



The Hybrids Are Here: Life/LTC & Annuity/LTC

You know those vehicles that do double duty, using both electricity and gas? The hybrids? They've been around for a long time, but have found new life, have been revamped, and now are among the most popular vehicles on the road. Well, the same holds true for hybrid insurance products.

Life and Annuity combos with Long Term Care insurance are the industry's version of an efficient hybrid. These products are referred to as Asset Based Care or Linked Benefit Products.

Consider that 45% of people turning 65 will need LTC at some point in their lives and that the average cost for a one year stay in a nursing home is \$71,000.00....It makes you wonder: How will my clients pay for this?

The choice of how to pay using insurance, in the past, had been limited to purchasing a traditional stand alone Long Term Care policy. No one can argue that this is not a wise choice; if the client is financially able and recognizes the need...But what of the client who understands the need but doesn't want to purchase insurance they may never use? The hybrid products answer this objection with products, life insurance and annuities, that offer immediate value with the availability of LTC if it's needed.

The redevelopment of the linked benefit hybrid products is a result of the Pension Protection Act of 2006, which took effect on January 1, 2010. This act clarified the tax treatment of LTC and allowed insurance companies to recreate the two LTC hybrid options; one with annuities and one with life insurance.

How PPA 2006 changed the rules: Annuity/LTC prior rules indicated that benefit payments were taxable up to the amount of gain and rider charges were taxable. Now riders are treated as a separate contract, so LTC benefits paid from the rider are tax free and rider charges are no longer taxable. Life/LTC prior rules made rider charges taxable, if the policy was a Modified Endowment Contract with a gain. Now rider charges are no longer taxable, whether the policy is a MEC or not. A bigger plus was the change making LTC policies eligible for 1035 exchanges. Within this change is the new ruling, that if proceeds of the exchange are used to fund LTC, the benefit is tax free. This ruling includes transfers to Linked Benefit products as well.

Among the traditional benefits of these hybrid annuity and life products, the addition of the leveraging benefit is the key selling point. A single premium purchase of either the annuity linked products will create a LTC benefit of 2 to 3 times the single premium. With the life products, the multiple can be as high as 6 times the single premium, generally with a residual death benefit as well.

A minimal amount of underwriting is involved with the hybrids; generally a series of "knock-out" questions, a list of uninsurable medications, and a phone interview. The benefit triggers are the same as traditional LTC: inability to perform 2 of 6 Activities of Daily Living and Cognitive Impairment or Alzheimer's.

For your clients who have non-qualified assets sitting in CDs, bank accounts, or in underperforming annuities or a life policy they don't need, these hybrid products may be just the vehicle they need to ensure they have LTC coverage and asset protection.

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FOR MORE INFORMATION ON LINKED BENEFIT PRODUCTS CONTACT:



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