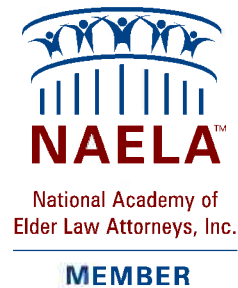


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Combination Long-term Care Products

A recent *Financial Planning Magazine* article discusses new tax laws that may increase the popularity of combining life insurance and annuities with long-term care insurance. Long-term care (“LTC”) insurance sales have been in a decline over the past several years. Many believe that consumers may be put off by the idea of “wasting” their money paying the premiums on LTC insurance policies for years or even decades and never filing a claim. With average annual premiums around \$2,160 for individuals and \$4,000 for married couples, many feel that they have other alternatives (selling their house, relying on a relative, tapping into their investments, going on Medicaid) to spending so much money to protect against a financial drain that may never occur.

The article presents the case of a widow, age 70, who had most of her liquid assets in CD’s. When she inquired into LTC coverage, her tax advisor recommended that she use her savings to pay for long-term care if she needed it. She then consulted her investment advisor who recommended that she move \$100,000 from her CDs to a life insurance policy that also offered LTC benefits of over \$230,000. The policy will pay a modest death benefit even if all the LTC benefits have been paid. This individual ended up with a product that is a combination of life insurance and LTC insurance.

These so called combo LTC products are appealing to clients because if they need coverage for LTC, they’ll have it. Alternatively, if the client needs only modest custodial care or no care at all, then the money they spent on life insurance or annuity premiums will provide a payoff for the client and their beneficiaries. These combo policies do not necessarily have to be single premium; they can be 10-pay (paid up over 10 years) and lifetime-pay products. For clients who have existing life insurance policies or deferred annuities, such holdings could be exchanged for a LTC policy or a LTC hybrid, using the existing product’s value as the single premium.

While these combo LTC products, which include annuity/LTC as well as insurance/LTC blends, have been around for a while, they are likely to increase in popularity as deferred tax breaks take effect and pricing benefits become clearer. Effective in January 2010, provisions of the Pension Protection Act of 2006 include changes in tax laws that affect LTC insurance. These changes include:

- Approval of LTC riders on annuity contracts. These riders can be added without losing the tax deferral of annuities or some tax-free insurance benefits of most LTC insurance policies.
- Tax-free access to cash values for LTC coverage.
- LTC insurance eligibility for tax-deferred exchanges.

Only “qualified” or “tax-qualified” LTC insurance will get the above benefits. This is generally not an issue because most LTC insurance contains the features necessary to be considered tax qualified. However, the new tax breaks do not extend to “qualified” annuities that are purchased and held within a retirement plan such as a 401(k) or an IRA.

Combo LTC products will work best for those whose financial plans call for life insurance or an annuity in addition to LTC coverage. The question becomes whether clients are better off buying a standalone LTC policy plus the life insurance or annuity, rather than a LTC hybrid. The answer largely depends on how the costs compare.

Not surprisingly the tax issues related to the Pension Protection Act of 2006 and combo LTC insurance products remain unsettled. The IRS has issued a private letter ruling that could affect some product designs. Those individuals or couples interested in purchasing combo LTC products should consult with an elder law attorney and a Certified Financial Planner® before purchasing these products.

Thanks to Lisa Johnson, Esq. of Oast & Hook in Virginia for this article.

If you have questions about retirement or financial products, contact your financial planner or call us at 866-ELDERLAW (353-3752).