

# Using Life Insurance to Pay for Long Term Care

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There is no doubt the cost of Long Term Care today represents a significant risk to most families' savings and retirement, especially since many of us are living longer, and since this type of care is not covered by regular health insurance, Medicare or Medicare supplement insurance.

Long Term Care is also called *extended care* or *custodial care*, and is defined by IRS Code 7702B as it relates to tax-qualified Long Term Care insurance. The qualifications or "triggers" to qualify for benefits under a Long Term Care Insurance policy are either...

*The expectation by a health care professional that you will need assistance with at least 2 of the 6 Activities of Daily Living (dressing, bathing, eating transferring, toileting, continence) for at least 90 days,*

*- or -*

*Needing substantial supervision due to a severe cognitive impairment (typically Alzheimer's or other form of dementia).*

Traditional, stand-alone Long Term Care Insurance is the most common due to its relatively low cost, but Life Insurance can also be an option.

Here are a few ways life insurance can help...

## Life Insurance with a Long Term Care rider

Some permanent life insurance policies (Universal or Whole Life) offer a Long Term Care rider (option) that allows the policyholder to draw down the death benefit for qualified Long Term Care expenses. The maximum drawdown is typically 24 months, and once the death benefit reaches zero, the policy ceases to exist. If less than the monthly maximum is used, the benefits will last longer. The LTC rider cannot be added to an in-force policy but must be purchased when the life insurance policy is taken out.

## Hybrid Life Insurance

Hybrid policies work like the **Life with LTC rider** described above, but offer a continuation of benefits if the death benefit is exhausted. The continuation could be an additional 3 or 4 years or even Lifetime. These policies are more expensive but can be purchased as a shared policy by

spouses and couples. Also, premiums and cash value are guaranteed for life, so no rate increases to deal with.

With both the Life with LTC rider and the Hybrid Life Insurance, if the insured dies before the death benefit is exhausted, whatever balance remains is paid to the insured's beneficiary(ies) upon the insured's death. The death benefit is also a tax-free benefit.

## **Expense Recovery**

Sometimes a simple life insurance policy can help a family recover some of their out-of-pocket LTC expenses after their loved one has died, so it may be worthwhile to keep an existing life insurance policy in force.

If the policy is a Term Life Insurance policy, most of these policies can be converted to permanent policies by exercising the *conversion clause* before a certain age or date. The premium for the converted policy will be higher than the term premium, but NO UNDERWRITING is required and it is for life. Any experienced life insurance agent can help you get a quote and assist in the conversion process, which is fairly simple.

## **Life Settlement**

Another option to tap into funds for Long Term Care is to sell your life insurance policy in the Life Settlement market.

The cash received from the sale and the way it is received is determined by your age, gender and health, in other words, your life expectancy. *The shorter the life expectancy, the bigger the payout. The longer the life expectancy, the smaller the payout.*

This can be a useful option if you have a life expectancy of 2-3 years and you (or your family) cannot afford to keep the policy in force, but it's only an option after all other funding possibilities have been exhausted.

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