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What You Need to Know About Hybrid Long-Term-Care Insurance

Policies that combine life and long-term-care coverage are getting more popular

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More people in their 50s and 60s are starting to consider hybrid products that combine long-term-care coverage with potential life-insurance benefits.

There were 260,000 such policies sold last year nationwide according to industry-funded research firm Limra—considerably more than the 66,000 traditional long-term-care policies sold in 2017.

Although many financial advisers recommend long-term-care insurance to clients, many consumers have balked at buying such protection, partly because of the potential money wasted if they didn't end up needing the services. The long-term-care market also has been roiled by huge premium increases on policies priced years ago and several insurers fleeing the market.

Hybrid policies have grown more popular in recent years, attracting consumers with the promise that if policyholders don't end up needing long-term care, their beneficiary will receive a death benefit. In addition, premiums for these policies have been more stable over time than stand-alone long-term-care policies because the buyer typically pays a single premium or a series of set premiums over time. Some policies also offer a return-of-premium option—another attractive feature.

But there can be downsides to hybrid policies, as well. The cost of combination products can be hefty, putting them out of reach for many consumers. In some cases, the benefit period in years may be shorter for some hybrid policies than for stand-alone long-term-care policies. And from a pricing perspective, these products in some cases can cost more than traditional long-term-care insurance because of the death-benefit component.

With this in mind, here are some things consumers need to know about hybrid products to make informed purchasing decisions.

1. Not every hybrid is created equal

Several insurance companies offer hybrid products with varying features and price points.

The selection process depends in part on how much of a death benefit a person needs and how much of a long-term-care benefit a person might need, says Andrew Crowell, vice chairman of the wealth-management group at D.A. Davidson & Co. in Los Angeles, who works with a number of carriers to offer hybrid policies. Part of the analysis should include why each of these benefits is needed and in what time frame they might be needed, he says.

Policies also vary with respect to the kind of care that is covered—home, facility or both—the monthly benefit, the daily benefit and whether inflation protection is included, says Tatyana Bunich, president and founder of Financial 1 Wealth Management Group, a wealth-management firm in Columbia, Md. Inflation protection can be important because policy benefits won't be worth as much in the future as they are today.

Many hybrids don't have an elimination period—meaning that once a doctor declares the policyholder eligible for care, he or she can receive benefits right away—but some do, so that is something to note. It's also important to consider how many years of care the policy covers, how the benefits get paid out and to whom, and the carrier's rating, a key factor in determining an insurer's strength and reliability, says Ms. Bunich, who sells hybrid policies to clients.

2. Cost can vary widely

When hybrid products first came on the market, they were cost-prohibitive for many consumers who couldn't afford the six-figure, lump-sum upfront payment. Since then, insurers have created additional payment options to make it easier for consumers to find a combination product that might work within their budget. Premiums can vary greatly based on factors such as the insurer, how often and for how long the premium is paid and the specifics of the policy, advisers say.

Hybrid Power

A 2016 survey of consumers suggests nearly 1 in 4 are very or extremely likely to purchase an insurance product that combines a life policy with long-term care when buying life insurance.

Sources: LIMRA, Life Happens

For some types of hybrid policies, a consumer might generally expect to pay $60,000 to $100,000 as a one-time lump sum, says Ms. Bunich.

Consumers who pay upfront will pay less out of pocket in total. But those who can't afford, or don't want to pay a lump sum, can choose to spread out the premiums over a longer period—five, seven, or 10 years and further in some cases.

"Companies have introduced these options to make [combination products] more accessible," says Dennis Martin, president of individual life and financial services at OneAmerica, a top seller of hybrid products offering single-pay, 10-year, 20-year and pay-for-life options.

In some cases, consumers may be able to add a long-term-care rider to an existing life-insurance policy for a reasonable cost, or exchange the existing policy for one with a long-term-care rider, advisers say.

By rolling over the cash value of an existing whole-life policy, a 52-year-old client was able to maintain a death benefit of $500,000 and get long-term-care coverage of the same amount should it become necessary, says Derek Holman, a fee-only certified financial planner and co-founder and managing director of EP Wealth

Advisors in Torrance, Calif. The cost to the client for the new policy was around $1,200 a year, he says.

Though costs are coming down, some advisers continue to recommend these types of policies primarily for higher-net worth clients with significant disposable assets.

“To my mind, this is not a mainstream product. This is a product for wealthy individuals,” says Robert J. Marcinek, a financial adviser with Essex Financial in Essex, Conn.

3. Delaying could mean higher rates

Financial advisers typically recommend hybrid policies primarily to clients between the ages of 50 and 65. That’s because premiums for life insurance increase with age, and because older people are more likely to be in ill health, increasing the likelihood that they will be denied or charged prohibitively high premiums, says Mr. Holman of EP Wealth Advisors.

Whether they are considering traditional long-term care or a hybrid policy, there are advantages to considering coverage when they are still in good health—from a cost and underwriting perspective, experts say.

“Products can be issued up to age 80, but your dollars buy you less benefit the older you are, which is true for traditional and hybrid products,” says Mike Hamilton, vice president of hybrid product management at Lincoln Financial Group, a top seller of combination products.

4. Shop around

With so many options and price points, it’s best to compare combination products from several carriers based on the customized parameters a consumer is looking for, says D.A. Davidson’s Mr. Crowell. That’s better than “just buying something off the shelf” that may or may not meet the person’s needs, he says.

In addition to getting quotes from six to eight insurance companies on hybrid products, Mr. Crowell recommends customers compare the cost and benefits of traditional long-term-care policies, as well, to get the full picture. “It’s a buyers’ market if you’re in the market for this type of a policy,” he says.