As Baby Boomers continue to age into retirement, Long-term Care (LTC) will continue to grow as an important subject to be discussed when reviewing a client’s financial plan. LTC coverage protects income and assets from depletion – funds that may be needed to support the surviving member of the couple, or intended as a legacy for loved ones or charity. Your clients may be a couple living together without legal ties, or a married couple; and they may or may not have children – but LTC is an expense that is likely to enter their lives. A study of married adults found that there is a 91% chance that one member of the couple will eventually need long-term care.

There are several solutions to choose from when insuring the risk of LTC expenses. The oldest solution is traditional LTC insurance (LTCi). But according to LIMRA, sales of those products have seen a trend downward since 2004. There are many reasons, but one important consideration is the increased pricing of LTCi policies. With a low interest rate environment, low lapse rates, and the move to gender based pricing, the cost of these policies has increased substantially. The “use it or lose it” fear of getting nothing for premiums paid turns off some potential customers, and with the price of LTCi on the rise, along with other disruptions in the LTCi industry, some clients and advisors are looking at other alternatives that may make more sense for their financial situation in insuring the LTC risk.

LTC coverage attached to financial products, which are sometimes referred to in general as “LTC Combos”, has brought a welcome alternative to clients looking for a way to insure the risk with out forfeiting premium dollars if LTC is never needed. And while traditional LTCi sales have declined, LIMRA also reports during the same time span, Combo LTC products saw a continued increase in sales. While a few solutions are offered on annuity products, most of these solutions are attached to life insurance in some fashion.

- Long-term Care Riders – originated on permanent single life insurance policies, allowing the death benefit to be accelerated for a triggering LTC event. While they can be purchased primarily for LTC protection, this type solution is usually used to financially insure a family now, then transition to LTC protection later. Guarantees
and an endless variety of premium schedules are offered anywhere between single pay and short pay to lifetime payment schedules.

- **Linked Benefit (asset based) LTC** – is coverage that is designed to be a LTC sale, but with a death benefit that will provide, at the very least, a recovery of premium paid. These policies have more of the look and feel of a traditional LTCi policy with inflation options and choice of benefit periods. Premium schedules are limited from single pay to a maximum of a 10 year payment schedule.

**LTC Riders on Survivorship Life Insurance**

For years, insurance companies have discussed adding LTC riders to survivorship life insurance, but until the last few years and even now, there are only a few of companies offering LTC Riders (and chronic illness riders) on survivorship. So, why are there so few survivorship LTC riders? When you think about it, there is an actuarial conflict. In a risk pool of two, the death benefit is likely to pay later on survivorship life than on one individual life insurance policy because with survivorship life insurance, the death benefit is paid on the second death. Thus the cost of insurance for survivorship life is less expensive than the total cost of insurance on two individual policies adding up to the same death benefit amount. But in that same risk pool of two people on survivorship, **LTC benefits** are likely to be paid earlier than on one individual policy.

While this has created challenges for actuaries looking to price a “first to need” benefit on a “second to die” policy, a few insurance companies have stood up to the challenge. But even with only a handful of these type policies to choose from, there are many differences an advisor and client should understand in order to make the best possible choice for their circumstance. Before looking at differences however, we will take a look at what applies to all LTC riders (or chronic illness riders) on Survivorship Life.

**Similarities on Most LTC Riders (or chronic illness riders) on Survivorship Life Insurance**

- Each insured wanting the LTC Rider must meet underwriting/policy qualifications
- Rider benefits are paid tax free per the same IRS formula that applies to all LTC and Chronic Illness benefits
- If a LTC Rider, temporary as well as permanent claims qualify for benefits
- If a Chronic Illness Rider, in general only permanent claims will qualify for benefits
- The claim must be recertified at least every 12 months. This requirement is regulatory for the rider benefits to retain its tax preferred status.
- Any remaining death benefit (or residual death benefit if available) pays on the second death

Next we will summarize differences between LTC riders (or Chronic Illness (CI) Riders) on Survivorship, then dive deeper into the how these differences affect collecting and using LTC benefits from the policy.
Differences with Survivorship LTC/CI Riders

- There is a choice between benefit payment models - Indemnity and Reimbursement
- There are variations in types of Indemnity policies
- Styles in benefit pools differ - some policies use Individual Benefit Pools while other policies use the Shared Benefit Pool design
- There are differing LTC/CI Rider designs, which include the following:
  - may be issued with both insureds or only one insured wanting or qualifying for LTC coverage
  - may require both insureds to qualify for and have LTC coverage in order to qualify to purchase the policy
  - may be a traditional survivorship policy, but the LTC rider benefits are only available to the surviving insured
  - may or may not allow both insureds to be on claim at the same time
- Policies can be owned by an Irrevocable Life Insurance Trust (ILIT), but only if the policy pays indemnity benefits. If the policy pays by reimbursement, it cannot be owned by an ILIT, since reimbursement of LTC benefits will cause a direct tie to the grantor and create incidence of ownership.

Comparing Benefit Payment Models
There are basically two ways LTC benefits can be paid – Reimbursement or Indemnity. Within those types there are additional variations, so we will discuss each type model separately and break down the differences.

Reimbursement
This type benefit payment model works just like it sounds - it reimburses actual LTC expenses of the insured. The benefit available is the lesser of the maximum monthly LTC benefit or actual costs incurred. Thus, if you have a maximum monthly LTC benefit of $6,000 per month, but only have LTC expenses totaling $3,000 a month, the policy would reimburse the $3,000 monthly LTC expenses, but nothing more. In addition, there may be limitations on certain benefits. For example, there may be limitations on how much LTC benefit can be used for home modifications or durable medical equipment. Transportation costs may not be included at all.

In order to determine what expenses qualify for reimbursement, bills and receipt must be submitted each month. Some insurance companies will allow the policy owner to sign off permitting the facility or care provider to bill the insurance company directly and be directly reimbursed. The insured is then billed by the care provider for any expenses that did not qualify for that month's reimbursement or exceeded the insured's maximum monthly LTC benefit amount. The policy owner also has the choice of handling their own paperwork where they will directly pay the bills for their care in full and then submit bills and receipts to the insurance company for reimbursement of any qualifying LTC expenses.
One advantage to the reimbursement model, especially for a person not good at saving money or handling finances, is that when LTC expenses are less than the maximum monthly benefit, the excess funds stay in the policy and can help preserve benefits for payment over a longer period of time. However, there may also be more restrictions with caregiver choices as many of these plans only allow licensed care providers to be used. The use of informal caregivers may be restricted and immediate family members are often not allowed to be paid as caregivers, or only allowed when the immediate family member is working for and is paid by the licensed service or facility.

**Indemnity**
The primary definition of indemnity is that the full amount of the contractual benefit is paid, meaning the daily or monthly benefit, regardless of what LTC expenses actually are. But there are several variations of indemnity – and even variations of the variations!

**Professional Indemnity** –
1. In its true form, this pays a full benefit amount for each day the insured receives professional care. In order to determine how many days of care was received, bills or receipts must be submitted as “proof of billable services”. There is a misconception that indemnity plans do not require monthly bills and receipts to be submitted, but that is not necessarily true. What makes a plan indemnity is the fact the full amount of LTC benefits are paid per the specifics of the policy contract.
2. One variation of professional indemnity would be to pay the full monthly LTC benefit amount as long as at least one licensed professional service was proven to have been received during the month. This is accomplished by submitting a form or receipts each month showing at least one billed service took place during the claim month.
3. The most lenient variation is another “indemnity-style” that does not require any bills or receipts be submitted each month in order to receive monthly LTC benefits. Proof that care is coming from a licensed service is provided during the claims verification and applicable elimination period, but once the claim is validated, no more paperwork is necessary to receive full monthly LTC benefits. Any benefits not used for licensed care can be used to pay less expensive informal caregivers or even family members. Any validation of professional services being used would generally occur at the annual claim recertification.

**Cash Indemnity** – With this type plan, the full contractual LTC benefit amount is paid in full each month without having to prove that care took place. To meet regulatory requirements for tax free LTC benefits, a Plan of Care must be submitted when the claim is filed, but in general, the life insurance company will place no restrictions on how benefits are used, which means informal caregivers and immediate family members can provide care.

One of the many advantages of cash indemnity plans is that the policy owner is in full control of how the monthly LTC benefits are spent. Benefits can be used as needed for items or services such as home modifications, transportation, prescriptions, without permission from the insurance company.
Comparing Styles of LTC Benefit Pools
When comparing the different styles of benefit pools on survivorship LTC, you are basically looking at two designs – the Shared Benefit Pool and Individual Benefit Pools. Both designs have advantages and disadvantages, so it is important a client understands how the designs work in order to choose the plan that will work best for their own situation.

Shared Benefit Pool-
The shared benefit pool model operates with one pool of LTC benefits. Each person has an individual maximum monthly LTC benefit amount they can access. With most policies of this type, both insureds can collect LTC benefits at the same time. When the policy pays LTC benefits by reimbursement, the maximum LTC amount that can be reimbursed each month for each insured qualified for claim is the lesser of the actual qualifying monthly LTC expenses, or the maximum monthly LTC benefit amount for the said insured. While the insureds can enjoy the advantage of sharing the benefit pool, the disadvantage is that they can not share their monthly LTC benefits, even when both people are on claim at the same time. Here are some examples assuming the couple has a $500,000 SUL policy with a LTC Rider with one shared benefit pool:

- Insured #1 goes on claim, uses $150,000 in benefits, then passes away. Insured #2 now has access to all of the remaining $350,000 for LTC benefits.
- Insured #1 goes on claim and uses all $500,000 for LTC expenses. The surviving spouse has no benefits as the policy’s entire death benefit has been exhausted.
- Both insureds are on LTC claim at the same time and each have a $5,000 per month benefit on a reimbursement policy. The combined potential total maximum benefit could equal $10,000 per month. Insured #1 has LTC expenses for home health care equaling $2,000 a month. Insured #2 has bills equaling $8,000 a month. The total amount reimbursed to the couple will be exactly $7,000.
  - Insured #1’s LTC benefit will only be a reimbursement of the $2,000 since the reimbursement is the lesser of $5,000 or cost spent on qualifying care.
  - Insured #2 had LTC expenses in excess of their monthly LTC benefit amount, but they are capped at their maximum monthly LTC benefit amount of $5,000
  - Insured #2 will not be able to tap into the excess benefits that Insured #1 did not need that month. This is because each insured is only reimbursed their actual expenses up to their monthly maximum LTC benefit amount. Thus, this couple will have to pay $3,000 a month out of pocket to cover the portion of Insured #2’s bill not covered by the LTC rider benefit.

Advantages of having one shared pool of benefits is that if one insured passes away while there are still substantial benefits left to collect, the surviving insured has access at their LTC claim time to all remaining LTC benefits left in the pool. Other disadvantages are that the first insured to need care can potentially exhaust the entire LTC benefit pool, leaving nothing for the surviving insured.
**Individual Benefit Pools**

With an individual benefit pool model, each insured may opt for LTC Rider coverage of up to half of the death benefit amount. The insureds can not share their half of the LTC benefit pool; however if the policy pays LTC benefits by indemnity - meaning full monthly LTC benefits are paid - they may be able to share the monthly LTC benefits. Here are examples, again using our couple with a $500,000 SUL policy- each having an individual benefit pool of $250,000, with $5,000 monthly LTC benefits:

- Insured #1 goes on claim, uses $150,000 in benefits, then passes away. Insured #2 only has access to his/her own $250,000 LTC benefit pool, but the $100,000 remaining from Insured #1’s benefit pool will be paid tax free to the beneficiaries at the second death. Other assets could be used to pay for LTC expenses knowing that $100,000 will come from the death benefit to replace the asset used to pay for care.

- Both insureds are on LTC claim at the same time and each have a $5,000 a month benefit on their indemnity policy. The combined total maximum LTC benefit equals $10,000 per month. Insured #1 has LTC expenses for home health care equaling $2,000 a month. Insured #2 has LTC bills equaling $8,000 a month. The total amount paid to the couple will be $10,000 each month since each has a LTC monthly benefit of $5,000, and with an indemnity plan the full monthly benefit can be collected. Insured #1 will be able to use their excess of $3,000 not needed for care expenses to supplement the care expenses for Insured #2, thus they have no out of pocket expenses in regard to these two LTC bills.

- Insured #1 was declined for LTC coverage, but Insured #2 has a $250,000 LTC Rider paying by indemnity. Insured #2 goes on claim and collects $5,000 per month. Insured #2 has a bill of $2,000 for home health care, thus there is $3,000 a month in excess benefits that can be used for Insured #1’s care if needed now, or if not saved for later use.

The main disadvantage to this type of design is that if the first insured dies without having used some or all of their benefit pool for LTC, the surviving insured has no access to that portion of the death benefit for their own LTC benefits. However, that portion of the policy will be preserved to be paid as a tax free death benefit to beneficiaries upon the death of the second insured. Thus, should the surviving insured exhaust their own LTC benefit pool, income or assets could be used to further pay LTC expenses, (and could be tax deductible medical expenses since not insured) and the remaining death benefit could be designated to the beneficiaries to replace the asset they would have inherited.

The advantage to this design is that the LTC benefit pool for the surviving insured is always left in tact since the first insured to need care can only access their own pool of LTC benefits, not the entire pool of LTC benefits. Any amount the insureds do not use for long term care benefits will be paid to the policy’s beneficiaries as a tax free death benefit and paid upon the second death.
In Summary
Long-term Care will continue to be a growing need in retirement planning as medical advancements contribute to an ever growing population of people aging into the potential need for LTC services. Using Survivorship Life Insurance with a LTC Rider may provide a more economical way to fund certain life insurance needs, such as estate enhancement, while also protecting the estate from depletion from LTC expenses. Understanding how these policies work is key to providing the optimum solution for a client.

1 USA Today, “Do Retirees Need Long Term Care Insurance?, Sept. 10, 2014
2 “Many Factors Influencing LTC Insurance Landscape” by Ed McCarthy – ThinkAdvisor, March 18, 2015
3 Consult with tax professionals for advice since such arrangements may create reporting and withholding requirements for the payor and the payee.

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