Long-term care

Understanding the differences:

Individual long-term care insurance and combo/rider products

Knowing and understanding the differences between a stand-alone long-term care insurance contract and an LTC combo product or rider is important in creating a strategy that is appropriate for your clients. Below are some key points that will help compare some of their features.

Features common to both individual LTCi and combo or rider products

- Qualification for benefits generally includes being certified as chronically ill, which is defined as the insured's requiring assistance with two of the six **Activities of Daily Living (ADL)** or being diagnosed with a **severe cognitive impairment**.
- There is generally an **elimination period** of 30 to 90 days before benefits will be paid.
- Benefits are designed to cover the expenses required for long-term care.
- Benefits will be calculated on a daily or monthly basis, depending on plan design.
- A variety of care will be covered, including home care, hospice, adult daycare, assisted living, and skilled nursing care.

Definitions

- **Activities of Daily Living**
  Activities that include eating, bathing, toileting, continence, dressing and transferring.
- **Severe Cognitive Impairment**
  Deterioration or loss of intellectual capacity, which requires supervision by another person.
- **Elimination Period**
  The number of days the insured receives service before benefits become payable.

Turn the page to learn more

	Individual LTC Insurance	**LTC combo / rider products** There are three common types of Life/LTC combo/rider products:		
		Death benefit reduction riders Provides LTC benefits through a reduction of the death benefit	**Daily benefit rider** Uses a small daily benefit rider on the life contract that doesn’t reduce life insurance benefits	**Death benefit reduction and extension of benefits** Uses a combination of death benefit reductions and an extension of benefit provision.
Premiums	• Premiums paid on recurring basis. Failure to pay premiums will lapse the contract.	• The charge for the rider is considered part of the premiums needed to sustain the policy. Charges are generally taken out of the cash value of the contract (with universal life contracts).		
Benefits	• The total of the “pool” is designed to pay for a number of years, generally ranging from 1 to 10 years. While some plans have other alternatives, very few carriers still offer lifetime, or unlimited, benefit options. • A “pool” is usually calculated by taking the daily benefit amount and multiplying by 365 days.	• At the time of the LTC claim, the cash value of the contract is transferred into a fixed account (based on the type of policy being utilized), and the total death benefit is determined. • Based on the client’s expenses and payment type (reimbursement or indemnity), the LTC benefits are calculated and paid monthly. At the time of payment, the total death benefit is reduced proportionally, dollar-for-dollar, for LTC benefits paid.	• A pool of benefits is “attached” to the life insurance contract. When the client qualifies for benefits, they have a small long-term care contract from which benefits are paid. These pools generally last 1 to 3 years, sometimes longer.	• Should clients go on claim, they will first receive their benefits through a reduction in their death benefit. Should they exhaust all their death benefit, they will then receive an extension of the benefit, beyond the death benefit. The amount of the extension of benefits is generally calculated as a percentage of the original life insurance face amount. • There are generally limitations on benefits ranging from 1 to 3 years, sometimes more.
Methods of dispersing benefits	• There are three methods of dispersing benefits to insureds: reimbursement, indemnity or cash. - **Reimbursement plans** pay the exact qualified expense, dollar-for-dollar, of care, up to the daily maximum. - **Indemnity plans** pay the full daily benefit as long as one dollar of qualified expenses has been incurred. - **Cash plans** pay the maximum daily benefit as long as the client medically qualifies for care, regardless if any care is actually received.			
Availability of additional benefits	• Some policies offer additional riders such as shared benefits, zero day elimination period, monthly benefits (instead of daily), shortened premium payment plans, return of premium, waiver of premium, inflation riders, option to change the elimination period crediting and restoration of benefits. • Some policies also offer benefits such as care coordination or personal care advisors. These benefits assist the insured and family members manage the care of the individual, insuring they are using the appropriate type of care providers.	• Generally clients have options with regards to how much benefit they would like to receive, up to the maximum daily/monthly amount. Any amount not used remains in the contract. • When the client dies, the remaining death benefit is paid to the beneficiary. Should the client exhaust all their death benefit, some policies may offer a minimum residual death benefit.		

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Inflation	• Multiple inflation options are typically available.	Inflation options are usually not available on LTC combo products and/or riders.
Partnership	• Available on a state-by-state basis. • The appropriate inflation benefits based on the insured's age must be purchased in order for the long-term care contract to be considered part of the LTC Partnership Program. Depending on the age and health of the insured, this benefit may be cost prohibitive.	Not eligible for LTC Partnership Program.
Underwriting	• Requires full underwriting, including review of an APS, paramed exam, and, depending on the age of the insured, a comprehensive cognitive assessment.	Along with the underwriting needed for the purchase of the life insurance policy, the client will be subject to some of the same underwriting criteria as individual LTCi policies, such as cognitive assessments. Each individual carrier determines the extent of underwriting necessary.
Cost	• Because benefits can be more robust, LTCi policies may be more expensive on a monthly basis than combination products or riders. • The cost can be compounded when other factors, such as age, health, and additional benefits are included.	In general, Life/LTC combo or rider products may be less expensive than stand-alone LTCi contracts when you look at the pure cost of insurance. However, in order to provide the same size benefit pool, there must be a life insurance need. In addition, some optional benefits, such as inflation, may not be available.
Return of Premium options	• On some policies, a return of premium rider is available that allows for all premiums paid to be refunded to a beneficiary if LTC benefits are not used.	Generally not available with LTC combo/rider products.

How do I determine what's right for my client?

- You ultimately must review your client's needs and goals.
- When determining whether a Life/LTC combination product is right for your client, you must keep in mind that a life insurance need should be present with the long-term care need being secondary.
- If your client's life insurance needs and goals have been covered, stand-alone LTC Insurance or a combo product may be an option depending on their health and benefit needs.
- Using the Minnesota Life LTC Fact Finder can help you gather appropriate background information about your client's ability to fund premiums and their desire to protect themselves from the costly expenses of long-term care.
- Weighing the pros and cons of each product and making sure your clients understand their options are key to successful long-term care planning.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain fees, such as mortality and expense charges, and may contain restrictions, such as surrender periods. One can lose money in this product.

It is important to keep in mind that riders and agreements are subject to additional costs and restrictions.

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