A Short Cut to Long-Term Care Insurance

By Kerry Pechter *Tue, Jul 7, 2009*

United of Omaha, Genworth Life, Bankers Life, and OneAmerica have introduced LTC/annuity hybrids in the run-up to January 1, 2010, when distributions from annuities to pay nursing home bills will be tax-free.

Madeline B. is a 78-year-old artist whose vibrant oil paintings sell for thousands of dollars each. But she's just been admitted to a Newark, Ohio nursing home with Alzheimer's disease.

That's hard on her children, especially because Pete, their 82-year-old father, has Alzheimer's too, and has been hospitalized for five years.

The specter of dying in a nursing home after hollowing out their family's financial and emotional resources scares people as much as the threat of outliving their savings. According to the Long-Term Care Financing Project at Georgetown University, two in five Americans turning 65 today will need more than two years of care at an average cost of $68,000 a year.

Hence the huge potential audience that's envisioned for long-term care (LTC)/annuity hybrids, a new class of products that many in the insurance business believe will make both annuities and LTC insurance much more marketable than either has ever been alone.

So far, four companies—United of Omaha, Genworth Life, Bankers Life, and OneAmerica—have introduced LTC/annuity hybrids in the run-up to January 1, 2010. On that date, according to the Pension Protection Act of 2006, distributions from annuities to pay nursing home bills will be tax-free.

A huge deductible

These first-wave hybrids differ in their details but share certain basic elements. They each consist of a fixed deferred annuity, funded with non-qualified money, wedded to an LTC rider that pays out two or three times the value of the initial premium, or for a specific number of years, or for life.

In essence, the annuity assets are there to serve as a huge deductible, to be tapped for LTC first. If and when nursing home bills exhaust the annuity assets, the insurance coverage begins. In the interim, about one percent of the annuity is deducted each year to cover the LTC rider. Hybrids have the potential to significantly reduce the cost of LTC coverage.

"If you bought health-based long term care, you'd have to tap into your CDs to pay for it. For instance, if you held $90,000 in CDs that paid three percent a year, you'd earn $2,700 a year. That will get you less than $100 a day worth of coverage," said Bruce Moon, vice president of marketing at OneAmerica, which manufactures an Annuity Care hybrid.

But if you put the $90,000 in a OneAmerica fixed deferred annuity with a LTC rider, Moon said, you'd get a six percent guaranteed interest rate for five years and an option to buy three years of LTC coverage, or even lifetime coverage. The fee depends on the age and health of the insured, and comes out of the annuity tax-free.

The fees for the rider are minimized and are invisible to the contract owner, thus eliminating a major obstacle to the purchase of LTC insurance: the fear that premiums will be a wasted, out-of-pocket expense. The monthly distributions from the annuity for rider fees don't trigger a 1099 form.

"With stand-alone long-term care, depending on your age, you might pay $2,000 to $3,000 per year, but there's always a sense, 'What if I don't need it?'" said Scott Goldberg, vice president, strategy/marketing at Bankers Life, whose LinkedSolution fixed annuity/LTC hybrid pays 2.5% a year and typically deducts less than one percent for the LTC rider.

"You purchase it just as you purchase a regular fixed annuity. On a monthly basis, the cost of the LTC insurance is deducted and the interest goes in. It's seamless. There's no monthly statement where the client sees money moving around," said Beth M. Ludden, senior vice president at Genworth, which markets a Total Living Care Annuity.

United of Omaha launched its Living Care hybrid in mid-2008, staking out a first-to-market claim. The product offers LTC coverage equal to three times the account value of the fixed annuity. "That's three times the account value, not three times the initial premium," said Yuri Veomett, product performance director at the unit of Mutual of Omaha.

In that product, which currently pays 3.35%, the contract continues to provide LTC coverage even if the owner reaches age 95 and the policy automatically converts to an income annuity. "We thought it was critical that the policyholder not lose their coverage involuntarily," Veomett said. The product has a 10-year surrender period.