

Life Insurance/ Long-Term Care Hybrid Plans

The Need:

Let's say you have evaluated the possibility that you will need long-term care at some point in the future and concluded that purchasing long-term care insurance to cover at least a portion of long-term care costs might make sense in your situation. You are, however, concerned about paying premiums for insurance coverage that you may never need. Alternatively, you may have several insurance needs competing for the dollars you have available to pay for insurance.

A Possible Solution:

You may be interested in a newer generation of long-term care insurance that blends several types of insurance coverage in a single policy. These "hybrid LTC" policies, also known as asset-based plans, combine the benefits of a life insurance policy with the availability of long-term care benefits should you need them in the future.

Life Insurance/LTC Hybrid Plan:

While you should consult with your financial advisor on the specific provisions of any hybrid life insurance/long-term care plan you're considering buying, these plans are generally available in two basic forms:

- **Periodic Premium Plans:** You pay periodic premiums to purchase a base policy of permanent life insurance and add an optional policy rider that pays qualifying long-term care expenses.
- **Single Premium Plans:** You make a single premium payment which creates benefit dollars for covered long-term care expenses, a death benefit for your beneficiaries, or both.

Assuming you need additional life insurance protection, your financial advisor can work with you to design a plan with the life insurance death benefit and long-term care benefit amount, elimination period and any optional benefits needed to help meet your needs, both today and in the future.

Taxation of LTC Hybrid Plans:

New tax rules that went into effect on January 1, 2010 clarified the taxation of LTC hybrid plans, including:

- **Tax-Free Payment of Long-Term Care Benefits:** The cost of any long-term care benefits charged against the cash value of a life insurance contract will not be includible in gross income, but will reduce your investment in the contract.
- **Tax-Free Exchanges of Existing Life Insurance Contracts:** If you have an existing life insurance contract that you do not need for other purposes, you can exchange it on a tax-free basis for an LTC hybrid plan. Tax-free Section 1035 exchange requirements can be complex. In order to avoid unforeseen and/or negative tax consequences, you should seek professional tax advice before implementing a Section 1035 exchange.