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White paper

"LTC" also means "look towards claim"

A closer look at the terminology of LTC benefit models

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Key highlights

- 90% of seniors say that thay want to age in place at home
- Cash Indemnity is the most flexible LTC benefit model and differs from basic indemnity benefits
- Help clients choose a LTC benefit model that fits with their vision of care
- The LTC claims process is ruled by certain regulatory standards that must be followed by all insurance companies

Long-term care (LTC) insurance solutions have expanded greatly from the traditional policies sold in the past to now include riders on life insurance and hybrid solutions built on life insurance and annuities. These diverse solutions allow a client to choose LTC coverage that aligns with a funding source and their budget as well as addresses a life insurance need or financial strategy. But there is more to choosing coverage than determining the type of policy to utilize; it is every bit as important that the client consider and be comfortable with the model the policy will use to pay LTC benefits. *After all, the most important component to LTC coverage is how the policy will work at time of claim.*

Look towards claim

We think of the acronym "LTC" to mean long-term care; but one may also translate it to mean "look towards claim". The main purpose of the policy is to provide a dedicated stream of funds that can be used to help pay care expenses at the time of the LTC claim; therefore, this paper will address some things that should be considered prior to policy purchase.

- The client should have a basic understanding of how LTC benefits are paid and what continuous requirements must be met to receive their LTC benefits.
- When the time comes for a client to file their LTC claim, the client or a family member may first reach out to the advisor for help; thus, the advisor should have a basic understanding of claim terminology and processes.
- The claims process is ruled to a certain degree by regulatory requirements; therefore, the advisor may be able to better help their clients at claim time if they have some understanding of what an insurance company must adhere to with the claims process.

Choosing benefit plans to meet a client's need

When discussing LTC with a client, it may make more sense to first help a client choose the LTC benefit model that best fits their vision of care; then consider the LTC policy solutions in the marketplace that will come closest to meeting the client's needs. And, to help get an idea of what benefit model would work best, the client will need to think about what

type of care they might want should LTC services ever be needed.

Ask the client to paint you a picture of what they would like their care experience to look like. Encourage the client to dream the most optimal situation they can think of. Research shows that 90% of seniors say they want to age in place at home,[1] yet each person will have a unique vision of what their potential LTC situation might look like and how they would want services to be implemented.

Some clients will plan for more traditional services such as professional care provided at home or assisted living. However, more imaginative clients may think far beyond typical care choices, thus the discussion may take some surprising turns. Thoughtful consideration can then be taken to help narrow down the choices for LTC coverage to consider.

Start with questions such as:

- Where do you want to receive care?
- Who would you want to care for you if such a choice were possible?
- If you could choose how to receive care with no limitations, what would be something that would appeal to you?
- Would you prefer a monthly cash payment for the full LTC benefit amount and manage your own needs, or have the insurance company only reimburse your qualifying LTC expenses?

Of course, you also should be prepared to help the client who says, *"I have no idea what I am facing in the future, and don't even want to try and imagine it."* But as clients answer these and other questions, they will likely provide enough information to eventually land on one of the following LTC benefit payment models highlighted below.

Understanding the details of LTC benefit models

Once the LTC claim is validated and claim requirements have been met, benefit payments can begin. This is when choice of the LTC benefit model can help make a difference between a good claims experience or an experience riddled with frustration. The models available for your client to choose from are:

- Indemnity
- Cash Indemnity
- Reimbursement

Indemnity benefits — Breaking down the various types of indemnity

The primary definition of indemnity LTC benefits is that the full amount of the contractual benefit is paid — meaning the daily benefit (for traditional LTC policies) or the monthly benefit (for LTC Riders and linked benefit policies) is paid regardless of what the insured's LTC actual expenses are. There is a misconception that indemnity plans do not require monthly bills and receipts to be submitted, but that is not necessarily true. What defines an indemnity plan is simple — *the full amount of LTC benefits are available to be paid per the requirements specified in the policy contract.*

From there, the indemnity model can be broken down into sub-models. While indemnity plans are the most flexible of the LTC benefit models, they come in several variations, which affects the degree of flexibility the plan may have or whether bills and receipts will need to be submitted to collect benefits.

Plans vary from:

- Professional Indemnity, to
- Cash Indemnity and variations in between

Cash indemnity

This benefit model — gone for the most part in the traditional LTC market place — has re-emerged in the linked benefit and LTC Rider space. Cash indemnity is the most flexible of all benefit models since with this type of plan, the full contractual LTC benefit amount is paid each month without having to prove to the insurance company that care took place. One value to cash indemnity plans is that the policy owner is in full control of how the monthly LTC benefits are spent since the insurance company places no restrictions on benefit use. In general, cash indemnity policies work as follows:

- The full monthly (or daily) LTC benefit amount is available to be received.
- The insurance company will place no restrictions on how LTC benefits are used.
- Informal caregivers (usually family or friends) can now be paid for their time and 100% of the benefit can be used for this purpose.[2] This also applies to immediate family members, and when the caregiver and patient are living in the same household.
- Unlicensed caregivers - typically less expensive in cost - can be utilized.
- Benefits can be used for services such as home modifications and transportation as well as items such as prescriptions without having to seek

approval from the insurance company.
- High-net worth clients purchasing LTC coverage with larger benefits pools can use the policy to pay for concierge level LTC services that might not be covered under other plans and include services such as massage and pet boarding.

Future value of cash indemnity

The primary value to a cash indemnity policy is that it provides the most flexibility of use. Since there are no restrictions on how cash indemnity LTC benefits are used, these benefits have future value such as:

- LTC benefits may be utilized for care supports and services that currently do not exist, but will in the future as thought into imaginative care services and advancement in technology becomes a reality.
- Flexibility for clients who are unable to picture how they would plan for LTC services now; they will be able to make decisions later knowing the policy benefits can be utilized without restriction.
- If plans for care must be adjusted in the future, cash indemnity can adjust easily to the change in care needs.

Professional indemnity — variations of this benefit model

1. Daily professional indemnity pays the full benefit amount for each day the insured receives a professional licensed care service. To determine how many days of care qualifies for benefit indemnification, at least one bill or receipt must be shown for each day of LTC service received. The amount on each bill is not considered, only the fact that a service was performed on a specific day and qualifies to be indemnified. This type of plan is found on traditional LTC insurance policies issued with daily benefits. While this benefit plan is seldom available today, many people own such policies that were purchased years ago.

2. Professional indemnity — verified monthly is a type of policy that is usually a rider on a life insurance policy and pays monthly LTC benefits. Full monthly LTC benefits are available to be received as long as there is "proof of billable services" of at least one licensed professional service during the month. This is accomplished by submitting a copy of at least one billed service or an affidavit affirming that at least one billed service was paid for during the claim month. The total cost of care each month is not considered. In some instances, family care is allowed - but an affidavit must be submitted each month verifying that the caregiver did provide care.

3. Professional indemnity- verified annually usually exists as a rider on a life insurance policy and is the most lenient variation of professional indemnity. No monthly bills or receipts need to be submitted to receive monthly LTC benefits. Proof that care is coming from a licensed service is provided during the claims verification process and applicable elimination period, but once the claim is validated, no monthly paperwork is necessary to receive the full available monthly LTC benefit. Any further validation of professional services being used would generally occur at the claim recertification (generally done every 12 months).

The advantage to professional indemnity policies is that any funds left over after paying for licensed care can be used without restriction from the insurance company. This provides flexibility to pay informal caregivers and immediate family members as part of the caregiving team.[3] In addition, the insurance company will allow the policy owner to take less than full LTC benefits if they wish to help extend the period over which LTC benefits are paid.

The main disadvantage of any type of indemnity plan is that people who choose to take their full benefit, but who are not good with saving money, may not conserve leftover funds for future care needs.

Reimbursement benefits

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

To determine what expenses qualify for reimbursement, bills and receipt must be submitted each month. However, the policy owner may have a choice on how the LTC benefits are reimbursed.

- Most reimbursement policies sold today will generally allow the policy owner to sign off and permit third party billing and reimbursement between the insurance company and the facility or care provider for qualifying expenses. But consider the following with third party billing:
  - Third party billing will not necessarily eliminate the need for the policy owner to pay bills on their own. The policy owner will be billed by the care provider for any expenses that don't qualify for reimbursement or which exceed the insured's maximum monthly LTC benefit amount.
  - In addition, one must consider that not all facilities or care services are willing to participate in third party billing with the insurance company.
- The other option is for the policy owner (or their representative) to handle all their own paperwork by paying bills directly for care received, and then submitting bills and receipts to the insurance company for reimbursement of the LTC expenses that qualify under policy.

One advantage to the reimbursement model — especially for a person who is not good at saving money or handling finances — is that when LTC expenses are less than the maximum monthly benefit, the unpaid funds stay in the policy. Certain people may prefer the forced savings and preservation of LTC benefits inside the policy to better help preserve benefits for care expenses over a longer period.

However, reimbursement policies may also be more restrictive in that many of these plans only allow reimbursement for licensed care providers. Informal caregivers may be prohibited from reimbursement, restricted with a reduced benefit payment, or approved only when meeting vetting requirements. Reimbursement is usually prohibited when immediate family members are the paid caregivers, or only allowed when the immediate family member is working for and paid by the licensed service or facility. Alternative services not specified in the contract, or care services that may become available in the future will be considered and vetted by a set of standards, but there is no guarantee that these services will be approved for reimbursement by the insurance company.

Regulatory standards required of all LTC insurance coverage

It may be helpful to clear up any confusion on triggering a claim. The requirements to trigger a LTC claim and the required paperwork to get a claim approved are essentially the same, regardless of what type of policy is owned or how LTC benefits will be paid.

To qualify for LTC benefits, the insured must fulfill the contractual and regulatory requirements for LTC claims such as:

- Be certified by a U.S. licensed health care practitioner with the qualifying claim triggers.[3]
- Satisfy any required elimination period per the policy contract provisions.
- Meet all regulatory requirements for LTC claims, such as submitting a personalized Plan of Care prepared by a U.S. licensed health care practitioner.
- Comply with the requirement of annual recertification of the LTC claim.

Comparing LTC benefit payment models

	Cash Indemnity	Indemnity	Reimbursement
Full amount of LTC specified benefit available to be received	Yes	Yes	Pays lesser of: qualified expenses per the contract or LTC benefit amount
Receive LTC benefits without submitting monthly bills or receipts	Yes	Yes, for some companies Other companies may require proof or affidavit of at least one billed service each month*	No, bills and receipts must be submitted each month to determine the LTC benefit May allow direct billing between insurance company and service provider if service provider is willing
Benefits used to pay for unlicensed care providers	Yes	Yes, for some companies* Yes, for other companies using benefits leftover after paying for some licensed care	Generally, no — or with reduced benefits
Benefits used to pay an immediate family member to provide care	Yes	Yes, with benefits leftover after paying for some licensed care*	Generally, only if family caregiver works for and is paid by the licensed service provider or facility*
Benefits used to pay for alternative care services	Yes	Yes, if the service is licensed, state recognized or deemed medically acceptable and cost efficient* Yes — with left over monthly LTC benefits*	Requires vetting of service to meet qualifications from insurance company with no guarantee of approval*
Benefits used to pay for future LTC services yet to be invented	Yes	Yes, if at time of use the service is licensed and state recognized or approved as an alternative care service* Yes, for other companies using benefits leftover after paying for some licensed care*	Maybe, if at time of use the service is licensed and state recognized. Yes, if approved as an alternative care service*

*Information contained in the chart above are generalizations and additional variations may apply.
Please review the actual LTC contract being considered.

In summary — the future is wide open

Every client will have their own unique vision of how they hope to receive LTC services should they ever be needed. It is important to find out your client's vision as well as any concerns they may have early in the discussion so you can show them LTC insurance solutions with benefit payment models that will best meet their overall financial needs and LTC strategy.

For clients wanting coverage that provides the most flexibility, cash indemnity offers the future value of accommodating:

- A choice to make LTC decisions later knowing the policy places no restrictions on care choices.
- A change of strategy down the road if new options for care services come into being.
- Care changes implemented with more ease while on LTC claim when life's direction throws curves into the client's original care plan.

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[1] The New York Times, Personal Health – "Aging in Place" — Jane E. Brody, May 2, 2016

[2] Please consult with a legal and/or tax professional for guidance and advice since such arrangements may create reporting and withholding requirements for the payer and the payee.

[3] In order to qualify for a long-term care claim, the insured must be certified by a U.S. licensed health care practitioner to suffer from severe cognitive impairment, or, be unable to perform 2 out of 6 activities of daily living (ADLs) for 90 days or more. ADLs consist of eating, dressing, bathing transferring, toileting and continence.

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