Life insurance policies that provide long-term care benefits are growing in popularity and attracting younger baby boomers anxious to protect their portfolios.

Sales of the policies, when measured by premiums paid, grew 20 percent last year over and the number of lives covered increased 13.5 percent, according to research by the American Association for Long-Term Care Insurance.

The association’s annual study also showed that buyers are purchasing the policies at younger ages. Fifty-three percent of male buyers were under 65, compared to 48 percent of buyers in that age group in the previous year’s study. Fifty percent of female buyers last year were under 65, up from 44 percent in 2010. (See: "Is it crazy for life insurers to test for dementia?")

"Generally these are people with assets who can very often self-insure for long-term care, but prefer to transfer the risk to an insurance company," says Jesse Slome, the association’s executive director.

The products -- called asset-based, combination or linked policies -- typically require one lump-sum premium payment, usually of $100,000 or more. They provide long-term care benefits for a certain number of years, a death benefit if you don’t use long-term care and a money-back option that returns the premium in case you decide you don’t want the policy after all.

The features answer three big questions from consumers thinking about long-term care coverage, says Alyce Peterson, vice president of marketing services for Pacific Life, which introduced Pacific PremierCare in March:

What if I need long-term care?
What if I never need it?
What if I get into this policy and it isn’t really for me?
What’s fueling the asset-based long-term care insurance trend?

Slome says today’s low-interest rate environment might be fueling some of the demand. Consumers can't earn much on cash they’re reserving for emergencies, so they figure they might as well put it into an
insurance policy that can provide long-term care benefits worth several times more than the original investment. Or, at the very least, it can provide money to heirs if they never need long-term care.

Combination policies have been around since the late 1980s, but they didn’t take off until the mid-to late-2000s, when insurers enhanced and repackaged the products. (See: "Tips on buying long-term care insurance amid rising rates.")

Lincoln Financial Group introduced MoneyGuard Reserve, a universal life policy, in 2005, marketing it as a 'live, quit or die' solution with a streamlined application process. Applicants have to answer medical questions, but they don't have to undergo a life insurance medical exam or get blood tests.

Last year, Lincoln Financial rolled out MoneyGuard Reserve Plus, now available in most states. The new product did away with elimination periods, so you can collect long-term care benefits as soon as you qualify for them. It also lets you access long-term care when living abroad and provides an option for benefits to increase and keep up with inflation.

By the numbers: asset-based long-term care insurance scenario

Here's an example of how it works:

A 60-year-old nonsmoking woman in good health pays a $100,000 premium for a policy to provide up to six years of long-term care benefits. If she never needs long-term care, the policy pays a $166,766 death benefit to her beneficiary. If she needs long-term care, the policy pays $500,298 for qualified long-term care expenses. Her maximum available benefit is $83,383 a year for six years.

MoneyGuard sales were up 19 percent in the first quarter of this year over the same quarter in 2011, says Michael Hamilton, vice president of Lincoln Financial Group's MoneyGuard and Institutional Product Management.

Peterson says sales of Pacific PremierCare are exceeding expectations. The universal life policy provides two to eight years of long-term care benefits, and it offers inflation benefit options as well as a streamlined application process. A big selling point is the long-term care benefits are tax-free, Peterson says. A consumer who self-insured would have to pay taxes on money pulled out from a 401(k) account to pay for long-term care.

Slome says he expects overall sales of combination products to grow as more insurers enter the market, but he doesn't think the products will replace traditional long-term care insurance.

Combination policies are out of reach for folks who can't afford to part with a lot of cash all at once. He cautions that most combination products, unlike traditional long-term care insurance, don't
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include inflation protection, and some offer benefits for just two to three years. Still, he adds, 'I think they're a very viable solution today for the right kind of person.'