Accelerated Death Benefit and Long Term Care Insurance

Benefits Comparison Reference Guide

This reference guide outlines the differences between benefits provided by an Accelerated Death Benefit (ADB) and benefits provided by Long Term Care Insurance (LTCI) and Long Term Care riders on life insurance policies. This guide is intended to help better understand these differences and provide clients with answers to the following questions:

1. What are the differences between the ADB and LTCI benefits?
2. What are the differences between the benefit eligibility criteria?
3. Does an elimination period apply?
4. What if the benefits are never needed?
5. What if the benefits are needed?
6. Are there restrictions on benefit amounts?
7. Are the benefits subject to federal income tax?
8. What are the income and death benefit considerations?

	Accelerated Death Benefits (ADBs)	Long Term Care Insurance (LTCI)
Description of Benefits	Accelerated death benefits, also known as "living benefits," are life insurance policy proceeds paid to the policyholder before the insured dies. The benefits may be provided in the policies themselves, but more often they are added by riders or attachments to new or existing policies. The ADB option or rider in a life insurance policy provides that a portion of the policy's proceeds will be paid to the owner under a qualifying claim. Qualifying triggers include such things as the diagnosis of a terminal illness, the need for long term care or the onset of a medically incapacitating condition. The life insurance company will generally reduce the face amount and values of a policy in accordance with the ADB payment made to the owner, therefore reducing any future death benefit available. Some insurers add ADB options to life insurance policies for a small additional premium, usually computed as a percentage of the base premium. A growing number of companies, however, offer these benefits at no additional premium, but charge the policyholder for the option only if and when it is used. The amount of money policy owners may receive from these types of policies varies, but typically the ADB acceleration amount is capped at some percent of the face amount of the policy. Some policies, however, allow the acceleration of the full face amount of the policy. The amount of the benefit that the policy owner receives will be less than the amount requested to compensate for the interest the company loses because of early payout and the administrative charge. Payment of an ADB usually results in a pro rata reduction in the cash value of a permanent life policy and also results in pro rata repayment of any outstanding policy loan.	Long Term Care (LTC) insurance is designed to help pay for the cost of long term care services. It is not the same as medical insurance, which generally provides coverage for doctor visits and hospital stays. Depending on the type of policy and coverage selected, long term care insurance can provide coverage for care in many settings such as: at home, adult day care service centers, assisted living communities and nursing homes. Other benefits often included in an LTC insurance policy are: an allowance for home modifications, discount for couples, caregiver training, respite care, bed reservation, waiver of premiums while on claim, and care coordination services. The cost of a long term care policy is based on a number of variables such as: the insured's age and health condition, the daily benefit amount selected, the maximum number of days or years that a policy will pay (or up to a maximum policy amount), the elimination period selected and any optional benefits selected such as inflation protection option or a nonforfeiture rider. Insurance companies generally pay long term care insurance benefits using the expense-incurred method or the indemnity method. When the expense-incurred method is used, the insurance company must determine if the claimant is eligible for benefits and the insured has provided proof of eligibility. The policy will pay benefits only when the insured receives eligible long term care services. Once the insured has incurred an expense for an eligible service, benefits are paid either to the owner or provider. The coverage will pay for the lesser of the expense incurred amount or the dollar limit of the policy. Most policies bought today pay benefits using the expense-incurred method. When the indemnity method is used, the company will similarly determine if the insured is eligible for benefits. The benefit is a set dollar amount and is paid periodically without regard to the amount of long term care expenses incurred. Once the insurance company makes that eligibility determination, it will pay that set amount directly to owner up to the limit of the policy so long as the insured remains eligible.

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Eligibility Criteria/ Benefit Triggers	ADBs, each of which serves a different purpose, indicated by the type of qualifying event required under the policy. A qualifying event is a medical circumstance that can trigger eligibility for early payment of all or a portion of the policy's face amount, including: • Terminal illness, with the insured's death expected within 12 to 24 months as defined in the contract. • Critical illness, such as acute heart disease or AIDS, which would result in a drastically reduced life span without extensive treatment. • Catastrophic illness requiring extraordinary treatment, such as an organ transplant. • Long-term care needed because the insured cannot perform a number of daily living activities, (such as bathing, dressing, or eating, i.e. chronically ill insured); or supervision needed because of the insured's severe cognitive impairment. • Permanent confinement in a nursing home.	The term "benefit triggers" refers to the criteria and the methods that the insurance company uses to evaluate when the insured is eligible for benefits, and the conditions the insured must meet to receive benefits. Different policies may have different benefit triggers. Some states require certain benefit triggers, and the benefit triggers for tax-qualified contracts are also fairly standardized across insurance policies. The two main types of benefit triggers are ADL deficiency or cognitive impairment. *Activities of Daily Living.* The inability to do activities of daily living, or ADLs, is the most common way insurance companies decide when the insured is eligible for LTC benefits. The ADLs most companies use are bathing, continence, dressing, eating, toileting and transferring. Typically, a policy pays benefits when the insured cannot do a certain number of the ADLs, such as two of the six or three of the six. The more ADLs that a policy requires the insured to be unable to do, the harder it will be for the insured to become eligible for benefits. Federally tax-qualified LTC policies require that insureds be unable to perform at least two of their ADLs for a period of at least 90 days. The ADLs that trigger benefits in a tax-qualified policy must come from the list above. *Cognitive Impairment.* Most long term care insurance policies also pay benefits for "cognitive impairment." The policy usually pays benefits if the insured cannot pass certain tests of cognitive function. Federally tax-qualified policies require that to collect benefits, the insured must either be unable to perform at least two of their ADLs or be severely cognitively impaired.
Elimination Period	Most critical and chronic illness ADB options have a waiting period of 30 days. A waiting period typically is the period of time which must pass from the date the policy becomes in force before the occurrence of the insured's chronic illness or critical illness. Only a chronic or critical illness first occurring after the waiting period is eligible for an ADB payment. Some policies use a waiting period to simply defer benefit payments until the waiting period ends when the condition first manifests itself during the waiting period. Terminal illness ADB options generally have no waiting period.	Most LTC policies offer an option to add an elimination period when applying, ranging from 0-365 days. An elimination period works like a deductible stated in time rather than dollars. The insured must pay for long term care costs for a certain number of days at the beginning of a period of care, even though the insured may otherwise be eligible for benefits as defined by the policy/ rider. During the elimination period, the initial cost of claim is placed on the policy owner. The longer the elimination period, the lower the premium and vice versa. The most common elimination period is a 90-day period. The elimination period is typically measured in either calendar days or service days. In a service day elimination period, the insured must receive a covered service for any day to count toward the number of days in the elimination period. In the calendar days elimination period, once the insured has been certified as being chronically ill, each calendar day counts towards the elimination period, regardless of whether LTC services are received. Some LTC contracts require one lifetime elimination period only, while others require the insured to meet the elimination period for each claim.
Benefits needed or not needed	If ADB benefits are not needed, the full death benefit of the policy remains intact and is paid out to the beneficiary, if any, or to the owner's estate as a death benefit upon the death of the insured.	Under a stand-alone LTC policy, if LTC benefits are not used before death or surrender, the policy may end with no payment, or the policy may contain a provision or may allow the purchase of a rider providing for some refund of premium. However, under an LTC rider that is attached to a life insurance policy, benefits are generally paid out either as LTC benefits or death benefits.
Restrictions on benefit amounts	Generally, there are no restrictions on the use of ADBs.	An expense incurred LTC policy/rider pays out benefits as a reimbursement of expenses incurred for LTC services received. Under an indemnity LTC contract, there are no restrictions on the use of LTC benefits.

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Tax treatment of benefits	Certain Accelerated Death Benefits are generally not taxable but there are exceptions. Benefits advanced due to a terminally ill insured where the provision satisfies Sec. 101(g) of the code are not taxable to the extent the benefit would have not been taxable if the insured had died. If a "terminally ill" acceleration provision does not satisfy Sec. 101(g), the benefit will generally be taxable to the extent there is gain in the contract when the benefit is paid. Even if the contract provision satisfies Section 101(g) the benefit will be taxable if the payee is not the insured and the payee has an insurable interest in the insured because the insured is an officer, employee or director of the payee or because the insured is financially interested in a trade or business carried on by the payee. Accelerated death benefits for critical or chronic illness or long term care, other than those that are "Qualified Long Term Care" benefits under Sec. 101(g), are accident and health benefits which are taxable or not taxable under sec. 104(a)(3) of the Code. If the employer pays for the benefit for an insured employee, the benefit will be taxable. If the individual pays his own premium for the benefit, the benefit will be tax free. A payment of benefits that reduces the face amount of the life policy will require retesting of the policy as a qualified life policy under section 7702 of the Code and may reduce the guideline premium limits going forward. Producers should not advise policy owners about their specific tax situation or the tax effect of benefits paid under a specific policy provision. They should always refer clients to their own tax advisors for the final analysis of tax impact of ADB coverage.	Congress added sec. 101(g) of the Code in the Health Insurance Portability and Accountability Act (HIPAA) in 1996 to ensure that certain LTC riders on insurance policies receive favorable tax treatment if they meet certain standards. These "tax-qualified LTC insurance contacts" will generally provide federal income tax-free LTC benefits within the limits provided by sec. 101(g) of the Code when the insured is "chronically ill". Sec. 101(g) provides that in a reimbursement model contract benefits paid to reimburse for qualified long term care expenses are not taxable. Any reimbursements in excess of actual expenses are taxable. In the indemnity or per diem model, benefits are paid without regard to expenses incurred, where benefits paid up to the annual per diem limit are not taxed. The annual per diem limit is the greater of (an amount per day set by the Code and adjusted for inflation and (b) the actual qualified long term care expenses incurred for the year. Amounts received in excess of the per diem limit are taxable. If there is more than one qualified LTC policy on the same insured, the aggregate benefits received are compared to the per diem limit to determine the benefits treated as non-taxable. The per diem limit applies to total benefits received for the year from all policies. It does not apply for each policy. In addition, the per diem limit is allocated first to policies paying benefits to the insured and then to policies paying benefits to others. Even though the rider otherwise qualifies as a tax qualified LTC rider under sec. 101(g), the benefit will not be tax free under sec. 101(g) if the benefit is paid to someone other than the insured and the payee has an insurable interest in the insured in some business contexts, i.e., if the payee has an insurable interest in the insured because the insured is an officer, director, or employee of the payee or the insured has a financial interest in any trade or business of the payee. In that event, the benefit may be non-taxable under sec. 104(a)(3) as discussed above or taxable to the extent of gain in the contract. For income tax purposes, payment of benefits will be reported to the policy owner by the company on Form 1099-LTC. The policy owner must file Form 8853 to determine the amounts to be included or excluded from income for the applicable taxable year. Additionally, stand-alone LTC insurance premiums are eligible for income tax deduction, subject to certain limitations. A payment of benefits that reduces the face amount of the life policy will require retesting of the policy as a qualified life policy under section 7702 of the Code and may reduce the guideline premium limits going forward. Producers should not advise policy owners about their specific tax situation or the tax effect of benefits paid under a specific policy provision. They should always refer clients to their own tax advisors for the final analysis of tax impact of ADB coverage.

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Income and death benefit considerations	Receipt of any ADB may affect the insured's eligibility for public assistance programs such as medical assistance (Medical), aid to families with dependent children, and supplemental security income. Prior to receipt of any ADB, the policy owner and/or insured should consult with the appropriate social services agency concerning how receipt of this benefit will affect the insured or the insured's family's eligibility for these programs. ADB coverage is not the same as long term care insurance or nursing home coverage. ADB benefits may not be enough to cover the insured's medical, nursing home, or other bills.	LTCI coverage does not cover all of the costs associated with long term care incurred during the period of coverage. LTC benefits do not qualify for MediCal asset protection under the California Partnership for LTC insurance, unless the LTC contract is a Partnership policy.

For more information on ADB and LTCI benefits, please contact the Transamerica Sales Desk.

Certain riders are available at an additional cost. Riders and rider benefits have specific limitations and may not be available in all jurisdictions. For complete details including the terms and conditions of each rider and exact coverage provided, please consult the Company.

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