

FEBRUARY 5, 2011

Long-Term Care: New Fixes

Insurers Are Rolling Out Alternatives to Pricy Coverage; Weighing Pros, Cons

By M.P. MCQUEEN

As long-term-care insurance grows increasingly expensive and harder to get, insurers are stepping into the breach with new life policies and annuities that pay out long-term-care benefits during one's lifetime. But the new products may be an imperfect substitute.

Hartford Financial Services Group Inc., Prudential Financial Inc., MetLife Inc., Genworth Financial Inc. and others have either introduced or expanded offerings of "combo" products—permanent life-insurance policies or annuities with "accelerated" death benefits or "living benefit" riders—which allow owners to draw down cash during their lifetime if they become terminally or chronically ill. The features were first introduced by some insurers in the early 1990s.

Permanent life insurance includes both a death benefit and a savings or investment component, while annuities are contracts that pay a lump sum or a stream of income over a period of time. Long-term-care insurance pays for nursing-home care and other expenses uncovered by Medicare or health insurance if the policyholder can't live independently.

Insurers say the new products aren't meant to replace existing long-term-care policies, whose benefits can be far more generous. Still, some agents are promoting them as alternatives to those without such coverage.

The push comes as many insurers have been losing money on long-term-care insurance. Some of them, including Manulife Financial Corp.'s John Hancock, have asked state regulators for average rate increases of 40%, while others, including MetLife, have stopped selling new policies entirely.

Sales of combo policies increased 34% in 2009, the last year for which figures were available, according to Limra, the insurance research organization. Sales of the Hartford's permanent life policies with the LifeAccess rider grew by 68% in 2010 over the previous year, and by 94% in 2009 over 2008, according to the company.

About 30% of the Hartford's permanent-life policies sold now include the rider, up from 10% in 2008, the first full year they were available. Some 20 other insurers also sell combo life policies, though the products aren't available in every state.

Accelerated Benefits

The Hartford's LifeAccess life-insurance rider allows policyholders to use the accelerated benefit for any reason, such as building a wheelchair ramp or hiring a relative to provide home care, as long as he or she

has received a diagnosis of a chronic illness. Some policies are more restrictive, or require a terminal diagnosis, before paying out.

Long-term-care policies cost an average of more than \$1,450 annually for an individual 55-year-old purchasing a three-year comprehensive benefit of \$150 a day, according to the American Association for Long-Term Care Insurance, a trade group. For a 50-year-old nonsmoking man in very good health, a \$500,000 universal life policy at the Hartford would cost about \$4,666 annually, with the rider costing an additional \$490 a year.

Consumers can tap the death benefit of a permanent life policy—or annuity—with a rider to cover long-term-care expenses tax-free up to a \$300 daily limit. Several states allow a policy owner to take a discounted lump sum.

Aprile Ricardi, 50 years old, a senior manager at an aerospace technology company, says she recently purchased a combo life-insurance policy. Her father had a four-year battle with leukemia and Alzheimer's disease before he died at 85, says the East Windsor, Conn., resident, and her family's difficult experience of caring for him over a long decline prompted her to think about her own future.

She purchased a \$144,000 variable universal life-insurance policy from the Hartford with a LifeAccess optional rider, which allows her to tap the entire death benefit early should she receive a diagnosis of a chronic illness. (Variable policies like hers include a separate investment account that can fluctuate in value.)

"I just kept thinking, who do I have in my life I could depend on in this way?" Ms. Ricardi says. "Just my niece and my nephew. And would I want to fully burden them this way?" She liked the product, for which she pays premiums of \$100 a month, because "it is not just a death policy, it's a life policy."

Combo policies may be attractive for some people whose health prevents them from qualifying for long-term-care insurance—since underwriting standards on the rider may be more lenient—or for those who can't afford it. **They also don't require the buyer to lose thousands of dollars in premiums paid over the years for long-term-care insurance if they never need it.** And if the buyer never needs the cash, his or her beneficiaries still receive a full death benefit.

Note, however, that the living benefits in combo products are typically limited to the amount of the death benefit. That can be much less than those of a typical long-term-care policy, which generally covers all qualified expenses for two to five years.

Raising Premiums

Accelerated benefits also add as much as 20% to the basic premium of an insurance policy, insurers and planners say, and they can subtract up to 1.25 percentage points from the return on an annuity, according to the American Association for Long Term Care Insurance.

The riders have other drawbacks: If you become severely disabled, you could exhaust the benefits limits on a small life-insurance policy within a couple of years: **Private-room nursing-home care cost an**

average \$83,585 a year in 2010, according to the MetLife Mature Market Institute. Also, if you use up the death benefit, you won't leave a legacy for your beneficiaries.

It is best to judge a combo policy primarily on its merits as life insurance, and any optional rider separately, experts say. As with all insurance, you should check the financial stability rating of the insurers and the terms and exclusions of policies carefully, and make sure you are getting the best price.

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