A NEW GENERATION OF LTC PLANNING SOLUTIONS – “Living Benefits” Through Life Insurance

An overview of Understanding Variations in Long-Term Care and Chronic Illness Riders, Shawn Britt, CLU®, Director, Advanced Consulting Group, Nationwide Financial written by Sharon Allan, SVP, Wealth Preservation and Asset Distribution Specialist, Highland Capital Brokerage

An updated concept in LTC Planning solutions has emerged as new carriers have entered this marketplace. Life Insurance can now be used as “living benefits” that help pay expenses when a LTC or chronic illness event occurs.

As more carriers have entered this market, the solution of using life insurance as a base policy and allowing the policy’s death benefit to be accelerated to pay for qualifying LTC expenses has been further developed. This type of policy provides a solution to several of the objections that previously existed.

• The “use it or lose it” objection no longer applies since any benefit not needed for LTC will be paid as a death benefit to the beneficiaries or estate of the policyholder.
• When a Guaranteed Death Benefit policy is used, the premiums for the policy can be guaranteed.

There are many solutions available today for insuring against long term care and chronic illness expenses. In addition to traditional LTC products, riders on life insurance now offer new and attractive solutions that may meet clients’ budget needs and concerns.

With all these options comes the responsibility that the insurance professional thoroughly understands and can explain how each rider and plan works, including the advantages and disadvantages. This is the only way the client will be able to make an informed decision for a solution they understand and will be comfortable with at the time of a claim.

Know the terminology – contract language dictates how benefits will be paid.

LTC Riders classified as §7702(b) offer more comprehensive coverage. The LTC benefit payout method for benefits may be Reimbursement or Indemnity.

The LTC rider definition allows for temporary LTC claims in situations where the insured may be able to recover. Initially the insured must meet the basic chronic illness definition which requires a physician to certify the insured – for a period of at least 90 days – is unable to perform at least 2 out of 6 Activities of Daily Living (ADLs) or suffers from severe cognitive impairment.

Chronic Illness Riders classified as §101(g) allow the acceleration of the Death Benefit for a chronic illness (see definition above) but the chronic illness condition must be expected to continue for the rest of the insured’s life (non-recoverable).

With these Chronic Illness Riders, the term “long term care” may not be used in marketing, sales literature or sales presentations to clients. Most importantly, Reimbursement benefit payouts are not possible due to this rider not being classified as a long term care rider or product.
Know the difference **BEFORE** you make a recommendation for coverage and before a claim is expected to be paid. Long-term care riders and Chronic Illness riders may seem alike, but when it comes to filing a claim, there are crucial differences to consider.

<table>
<thead>
<tr>
<th>Long-term Care Rider</th>
<th>Chronic Illness Rider</th>
</tr>
</thead>
<tbody>
<tr>
<td>§7702(b)</td>
<td>(additional premium charged) §101(g)</td>
</tr>
</tbody>
</table>

Susan suffered a mild stroke. Her husband got her to the hospital fast enough for the ER physicians to intervene and stop the stroke. According to Susan’s attending physician she is to receive care in a skilled rehabilitation facility and then healthcare and therapy at home. Susan’s prognosis is she is expected to recover in six to nine months.

Fortunately, Susan owned a long-term care rider on her life insurance policy, the type of coverage that also pays claims for temporary long-term care conditions because it is a true LTC benefit rider.

Dave recently needed a hip replacement due to repeated falls. He underwent surgery and suffered complications that required recovery and extensive rehabilitation in a skilled care rehabilitation facility.

Dave owned a life insurance policy with a chronic illness rider that his advisor told him would assist with his bills.

Unfortunately, he found out at claim time his policy would not pay because his condition was not “likely to last the rest of the insured’s life.” In other words, his condition was not deemed permanent and non-recoverable.

There are also distinct differences between Chronic Illness Riders that charge an additional premium for the Chronic Illness benefit and those who do not. If an additional charge is made for the rider, the Chronic Illness benefit pool and monthly benefits are determined up front and are specified at policy issue.

The Chronic Illness rider that does not charge an additional premium for the rider may **discount the Death Benefit at time of claim**. If the Chronic Illness Rider is included in the policy but discounts the acceleration of the death benefit, the total Chronic Illness benefit pool and benefit amount **can’t be determined until time of claim**.

**Example of a Chronic Illness Rider §101(g) – Discounted Benefit**

- No Additional Premium Charged for Chronic Illness Coverage
- No underwriting, available to all (included with policy)
- Death benefit is discounted at acceleration of benefits
- Chronic Illness benefit amount is based on age, gender, rate class, cash value at point of claim
- Remaining Death Benefit is **forfeited** when Critical Illness benefit is elected

<table>
<thead>
<tr>
<th>Age at Election</th>
<th>Death Benefit</th>
<th>C.I. Benefit Amount Elected for Male</th>
<th>Death Benefit Male Forfeited</th>
<th>C.I. Benefit Amount for Female</th>
<th>Death Benefit Amount Female Forfeited</th>
</tr>
</thead>
<tbody>
<tr>
<td>70</td>
<td>$100,000</td>
<td>$65,266</td>
<td>$34,734</td>
<td>$56,665</td>
<td>$43,335</td>
</tr>
<tr>
<td>75</td>
<td>$100,000</td>
<td>$71,868</td>
<td>$28,132</td>
<td>$63,651</td>
<td>$36,349</td>
</tr>
<tr>
<td>80</td>
<td>$100,000</td>
<td>$78,755</td>
<td>$21,245</td>
<td>$71,515</td>
<td>$28,485</td>
</tr>
<tr>
<td>85</td>
<td>$100,000</td>
<td>$84,562</td>
<td>$15,438</td>
<td>$79,147</td>
<td>$20,853</td>
</tr>
</tbody>
</table>
This discounting takes place each year the Critical Illness benefit is elected until the Death Benefit is exhausted, the insured stops electing a Critical Illness benefit or the insured dies.

Another main differentiator among long-term care riders is whether the rider pays by an indemnity or reimbursement benefit payment mode.

Indemnity Benefits
This type of benefit will pay the maximum benefit the policy allows, regardless of what LTC expenses are incurred. Once the insured has met the definition of being benefit eligible, in most cases, the carrier will pay the maximum benefit.

Some carriers will limit the maximum benefit to the non-taxable per diem amount ($330 per day in 2014). Any amount paid over the per diem non-taxable amount will be subject to ordinary income tax.

Reimbursement Benefits
Regardless of what the stated maximum benefit is reimbursement benefits will never pay more than the incurred qualifying LTC expenses.

Qualifying expenses in reimbursement plans generally limit or do not include the costs of home modification, medical equipment (i.e. walkers and wheelchairs), or other potential expenses that go along with LTC needs. Bills and receipts must be accounted for every month. Qualifying expenses are those outlined in the policy as covered expenses eligible for reimbursement.

With Reimbursement plans it is possible for a service to be billed for, that may not be covered by the policy. In that event, the policy holder will have to pay for the ineligible service out of pocket.

<table>
<thead>
<tr>
<th>Reimbursement Benefits</th>
<th>Indemnity Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>With a reimbursement model bills and receipts must be submitted monthly.</td>
<td>With the indemnity model full monthly benefits are paid to the policy owner once the insured is deemed eligible for claim.</td>
</tr>
<tr>
<td>• Only <strong>qualifying</strong> LTC expenses will be reimbursed.</td>
<td>The benefits can be spent any way the owner chooses.</td>
</tr>
<tr>
<td>• The monthly benefit will be the lesser of the policy maximum monthly benefit or actual total for qualified expenses incurred.</td>
<td>• No monthly bills or receipts need to be submitted with some companies no monthly “proof of billable services” are required in order to collect benefits.</td>
</tr>
<tr>
<td>• Regardless of how many reimbursement policies are owned, the total benefit is never more than the qualifying bills since reimbursement policies coordinate with each other and pay a proportional amount of the claim.</td>
<td>• Excess benefits may be used for any other needs.</td>
</tr>
</tbody>
</table>
Summary

Life Insurance with LTC Rider §7702(b)
• Wants a death benefit - looking to enhance legacy and protect their legacy against cost of a long-term care event
• Has LTC concerns - wants full LTC coverage for temporary and permanent LTC claim
• Likes idea of a policy that has purpose beyond life insurance or LTC need (use it or lose it concern with stand-alone LTCi)

Life Insurance with Chronic Illness Rider §101(g)
• Primary concern is the death benefit
• Chronic illness protection secondary
• Understands this solution will only provide benefits for a permanent chronic illness
• If the rider is included with policy (no charge), client understands a portion of death benefit will be forfeited upon going on claim. This may be the only solution for Chronic Illness protection when a client is life insurable but not LTC insurable.

Check List
☐ LTC or Chronic Illness Rider
☐ Reimbursement or Indemnity Benefits
☐ Additional cost for the rider
☐ Licensed to sell the LTC Rider
☐ Is there lapse protection?

Source: Understanding Variations in Long-Term Care and Chronic Illness Riders, Shawn Britt, CLU, Director, Advanced Consulting Group, Nationwide Financial, 12/13, Revised 8/14

Follow this link to view the current LTC and Chronic Illness optional riders HCB has to offer with permanent life insurance policies and Hybrid Linked Life with LTC Benefits, where the LTC benefits are contractual and not provided by a rider.