Living benefits go convertible

Mark Noble

(June 2007)With the launch of RBC Insurance's enhanced Critical Illness Recovery Plan, the living benefits market may be getting a taste of a new product trend — bundled policies that offer critical illness and long-term care features.

The value of traditional life insurance policies has diminished as more people survive major health crises due to advances in modern medicine. With this higher rate of survival comes financial burden on the client because of lost wages, increased health care costs and a lack of financial support for his or her family from life insurance because the policyholder is not dead, says John Young, CEO of RBC Life Insurance.

Young says that there are currently two ways to protect your clients from major health catastrophes. Pre-retirement, critical illness insurance will ensure that if a client suffers from a major health crisis, he or she will receive benefits to cover lost income. For retirees, long-term care insurance covers the costs of diminishing health and protects beneficiaries from being saddled with sometimes massive long-term care facility bills.

RBC's enhanced Critical Illness Recovery Plan effectively allows a policyholder to utilize both, he says.

"Just as critical illness may appeal to people in their forties, long-term care, although available to them, is not top of mind to someone that age," he says. "By including this conversion privilege, it allows people to select a point in time between age 55 and 65 where they are allowed to convert to long-term care."

Young says this gives policyholders increased flexibility because during that period if they foresee a need for long-term care, they can convert without having to go through a new underwriting process.

"I think it's a great way for you to keep your options open. You buy the CI policy with this feature in it, and you don't have to worry about any deterioration in your health that may disqualify you through a normal underwriting process," he says.

The premiums are higher than for a traditional CI policy, but Young says that over time, the costs are offset by the value of not having to be subject to the underwriting if your health deteriorates.

"The cost of the conversion is far less than the cost of buying a new policy itself," he says. "We will provide you the conversion that preserves your right from a medical standpoint to preserve the LTC policy, and as your understanding of the need and your personal situation evolves, you've got that extra benefit already tucked away in your CI policy."

Mark Halpern, a CFP who specializes in living benefits, says RBC is heading in the right direction with the product, particularly by identifying the need for both products at different life stages.

"Most of us are concerned about having a major sickness prior to age 65, because there is a five times greater likelihood of getting cancer, heart attacks, strokes, bypasses, basically a bad list of stuff, all before age 65," he says.

At age 65, critical illness is less of a concern and long-term care becomes the priority because clients have likely accumulated enough assets that they can ride out an illness, but they will likely not have the funds for the skyrocketing costs of long-term care.

"By the time you've hit age 65, hopefully you've paid off debts such as your house, and you're looking a lot like a bank. You might even have a couple of million dollars stashed away, and that's great," he says. "That's good money to have in case of emergencies, but if you need to go into a long-term care facility today, it can be anywhere from $60,000 to $120,000 of after-tax money."

Halpern expects long-term care costs to double every nine years because of inflation, and elderly clients in need of long-term care may soon greatly outnumber long-term care facilities.

Nevertheless, he says that he's not completely sold on the bundled feature and right now would probably use two different policies with his clients.

"I like where the product is going, but when you're dealing with a bundled product, there are more words and ink on the paper in terms of what you're allowed to do and at what age," he says. "There is a whole bunch of limitations. For example, with the RBC product, you're only eligible for the conversion between age 55 and 65, and some people may not want to convert until after that."

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(06/22/07)