addition to a death benefit of \$146,000, his LTC benefits include \$200 a day, with 5% inflation protection, for a four-year period.

"Long-term care usually requires an unreasonable amount of money," said Mr. Hall. "If you can take 20% of that and put it in a hybrid policy, that's an easier pill to swallow."

That's the hope of many executives in the insurance industry as insurance carriers ramp up development of products that combine life insurance or annuities with LTC benefits.

Insurance executives also anticipate that a recently enacted provision in the Pension Protection Act of 2006 will set the stage for increased interest in hybrids, as it permits tax-free LTC payouts from annuities.

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“Long-term care isn't a conversation advisers are comfortable having, and they don't want to be viewed as the insurance guy,” said Mark Pellicano, national sales manager for MoneyGuard Reserve, Lincoln's hybrid product. “They want to be the guy who grows and distributes assets.”

Lincoln released the first iteration of MoneyGuard in 1988. Last year, the product generated \$67 million in sales, up from \$49.9 million in 2008.

Other insurers, such as OneAmerica Financial Partners Inc., Hartford Life Inc., Mutual of Omaha Insurance Co. and Genworth Financial Inc., also offer hybrids. John Hancock in February released a whole-life and LTC product, LifeCare. Others, including Sun Life Financial Inc. and Allianz Life Insurance Company of North America, are either developing hybrids or considering them.

Even when they recommend a hybrid product, advisers still aim for having the LTC discussion with clients while they are in their 50s and the coverage is generally less expensive. Ideally, they have either cash or other liquid investments that aren't already earmarked for other purposes.

An old life insurance policy that's not needed but has accumulated some value also may work, as it can be exchanged for a hybrid life-LTC policy, noted Caleb M. Nitz, an investment-marketing analyst at ValMark Securities Inc.

By repositioning the life insurance policy in this way, the client picks up a threefold benefit: long-term care, death benefits and the cash value of the policy, according to Mr. Nitz. However, if clients withdraw or borrow against the cash value, they will also reduce the value of the long-term-care and death benefits.

Hybrid life policies with a 100% return-of-premium guarantee feature can also be seen as a cash equivalent in clients' portfolios, which may allow them to take on more risk in other investments, Mr. Nitz added. Since those clients can get their original deposit into the hybrid policy back, that money is considered liquid, he said.

Advisers feel more inclined to use the annuity version of the product if the client is older and if the underwriting is limited. “I'd love to have the annuity with a zero-underwriting option,” said Jim Ryan, director of long-term care at Lenox Advisors Inc. “If you have a condition where you can't be underwritten, then maybe the annuity hybrid is the way to go.”

It also works for a Section 1035 exchange if the client has an annuity that's no longer needed, Mr. Nitz said.

But when compared with its hybrid-life counterpart, the hybrid annuity's LTC benefits aren't as rich, Mr. Nitz added.

For instance, if a 60-year-old non-smoking woman deposits \$100,000 into John Hancock's LifeCare product, she can get a total LTC benefit of \$608,886 over 72 months and a maximum death benefit of \$202,962.

In the same scenario, if that woman deposits the \$100,000 into Genworth's Total Living

Coverage annuity, she will get only \$300,000 in total LTC benefits and a maximum death benefit equivalent to her initial deposit plus guaranteed interest growth up to her death, according to illustrations provided by Mr. Nitz. Neither scenario includes inflation protection.

Though hybrid products appear to be gaining a foothold among advisers, especially as more carriers enter the market, nobody believes that this spells the end for the traditional LTC insurance product. For instance, the idea of paying down a premium regularly might work for individuals who aren't necessarily asset-rich but are income-rich, Mr. Pellicano said.

“Asset-based long-term care is driving the awareness and intention of long-term-care planning,” he added. “That's a key point, but it's not going to take the place of traditional long-term-care insurance.”

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