# LIFE INSURANCE WITH EXTENDED-CARE RIDERS

by Dominic Lucente

***As conventional extended-care policies grow costlier, alternatives have emerged.***

**The COVID-19 pandemic has changed extended-care policies.** While the specific policy information varies from company to company, in general, the pandemic has made it more difficult to qualify for extended-care policies. This can be particularly challenging if you're in a high-risk group.

Around 7 out of every 10 seniors are projected to need extended care during their lifetime, and many of these medical needs aren't covered by Medicare, Medicaid, or standard health insurance. Unless you have made arrangements for extended care, you are choosing to self insure should you require this type of assistance.[1]

With the added restrictions that make it more difficult to qualify for a stand-alone policy, hybrid policies that combine life insurance and extended-care policies have gained traction. Some people are choosing to go this route over traditional extended-care policies. In 2019, over 250,000 hybrid policies were sold, compared to just 55,000 in stand-alone extended-care policies.[2,3]

Several factors will affect the cost and availability of life insurance and extended-care insurance, including age, health, and the type and amount of insurance purchased.

Life insurance policies have expenses, including mortality and other charges. If a life insurance policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications.

You should consider determining whether you are insurable before implementing a strategy involving life insurance or extended-care insurance. Any guarantees associated with the policies are dependent on the ability of the issuing insurance company to continue making claim payments.

**What is a hybrid policy?** Hybrid extended-care policies combine life insurance with extended-care coverage. As with a standard extended-care policy, the earlier you start paying premiums for one of these hybrid insurance products, the more manageable the premiums may be. You may need to pass medical underwriting to qualify for coverage. The encouraging news here is that some people who are not healthy enough to qualify for a stand-alone extended-care policy may qualify for a hybrid policy. Under one of these hybrid policies, if you never spend down the extended-care benefits the policy may be structured to transition to a life insurance policy with a death benefit payout. Some traditional extended-care policies operate on a "use it or lose it" basis, so if you never touch it, you may not see any money back.[2,3]

Many extended-care hybrid policies are funded in one lump sum, which may influence a buyer's decision. Some extended-care policies sold in the 1990s and early 2000s have seen double-digit premium increases, putting pressure on the owners to manage payments. However, current analysis shows that this was the result of an error of assuming only 30% of people with extended-care policies would use them.[2,3]

**Are these hybrid policies just mediocre compromises?** They have detractors as well as fans, and the detractors cite the fact that a stand-alone extended-care policy generally can be structured to provide more attractive benefits than a hybrid policy. They also cite their two sets of fees, per their two forms of insurance coverage.[2,3]

As always, if you have any questions about how extended-care factors into your estate strategy, I'm always available to discuss it with you.

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Citations

1. MarketWatch.com, February 19, 2021
2. Money.com, October 5, 2020
3. BusinessInsider.com, February 22, 2021