Understanding the variations between long-term care and chronic illness riders

Vol. 1 in a series on LTC and chronic illness riders

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America is aging. The baby boomer generation — once our nation’s largest group of youth — is now moving into retirement. With the impending expansion of the elder population, long-term care (LTC) continues to escalate in importance as a segment of financial and retirement planning.

There was a time when the only way to insure the risk of long-term care expenses was through a traditional standalone long-term care insurance (LTCi) policy. While a variety of features are offered that allow customization to these policies, including inflation protection and a choice of benefit periods; some consumers have become apprehensive to purchase these products largely due to the possibility of a “use it or lose it” scenario (especially with no return of premium feature). In addition, companies have been raising rates to LTCi policy holders — and while new policies have been priced with considerations of low interest rates and gender specific claims experience, there is still no guarantee that the premium will remain the same amount throughout the life of the policy. For some people, the initial lower overall cost and ability to customize the policy justifies the risk of possibly never collecting benefits, but other solutions needed to be developed to make LTC coverage more attractive overall to consumers.

Modernizing LTC solutions

A new way to insure long-term care was developed using permanent life insurance as a base and allowing the policy holder to accelerate the death benefit to pay for qualifying LTC expenses. This modern version of LTC coverage accomplishes several things that now make planning more palatable to some consumers.

• The “use it or lose it” objection often associated with LTCi policies is eliminated since any benefit not needed for LTC needs will be paid as a death benefit to the beneficiaries

• Premiums and benefits can be guaranteed when choosing guaranteed death benefit policies

• Life insurance has a new use in retirement — living benefits that help pay expenses when LTC needs arise — providing an additional reason to purchase permanent life insurance

These products have become extremely popular with continued sales growth; thus, the addition of riders providing living benefits have become table stakes for life insurance companies. But with the mass addition of riders, confusion abounds. While these riders may appear to offer similar protection, there are many important differences between LTC riders and chronic illness riders to consider.
Rider classifications and differences — What this means to clients

The purpose of this paper is to explain the differences in how a rider is classified. These differentiators determine how the riders are charged for — what of type claims qualify for benefits — how benefits are paid out — if the benefit amount is known at issue and guaranteed — and how much in total will be paid between the acceleration and final death benefit. Understanding these differences is extremely important so an insurance professional can present a client with a clear picture of what they are really purchasing.

Understanding the term “chronic illness”

Let’s start with the confusion between the term “chronic illness” and products called “chronic illness riders”.

The term “chronic illness” refers to a state of health. Keep in mind that products considered long-term care cover all chronic illness, but chronic illness riders do not necessarily cover all “long-term care” claims. There are two things that must be clearly understood before defining the differences in these products:

1. It’s important to understand that certification of a “chronic illness” is required to trigger any type of policy whether a LTCi policy, a LTC rider on life insurance (or an annuity) or a chronic illness rider on life insurance. The tax code definition of chronic illness is not defined by whether the insured will recover or not. IRC §7702(c)(2) defines a “chronically ill individual” as any individual who has been certified by a U.S licensed health care practitioner as:
   (i) Being unable to perform (without substantial assistance from another individual) at least 2 activities of daily living for a period of at least 90 days due to loss of functional capacity; or
   (ii) Requiring substantial supervision from threats to health and safety due to severe cognitive impairment.

2. All riders — whether a long-term care rider or a chronic illness rider — allow the death benefit to be accelerated to pay tax free benefits (within IRC formula limits) for qualifying conditions pertaining to chronic illness triggers.

Defining whether a rider is a chronic illness rider or a long-term-care rider is determined by other factors.

What is the difference between a long-term care rider and an accelerated death benefit for chronic illness rider?

Long-term care riders

Long-term care riders offer more comprehensive coverage and must be compliant with NAIC LTC Model Regulations. There are a couple of ways a rider can be classified as true long-term care coverage.

- **Long-term care riders classified under IRC §7702B** — A long-term care rider receiving favorable tax treatment under this code is intended to be a tax-qualified long-term care insurance contract. This is the most common way long-term care riders are filed. All riders mentioned in this paper pay tax-free benefits per the Internal Revenue Code on policies owned by individuals. However, with this filing, the policy benefits are also considered accident and health benefits, thus may allow LTC benefits to be paid tax free in situations where a business owns the policy.

- **Long-term care riders — classified as IRC §101(g) with LTC Model Regulations or similar state regulations** — This model is rarely used as a filing for an entire product, though a few companies have done so — primarily on whole life policies. Most often this filing is used to comply with a specific state’s requirements to get a rider approved and put in place. Favorable tax treatment of LTC rider benefits come from IRC §101(g), thus this type of rider does not qualify as an accident and health plan. While benefits paid on an individually owned policy are tax free, any LTC benefits paid to business owned policies will not be entirely tax free. However, because it is compliant with LTC Model Regulations, or similar regulations under the filed state, it is considered a long-term care product and maybe referred to as a LTC rider.
Riders with either of the above qualifications may be referred to as a LTC product, both verbally and in writing. To qualify for claim, the client needs to meet the basic definition of chronic illness, which as previously stated, requires a U.S. licensed health care practitioner to certify the insured is unable to perform at least two Activities of Daily Living (ADLs) for a period of at least 90 days — or — suffers from severe cognitive impairment. This definition allows for temporary LTC claims in situations where the insured, at some point in time, will fully recover. Thus, with this type of policy, conditions such as mild strokes, more complicated orthopedic repairs, side effects of certain cancers, etc. can qualify for a long-term care claim (as long as the triggering condition is expected to last 90 days or more).

LTC riders are underwritten separately from the base policy and an additional fee is charged for the rider, which will add to the policy premium cost. The LTC monthly benefits and cumulative total benefits are determined at issue (assuming no withdrawals or loans from the policy) so the policy owner knows from day one what their benefits will be should there be a LTC claim.

LTC monthly benefits are paid tax free (within IRC limits) and are paid via the dollar for dollar reduction method, which means each dollar of LTC benefit paid reduces the death benefit by one dollar — resulting in every dollar being paid - either as LTC benefits and/or death benefit. The following chart illustrates how payments of these riders affect the overall payout of the life insurance policy.

<table>
<thead>
<tr>
<th>Claim year</th>
<th>Death benefit/ LTC start of year</th>
<th>LTC monthly benefit</th>
<th>Annual LTC payout</th>
<th>Remaining death benefit at end of year</th>
<th>Cumulative LTC benefits paid</th>
<th>Total LTC/DB paid if death is at end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$400,000</td>
<td>$8,000</td>
<td>$96,000</td>
<td>$304,000</td>
<td>$96,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>2</td>
<td>$304,000</td>
<td>$8,000</td>
<td>$96,000</td>
<td>$208,000</td>
<td>$192,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>3</td>
<td>$208,000</td>
<td>$8,000</td>
<td>$96,000</td>
<td>$112,000</td>
<td>$288,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>4</td>
<td>$112,000</td>
<td>$8,000</td>
<td>$96,000</td>
<td>$16,000</td>
<td>$384,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>5</td>
<td>$16,000</td>
<td>$8,000</td>
<td>$16,000</td>
<td>$0</td>
<td>$400,000</td>
<td>$400,000</td>
</tr>
</tbody>
</table>

**Indemnity vs. reimbursement — How LTC benefits are paid**

The main differentiator among LTC riders is whether the benefits are paid by an Indemnity, Cash Indemnity or a Reimbursement model.

**Reimbursement benefits**

Regardless of what the stated maximum monthly benefit is, reimbursement benefits will never pay more than the qualifying LTC expenses incurred. Qualifying expenses in reimbursement policies may exclude or limit reimbursement for the costs of home modifications, medical equipment, or other potential expenses that go along with LTC needs, thus it important to read the policy contract carefully so it’s clearly understood what will be covered by the policy.

Bills and receipts must be accounted for every month. Some carriers allow the policy owner to opt for direct billing and reimbursement between the LTC service or facility and the insurance company (assuming the facility is willing to participate in third party billing). 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 that a service that is billed for may not be covered by the policy, resulting in the policy owner having to pay for the ineligible services out of pocket. However, some people may like this type of benefit model because when bills are less than the stated benefit, only the amount covering the qualifying LTC costs will be paid, providing automatic potential to stretch out the LTC benefit for a longer period of time.
Indemnity benefits

This type benefit model pays the maximum monthly LTC benefit the policy allows, regardless of what the LTC expenses are. While some policies may require a licensed service to be involved in the care — with most policies, no bills or receipts need to be submitted to receive monthly benefits. However, keep in mind that a few companies offering indemnity payouts call for monthly “proof of billable services” by requiring a copy of at least one billed service (or a signed affidavit of such) to be submitted each month to prove continued use of LTC services (the full benefit amount is still paid).

While the entire monthly LTC benefit is always available on any type indemnity benefit plan, some people may choose to take only what they need to extend the benefit period. Indemnity plans allow for a wide array of flexible solutions because unused benefits not needed to pay for care can be used for any purpose. A client could use the leftover benefit funds to:
- purchase medical equipment or pay deductibles for medical bills not covered by other sources
- upgrade the home with safety and accessibility features to remain safely in their home longer
- hire help to keep the home clean and maintained
- help pay costs of a spouse who also has LTC needs (insured needs to be on claim at the time)

Cash Indemnity

The least restrictive indemnity model, has no requirement to use licensed caregivers, place no restrictions on how policy benefits are used, allows for 100% of LTC benefits to be used for informal and family care, and does not require proof of monthly services once the claim is approved.

Because full benefits are paid to the policy owner, an indemnity LTC rider can also be used in other planning opportunities such as adding the LTC rider to: 1) a policy used in an ILIT (irrevocable life insurance trust); 2) family business transition planning; 3) executive benefits.

Chronic illness riders

Riders in this category receive favorable tax treatment under IRC §101(g) 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 are usually built on NAIC Accelerated Death Benefit (ADB) Model Regulations, though states may differ on their interpretation of these regulations.

Most companies currently offering these riders not only require the insured be chronically ill per the tax code definition, but contractually require that the condition certified must be expected to likely continue for the rest of the insured’s life; or in other words, with most companies offering this rider, the condition must be non-recoverable (refer to the company and specific state contracts for further details and clarifications). People with 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. Important to note however, is that the Interstate Compact revised requirements for chronic illness riders effective December 2014, which now allows these riders to be filed with the ability to pay temporary claims. These regulation changes apply to newly filed products and do not change how current products pay claims. For this reason, particular care should be taken to review the contract language so there is a thorough understanding of any limitations in coverage that should be disclosed to clients. These riders all use the acceleration method of paying chronic illness benefits (which resembles an indemnity model) since claims reimbursement is not possible due to not being a long-term care product.

Clarifying confusion on the various methods used to charge for chronic illness rider

One common misconception is the belief that certain chronic illness riders are “free” – but that’s not the case. The main differentiator among chronic illness riders is how and when the rider is charged for; whether the rider is paid for by an additional charge added to the policy premium (which would increase the premium requirement of the base policy) or, by including the rider as a policy feature, then charging for the rider at claim time by calculating a forfeiture of rider benefits and/or death benefits.
**Additional charge to cost of insurance**

A few insurance companies offering chronic illness riders assign a cost of insurance to the rider and take monthly deductions from policy values. 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. Rider benefits paid reduce the death benefit dollar for dollar. Clients wanting clarity in what they purchase may find the additional charge minimal in comparison the potential forfeiture of benefits created by the discounting or lien with interest methods.

**Discounted acceleration**

Many companies offer 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. Benefits not paid due to the discounting are permanently forfeited as a back-end charge for the rider. Because of this, the amount of the chronic illness benefit cannot be determined until the time comes to go on claim.

The design of this type rider offers minimal risk to the insurance company. Most of these riders do not require underwriting at the time of issue, though in a few instances, a company may require minimal underwriting, but then use a smaller discount formula. The discounting of the benefit is based on several variables including age, gender of the insured, policy rate class, as well as discount 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. Women, with all other factors equal, will have a larger discount factor than men, and thus receive less in total benefits. Additionally, while some companies will accelerate the chronic illness benefits monthly, many require the discounted acceleration to be paid annually or semi-annually, which could also further reduce the overall amount received.

It is important to explain to clients choosing this type rider that neither the chronic illness benefit amount nor the total benefit pool available can be determined at policy issue, 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.

The chart below illustrates several possible results when this type of rider is invoked. As you can see; based on the life expectancies, discount interest rates and the assumptions listed below, it could be expected that a 70-year-old male invoking a chronic illness claim would be subject to a discount and forfeiture of death benefit of around 34% and a 70-year-old female subject to a forfeiture of around 43% of death benefit. An 85-year-old male would see a discount on the death benefit of around 15% and an 85-year-old female almost 21%.

*The following chart provides an example of the effects of discounting and forfeiture of death benefit:*

<table>
<thead>
<tr>
<th>Age</th>
<th>Death Benefit</th>
<th>Chronic illness benefit amount paid to male</th>
<th>Death benefit amount forfeited by male</th>
<th>Chronic illness benefit amount paid to female</th>
<th>Death benefit amount forfeited by female</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>

Assumptions are a $500,000 policy with $50,000 of cash value, 7% interest rate at election. Election is 20% of the death benefit of $100,000 (maximum election 24%)
Lien with interest method of acceleration

The lien with interest method generally requires no underwriting and the rider is offered to most insureds (it may be limited to insureds rated standard or better on the base policy). With a “check of the box” the rider is included as part of the policy, but again, “no charge” does not equate to free.

Generally, with the lien with interest method, a lump sum benefit is paid and the amount is based on a formula such as — the lesser of: 50% of the death benefit, or $250,000. (Other benefit schedules may be available up to 10 years, see contract for details). The insurance company charges interest on the benefit that was accelerated, and that interest rate is determined at time of claim. The interest is essentially the back end “charge” to receive the chronic illness benefit. Generally, the interest accrues daily and is secured by a lien against the policy’s remaining death benefit. The accruing interest continues to reduce the balance of the remaining death benefit, so it’s possible for the death benefit to be totally eliminated and for the policy to terminate if the insured lives long enough after accelerating the lump sum benefit. This can make planning for specific death benefit needs difficult.

In addition, the lump sum benefit will be subject to the same Internal Revenue Code formula limitations for tax free benefits that apply to long-term care benefits, thus any excess amount paid above the HIPAA per diem or actual cost of care in the year the lump sum is paid would be subject to ordinary income tax.

The chart below provides an example provided by a carrier using the lien with interest method.

<table>
<thead>
<tr>
<th>Years after election</th>
<th>Lien accrual</th>
<th>Final death benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>After Election</td>
<td>$250,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>1</td>
<td>$263,750</td>
<td>$236,250</td>
</tr>
<tr>
<td>2</td>
<td>$278,256</td>
<td>$221,744</td>
</tr>
<tr>
<td>3</td>
<td>$293,560</td>
<td>$206,440</td>
</tr>
<tr>
<td>4</td>
<td>$309,706</td>
<td>$190,294</td>
</tr>
<tr>
<td>5</td>
<td>$326,740</td>
<td>$173,260</td>
</tr>
<tr>
<td>6</td>
<td>$344,711</td>
<td>$155,289</td>
</tr>
<tr>
<td>7</td>
<td>$363,670</td>
<td>$136,330</td>
</tr>
<tr>
<td>8</td>
<td>$383,672</td>
<td>$116,328</td>
</tr>
<tr>
<td>9</td>
<td>$404,774</td>
<td>$95,226</td>
</tr>
<tr>
<td>10</td>
<td>$427,036</td>
<td>$72,964</td>
</tr>
<tr>
<td>11</td>
<td>$450,523</td>
<td>$49,477</td>
</tr>
<tr>
<td>12</td>
<td>$475,302</td>
<td>$24,698</td>
</tr>
<tr>
<td>13</td>
<td>$501,443</td>
<td>-$1,443 (terminated)</td>
</tr>
</tbody>
</table>

• No underwriting — available to may (may be limited to certain rate classes)
• “No charge” (does not equate to free)
• Lump sum benefit
  - Lesser for 50% of DB or $250,000
  - Subject to tax on excess of IRC formula limitations (2017 annual HIPAA limitation of $131,400)
• Interest charged on acceleration
  - Backed by lien on remaining DB

Hypothetical Example
• Policy Face Amount - $500,00
• Percentage elected - 50%
• Accelerated Amount - $250,000
  - Paid as lump sum to policy owner
• Interest rate on lien - 5.50%

As you can see, if the insured died shortly after onset of the condition, loss of death benefit would be less than with the chronic illness rider paying by the discount method shown in the previous chart; but if the condition is accompanied by a death that is delayed considerably, it’s possible for the interest on the lien to erode the entire remaining death. Whereas, with a LTC rider paying benefits through the dollar-for-dollar method, the entire death benefit pool is paid, whether as LTC benefits and/or LTC benefits.

Summarizing information

The following charts are intended to help summarize the material in this article. The first chart provides a full breakdown of features and benefits provided by LTC Riders and Chronic Illness Riders. The second chart is intended to quickly summarize how each type rider would work in conjunction with a claim for benefits and the resulting death benefit.
<table>
<thead>
<tr>
<th>Long-term Care Rider/Product</th>
<th>Accelerated Death Benefit for Chronic Illness Rider</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRC Section 7702B (or LTC Model Regulations)</td>
<td>IRC Section 101(g)</td>
</tr>
<tr>
<td>May be marketed verbally and in writing as long-term care coverage</td>
<td>May NOT be marketed in any manner as long-term care coverage – must be referenced as a “chronic illness” rider</td>
</tr>
<tr>
<td>Pays temporary and permanent claims</td>
<td>Currently, most companies require the condition be permanent to qualify for claim (certified condition must be likely to last the rest of the insured’s life) – see contract for details</td>
</tr>
<tr>
<td>State specific Long-term Care CE as well as a health license may be required to sell these products. Requirements vary by state.</td>
<td>Currently, no Long-term Care CE is required as these products are not considered long-term care products. However, some states may require a health insurance license.</td>
</tr>
<tr>
<td>Has potential for a residual death in excess of original specified death benefit amount¹</td>
<td>There is no residual death benefit in excess of original death benefit amount. Some companies limit acceleration so that a portion of DB can be held back and paid upon death of insured.</td>
</tr>
<tr>
<td>May pay LTC benefits through indemnity or reimbursement since these are LTC products. LTC benefits generally paid monthly.</td>
<td>Paid by acceleration, which is “indemnity-like”. Claims reimbursement not possible since not a LTC product. Benefits paid monthly, quarterly, semi-annual, annual or one lump sum.</td>
</tr>
<tr>
<td>Has additional cost of insurance charge for rider, which adds to premium. LTC benefit pool and monthly benefits are determined upfront and specified at policy issue²</td>
<td>Some policies underwrite, charge for the rider and determine benefits at issue. Other companies include the rider with policy and either discount benefits at claim time and/or DB at death.</td>
</tr>
</tbody>
</table>

### Differentiators of LTC Riders

<table>
<thead>
<tr>
<th>Indemnity (charge and underwrite)</th>
<th>Reimbursement (charge and underwrite)</th>
<th>Additional charge for the rider</th>
<th>Usually included with policy. Rider benefits and/or death benefit are discounted based on a formula³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full LTC benefits are paid with no regard to the cost of the insured’s actual LTC expenses. Generally, the insurance company does not place any restrictions on how leftover benefits can be used. With Cash Indemnity, the Insurance company places no restrictions on how LTC benefits are used. Dollar for Dollar Reduction method used, and the full amount in total benefits paid will be at least the issued amount of insurance².</td>
<td>Only the actual costs of qualifying LTC services are reimbursed, capped at the maximum monthly LTC benefit amount. Dollar for Dollar method used and the full amount in total benefits paid will be at least the issued amount of insurance².</td>
<td>The rider is fully underwritten. There is an additional cost for the rider, which will increase the premium cost. The Dollar for Dollar Reduction Method is used. The full amount of total benefits paid will be the issued amount of insurance².</td>
<td>These policies rarely pay in total the issued amount of insurance if the rider is invoked. Discount Method – Usually no underwriting for the rider. Factors at claim time such as age, gender, rate class, cash value &amp; discount interest rates are used to discount benefits to be accelerated. Death benefit amount subtracted from acceleration as discount is permanently forfeited. Lien with Interest Method- final DB is determined at death subtracting the interest lien against the DB.</td>
</tr>
<tr>
<td>No monthly receipts or bills to submit once claim is verified.</td>
<td>May elect to coordinate billing direct with service provider. Facility or service may not agree to 3rd party billing</td>
<td>Bills must be submitted each month by policy owner, then they are reimbursed expenses</td>
<td>Discount Method – C.I. benefit pool and benefit amount cannot be determined until time of claim. Lien with Interest Method – C.I. benefit known at policy issue, but final death benefit cannot be determined until death occurs and interest lien is subtracted from remaining death benefit.</td>
</tr>
</tbody>
</table>

¹ Note: Some companies may have additional requirements or restrictions.
² Some companies have restrictions on the use of the remaining death benefit.
³ Some companies may have restrictions or limitations on the use of the death benefit.
The following chart summarizes how each type rider and benefit payment style will affect the benefits paid for LTC or chronic illness claims as well as the effect on the total amount paid from the policy.

<table>
<thead>
<tr>
<th></th>
<th>Dollar for Dollar LTC Rider</th>
<th>Dollar for Dollar Chronic Illness Rider</th>
<th>Lien with interest Chronic Illness Rider</th>
<th>Discounted Chronic Illness Rider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pays Permanent Claims</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Pays Temporary Claims</td>
<td>Yes</td>
<td>No, for most⁴</td>
<td>No, for most⁴</td>
<td>No, for most⁴</td>
</tr>
<tr>
<td>LTC or Chronic Illness benefit amount is known at policy issue</td>
<td>Yes</td>
<td>Yesw</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Total pay-out from policy known at issue. (Rider benefits plus remaining DB)</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Entire policy amount collected if rider is invoked prior to age 100</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Residual Death Benefit Paid</td>
<td>Yes, for most⁵</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Consumer Protections Required</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

**Consumer protections**

Another important difference between LTC riders and chronic illness riders revolves around consumer protections. These protections are required of all LTC products, whether on a stand-alone LTC policy or LTC rider on life insurance (or an annuity). Chronic illness riders are not required by regulation to offer consumer protections; and they generally do not exist on such products but for a few exceptions. These protections can be extremely important in protecting the insured and their benefits at claim time, especially in cases where the policy has lapsed due to the cognitive impairment of the policy owner/insured.

For information on the importance of these protections, please request the white paper “Reading Between the Lines: — Part II to Differences Between LTC and Chronic Illness Riders”; NFM-15512AO

**Summary**

There are numerous solutions available today for insuring against long-term care and chronic illness expenses. In addition to traditional LTC insurance, riders on life insurance open new possibilities for clients looking to find a solution that meets their budget and their concerns. It’s important that the insurance professional thoroughly understand and be confident in explaining how each of these policies and riders work, including the advantages and disadvantages of each policy and rider. Clear and concise explanation will allow clients to make an informed choice for a solution they feel will help meet their needs and expectations.
This feature can vary widely among companies.

Assumes no withdrawals or loans are taken from the policy. Withdrawals or loans will result in a reduction of LTC or chronic illness benefits. Some companies will also reduce the original monthly benefit amount specified at issue to pay a portion of the loan back each month – while other companies will pay full LTC benefit amount issued until the loan balance is reached. See specific company for details.

Most companies in this category do not underwrite the rider, however, there are a few companies that do some underwriting for the rider, then apply a smaller discount formula than the examples shown in the article.

Please refer to the insurance company’s rider contract in the section referring to the payment of claims for specific details.

Please refer to the insurance company’s rider contract for details on availability and amount of any residual death benefit offered.

This material is not a recommendation to buy, sell, hold or rollover any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition, or particular needs of any specific person. Investors should work with their financial professional to discuss their specific situation.

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