

# Long Term Care vs Chronic Illness

## **Long-term Care Riders – classified as 7702B**

Riders with the additional classification of 7702B offer more comprehensive coverage. To qualify for claim, the client needs to meet the basic definition of chronic illness, which requires a physician to certify the insured- for a period of at least 90 days - is unable to perform at least two Activities of Daily Living (ADLs) or suffers from severe cognitive impairment. This definition allows for the LTC condition of the insured to eventually be fully recoverable, so conditions such as mild strokes, orthopedic repairs, side effects of certain cancers, etc. would qualify for a long-term care claim on this type of policy. In addition, all riders in this category charge an additional fee for the rider, which will add to the policy premium cost. LTC monthly benefits and cumulative total benefits are determined at issue (assuming no withdrawals or loans from the policy) so the policy holder knows from day one what the benefits will be should they need to go on claim.

## ***Indemnity vs. Reimbursement***

The main differentiator among 7702B long-term care riders is whether the rider pays by an Indemnity or Reimbursement model.

*Reimbursement plans* – Regardless of what the stated maximum benefit is, reimbursement plans will never pay more than the qualifying LTC expenses incurred. Qualifying expenses in reimbursement plans do not include the costs of home modification, medical equipment (i.e. walkers), nor other potential expenses that go along with LTC needs. Bills and receipts must be accounted for every month. Some carriers will allow the service or facility to bill the insurance carrier directly and will make direct payment back to the facility. Other carriers may require the policy holder to submit the bills each month, and then wait for reimbursement of expenses. Either way, it's 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. However, some people may like this plan because when bills are less than the stated benefit, only the amount covering the qualifying costs will be paid, thus providing automatic potential to stretch out the LTC benefit for a longer period of time.

*Indemnity plans* - This type plan will pay the maximum benefit the policy allows, regardless of what the LTC expenses are. While some plans may require a licensed service to be involved in the care, no bills or receipts are needed to justify the cost of care. However, keep in mind there are a few companies offering an indemnity payout that call for monthly re-verification of services by requiring copies of bills be submitted to prove continued use of a licensed provider (full benefits are still paid). While the entire benefit is available on an indemnity plan, some people may prefer to take only what they need to extend the benefit period.

## **Chronic Illness Riders – Classified only as 101(g)**

Some riders are classified as 101(g) only and are generally referred to as “Accelerated Death Benefit for Chronic Illness” riders. With these products, the term “long-term care” may *not* be used in marketing, sales literature, or in sales presentations to clients. The term “chronic illness” must be used instead. In addition, these riders generally require that the physician must certify the chronic illness “*is likely to last the rest of the insured’s life*”. In other words, the condition must be non-recoverable. Conditions such as mild to moderate strokes, orthopedic repairs, physical complications from cancer recovery, and other

recoverable conditions, would not be eligible to go on claim. For this reason, particular care should be taken when explaining these products to clients so they have a thorough understanding of any limitations in coverage. These riders all use the indemnity model since claims reimbursement is not possible due to not being a long-term care product.

***Additional Charge for Rider vs. Discounted Acceleration of Death Benefit***

A differentiator among Chronic Illness Riders is whether the rider is paid for by an additional charge added to the policy (which would increase the premium requirement), or, by including the rider as a policy feature, then discounting the amount of death benefit accelerated to provide the chronic illness benefit if necessary.

*Discounted Acceleration* - Some companies “include” the Chronic Illness Rider feature as part of the policy at no additional charge. But keep in mind “no charge” does not equate to “free”. Instead of charging for the rider as part of the cost of insurance, these riders discount the acceleration of death benefit when the rider is actually needed. Because of this, benefits can not be determined until the time comes to go on claim. The discounting of the benefit is based on several variables including age, sex of the insured, premium class, as well as interest rates and policy cash values at time of claim. The younger you are when filing a claim, the more the death benefit is discounted - ultimately reducing the amount of total benefits paid out. Women, with all other factors equal, will have a larger discount factor than men, and thus receive less benefit. It is important to explain to clients choosing this type plan that neither the Chronic Illness benefit amount nor the total benefit pool available can be predicted in advance, but rather, can only be determined at time of claim. While some may argue this method spares people who never experience chronic illness expenses from having to pay rider charges, those needing benefits may not understand at the time of claim why the policy death benefit is not worth what is was at policy issue. One company providing this type product offers the example that a 70 year old making an election of the rider would be subject to a discount of around 30%\*. On a \$400,000 policy, the potential result of collecting for a chronic illness (assuming the entire allowable amount was accelerated), plus the final amount held back to be paid at death, would be a net total of approximately \$273,000. While some companies will accelerate benefits on a monthly basis, others require the discounted acceleration to be paid annually or semi-annually. The design of this type rider offers minimal risk to the insurance company.

*Additional charge to cost of insurance*- Other Chronic Illness products assign a cost of insurance to the chronic illness rider and take monthly deductions from policy values – essentially the same way the base policy is charged for. While this does increase the premium for the overall life insurance policy, charging for the rider up front provides a client with the advantage of knowing from day one exactly what was purchased and how much chronic illness benefit they will be entitled to, no matter when the need arises. Clients wanting clarity in what they purchased may find the additional charge minimal in comparison the potential loss of benefits created

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