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Long-Term Care: New Fixes

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



Aprile Ricardi of East Windsor, Conn., with a photo of her father: She says she doesn't want to burden her niece and nephew if she falls ill.

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.

Insurers say the new products aren't meant to replace existing long-term-care policies, whose benefits can be far more generous.

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.

Note, however, that the living benefits in combo products are typically limited to the amount of the death benefit.

It is best to judge a combo policy primarily on its merits as life insurance, and any optional rider separately, experts say.

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Don't kid yourself into believing you are pulling the wool over the eyes of the insurance companies. The insurance companies take the same risk that you will need long term care, whether you buy a traditional long term care insurance policy or a combo/hybrid policy (life/long term care or annuity/long term care) – so, they must price the policies accordingly. Sorry, insurance companies do not like to give away free lunches.

Let's look at an example of a traditional long term care insurance policy versus a life/long term care insurance policy (with a focus on the long term care benefits). In each instance the care is limited to approximately four and half years of care, at \$300 per day, per person.

A 50 year old nonsmoking married man in very good health could purchase a universal life/long term care insurance policy for approximately \$5,100 annually.

A 50 year old nonsmoking married man and his 50 year old nonsmoking wife in very good health could each purchase a traditional long term care policy for approximately \$990 annually.

Consumers can tap the death benefit of a life/long term care insurance policy to cover long term care expenses tax-free up to a \$300 daily limit. Consumer can tap the long term care benefit of a traditional long term care insurance policy to cover long term care expenses tax-free without a \$300 daily limit.

Unlike many traditional long term care insurance policies, the hybrid insurance products are not approved under Long Term Care Insurance Partnership Programs. Most states' Long Term Care Partnership Programs allow long term care insurance policyholders to protect their assets from Medicaid on a Dollar for Dollar basis - for every dollar your policy pays in benefits, a dollar of assets is ignored by Medicaid. Some states, including New York, offer 100% Medicaid asset protection through Total Asset Protection – an unlimited amount of assets are ignored by Medicaid.

Lastly, premiums for traditional long term care insurance premiums can be deducted for federal income tax purposes. In addition, many states provide deductions or tax credits for traditional long term care insurance premiums. For example, New York State provides a 20% tax credit.

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