



# Long Term Care University

## Long Term Care University – Question of the Month

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Q: We read the 11/15/12, 12/15/12 and 01/15/13 Long Term Care University articles that compare Combination Life and Long Term Care insurance policies and decided to purchase a Combination policy. What payment options are available on Combination (Hybrid or Linked Benefits) Life and Long Term Care (LTC) insurance policies?

### **The Problem – Evaluating a One-Time Premium Payment Versus Multiple Year Premium Payments**

Some insurance companies require a one-time premium payment to purchase a Combination policy. Other insurance companies offer payment options over multiple years, such as: three, five, seven or 10.

Some consumers do not have the financial resources to make a one-time payment to purchase the level of coverage they want, while others simply feel more comfortable paying their premiums over time. As is the case with most insurance, you either pay more or get less if you choose to pay premiums over multiple years.

### **The Solution – Understanding the Advantages of a One-Time Premium Payment**

Before selecting a multi-year purchase option it is critical to understand the loss of benefits compared to a one-time payment. This is particularly important if you have the option to make a one-time payment.

**Numbers Speak Louder than Words.** Let's look at a husband and wife that are each 55 years of age and are comparing a one-time payment versus a 10-year payment for Combination Life and LTC policies. They each choose to pay \$100,000 for policies that will pay for five years of care, with their monthly and total pool of long term care benefits growing at a 5% compound growth rate.

**One-Time Premium Payment.** If they make a combined one-time premium payment of \$200,000 they immediately gain a combined \$341,769 (tax free) pool of money available for LTC costs and a combined \$568,610 (tax free) death benefit. That gives them 1.7 and 2.8 times leverage, respectively, on the premiums they paid. **In 25 years when they are likely to need LTC, they will have a combined \$1.1 million (tax free) pool of money available for LTC costs and a combined \$363,233 (tax free) death benefit. That gives them 5.5 and 1.8 times leverage, respectively.**

**10-Year Payment Option.** If they make 10 combined premium payments of \$20,000 they immediately gain a combined \$299,630 (tax free) pool of money available for LTC costs and a combined \$285,136 (tax free) death benefit. That gives them 15.0 and 14.3 times leverage, respectively, on the premiums they paid. **In 25 years when they are likely to need LTC, they will have a combined \$966,338 (tax free) pool of money available for LTC costs and a combined \$296,478 (tax free) death benefit. That gives them 4.8 and 1.5 times leverage, respectively.**

1 Payment - Combination Life and Long Term Care Insurance Policies					
	Cumulative Combined Premiums	Tax Free Available for LTC Costs	Leverage	Tax Free Death Benefit	Leverage
Year 1	\$ 200,000	\$ 341,769	1.7	\$ 568,610	2.8
Year 25	\$ 200,000	<b>\$ 1,102,239</b>	<b>5.5</b>	<b>\$ 363,233</b>	<b>1.8</b>

10 Payments - Combination Life and Long Term Care Insurance Policies					
	Cumulative Combined Premiums	Tax Free Available for LTC Costs	Leverage	Tax Free Death Benefit	Leverage
Year 1	\$ 20,000	\$ 299,630	15.0	\$ 285,136	14.3
Year 25	\$ 200,000	<b>\$ 966,338</b>	<b>4.8</b>	<b>\$ 296,478</b>	<b>1.5</b>

In comparison to the 10-year payment option, the one time payment option provides 14.0% greater LTC benefits and 22.5% greater death benefits in 25 years. Also, the one-time payment eliminates the risk of ever missing a payment.

### **Action Step – Always Compare Multiple Quotations to Verify You Are Getting the Best Value**

While getting a second quotation before making a purchase is always a good idea, it is imperative in the current environment - where insurance companies are reducing benefits, increasing premiums or both.

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