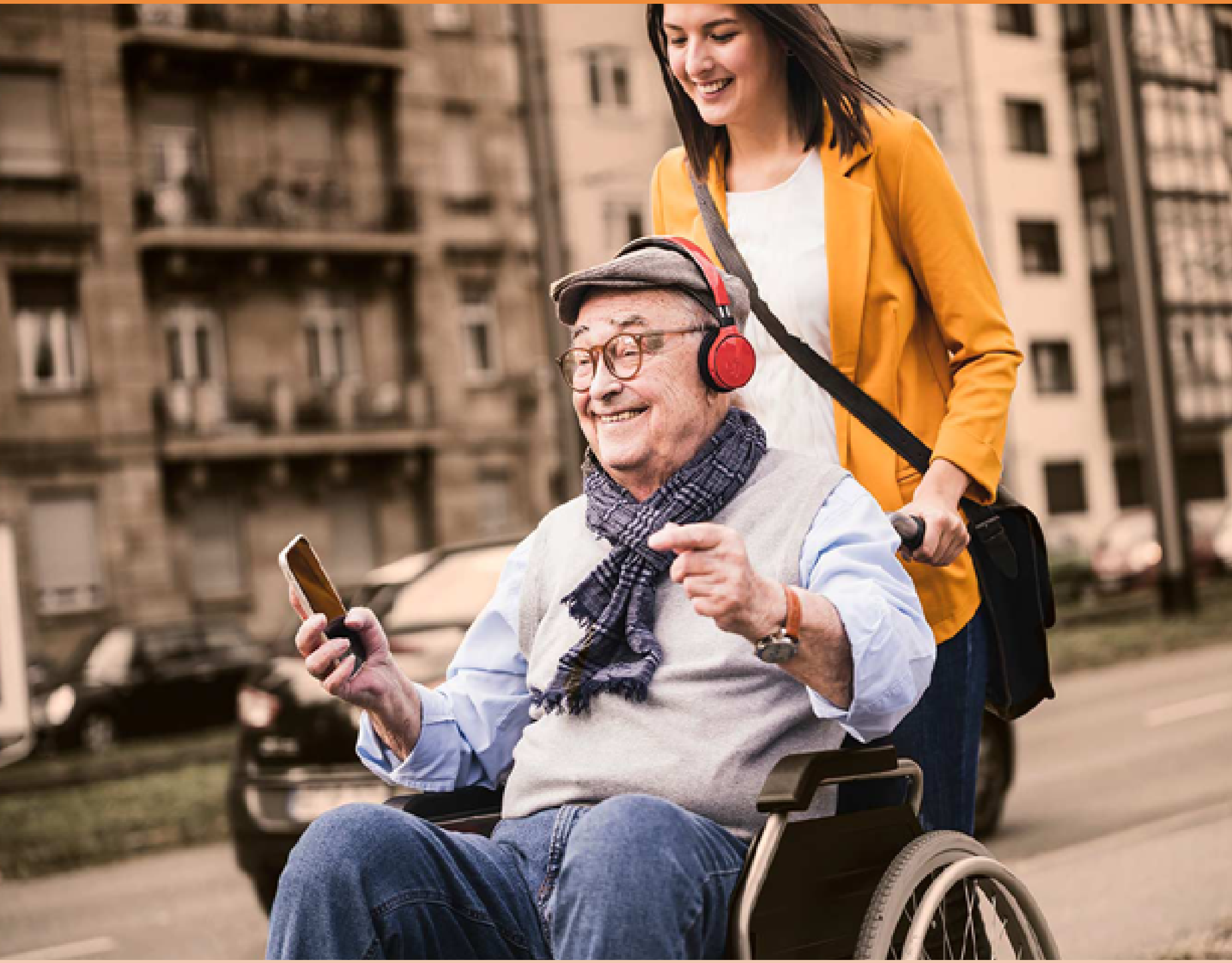
Long-Term Care

SALES KIT



In this kit:

Social media posts & images | Cost of care info | State LTC updates | Sales ideas

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Long-Term Care
Social Media Posts & Sharable Graphics

Text for Posts

Post this text with any of the images linked on the following 2 pages.

Everyone deserves a plan. 70% of Americans don't have an extended care plan for themselves or a family member, and 75% of Americans said it would be difficult or impossible to pay for long-term care if they needed it today. Contact me today to put a plan in place, and ensure you can afford it without putting your finances at risk!

Don't wait until a crisis occurs to act. As the pandemic highlighted, the unthinkable can happen quickly and without notice. Contact me today to put your long-term care plan together.

Get more out of life! Contact me today to protect your assets and leave an inheritance, while accounting for long-term care later in life.

A long-term care rider on a life insurance policy is a good way to protect your loved ones and plan for LTC needs, while still providing a legacy for the loved ones you leave behind. Contact me today for a free quote!

Protect your assets and preserve your independence. Contact me today to learn why a LTC rider on your life insurance policy matters!

More than two-thirds of the long-term care population in nursing homes and residential communities are women. Long-term care risk is far greater for women than men because women face a higher probability of needing care or becoming a caregiver. Contact me today to make sure you're prepared!

Nearly 6 in 10 women will need extensive care after the age of 65. Contact me today to put a plan in place to ensure you are comfortable and your assets remain protected.

Learn more about planning to protect your future. Contact me today!

Start conversations that matter. Roughly 58% of women will need long-term care in their lives. Contact me today to plan with your loved ones to make sure you're prepared and your finances are secure.

The time to start planning for long-term care is well before it is needed. Contact me today to get started!

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Social Media Images

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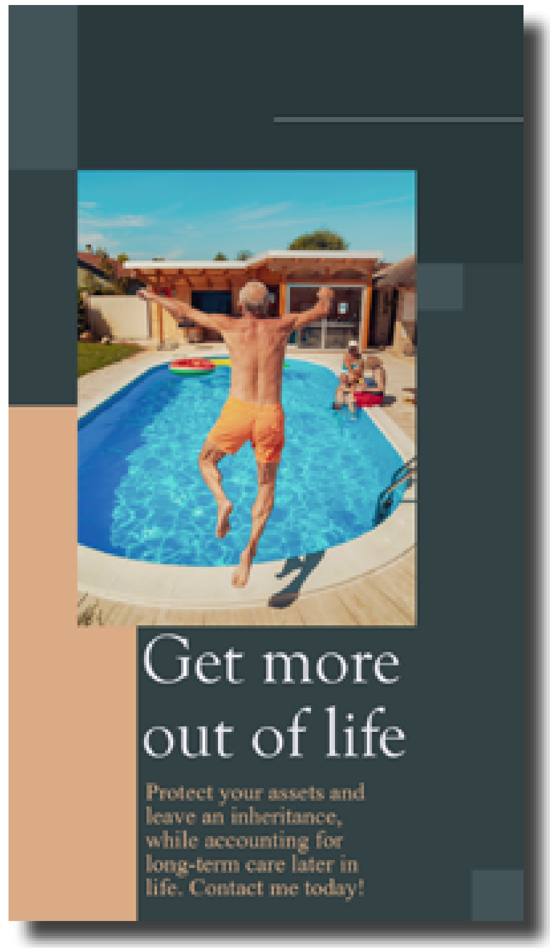

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Return to Articles

Multiple States Considering Implementing Long-Term Care Tax

Thirteen states, including California, New York, Pennsylvania, Illinois, Michigan, and Minnesota, are considering following Washington's lead in taxing those who do not own Long-Term Care Insurance. Acting now will save you money as you protect assets and access quality care in the decades ahead.

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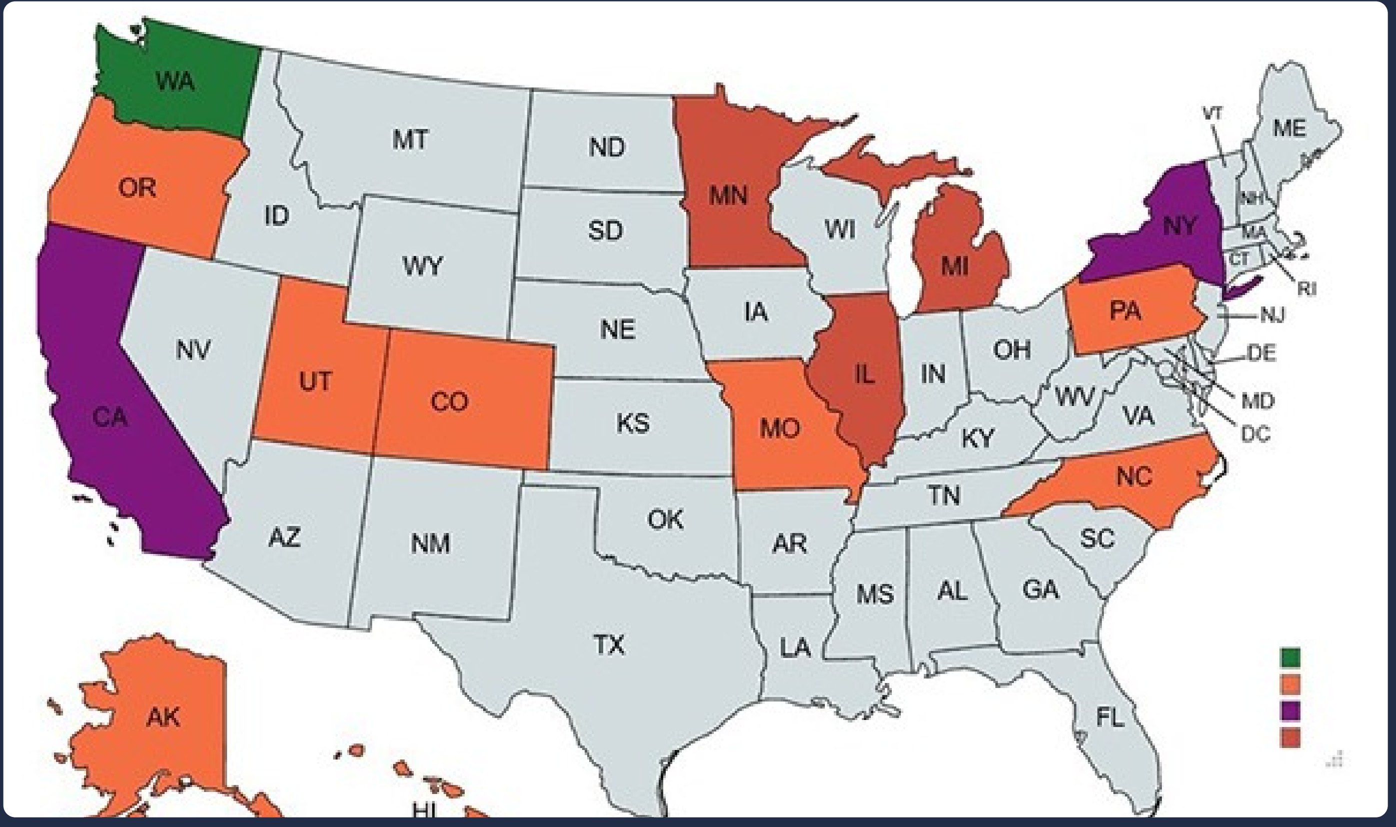


6 Min Read October 30th, 2021 Updated: **September 7th, 2022**

Washington Bureau

For decades many states and the federal government have implemented tax incentives to encourage the purchase of Long-Term Care Insurance. Now, twelve states are looking to follow the State of Washington's lead in taxing you if you ***do not own*** a qualified Long-Term Care Insurance policy.

Washington residents were given a short period of time to have a qualified Long-Term Care Insurance policy in place to avoid the payroll tax of 58 cents on very $100 earned. However, Gov. Inslee signed into law on January 27, 2022, delaying the program's implementation until July 1, 2023. The state will not give residents more time to obtain coverage to avoid the tax.

Those who do not own a policy will have a state-supplied benefit of $36,500 of lifetime benefits to pay for extended care needs. Considering that Washington is one of the country's most expensive states for long-term health care, according to the **LTC NEWS Cost of Care Calculator**, the state plan is hardly a plan for long-term care, and critics call it a cash grab.

For example, Seattle's average cost of in-home care is around $6700 a month (based on a 44-hour week). Nursing homes in Seattle average nearly $12,000 a month, but the cost is expected to average nearly $23,000 a month in twenty-five years.

State Budget Pressure Due to Medicaid Spending Reason for Tax

The tax is intended to help fund the Medicaid program, the country's primary payor of long-term health care expenses. You must have little or no income and assets to qualify for Medicaid. Many people fail to plan for long-term health care. There will be future declines in a person's health due to illness, accident, or the impact of aging. As a result of the consequences of aging, many people will need help with daily living activities or supervision due to dementia. Having no long-term care plan means they must pay for their own care or have family members become caregivers.

The stress on Medicaid is tremendous and is expected to grow in the coming decades. There is debate whether Washington, or other states, are interested in promoting Long-Term Care Insurance, but they are interested in finding resources to pay for care for those with little or no assets.

Now 13 States Discussing New LTC Tax

Now that Washington has taken this action, other states are getting close to implementing their own tax programs. **New York, California, Michigan, and Minnesota** are the states that look like they will be next in line to add their own LTC tax**.** California and New York are the closest to being next in line to add a tax if you don't own a Long-Term Care Insurance policy.

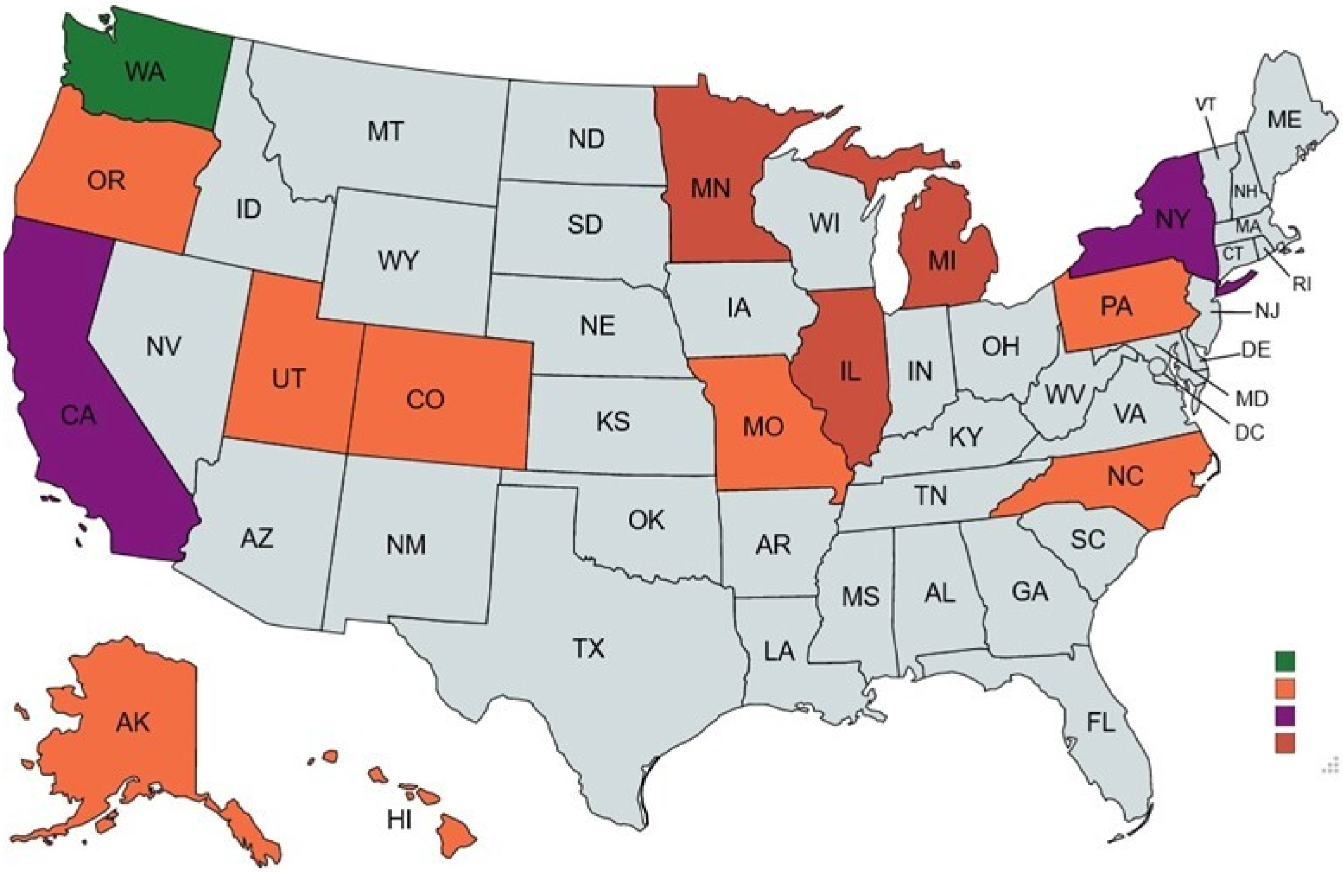
In New York, **Senate Bill S9082** will authorize a similar plan to Washington; however, they would not allow a large window for people to purchase LTC Insurance. The bill requires coverage to be in place before the law goes into effect:

> ***BEGINNING NO LATER THAN JANUARY FIRST OF THE YEAR IN WHICH THIS ARTICLE TAKES EFFECT MAY APPLY FOR AN EXEMPTION***

The law will require that any employed individual who drops their Long-Term Care Insurance notify the state. That person will then be required to pay the tax. Payroll deductions would begin two years after the law is adopted.

In California, the state established a task force to explore, develop and implement such a tax plan. The **California Department of Insurance** has details on the proposals. According to several sources in Sacramento, the rollout could be as soon as 2023.

It appears California, like Washington, will allow a small period of time for individuals to get in force Long-Term Care Insurance to avoid the tax.



In addition to California, Michigan, Minnesota, and New York, the other states that are beginning the process include:

- Alaska
- Colorado
- Hawaii
- Illinois
- Missouri
- North Carolina
- Oregon
- Pennsylvania

- Utah

Pennsylvania is the latest state where legislation was introduced in the state legislature. The bill is almost identical to the law that now exists in the State of Washington.

One question is whether the states will give their residents any advance notice to obtain Long-Term Care Insurance to avoid the tax. It generally takes six to eight weeks to apply and get approved for coverage. Many people in Washington ran out of time to obtain Long-Term Care Insurance to avoid the tax. Since the tax is on all your earned income (no cap), you pay more tax as you make more money.

New York and California Closest to LTC Tax

Both California and New York are getting closer to implementing their long-term care tax. Both appear similar to Washington's tax on all earned income for all W-2 employees. Those who do not own a qualified Long-Term Care Insurance policy will have a limited benefit to help pay for long-term health care costs.

The cost of care in both states is very expensive, and neither plan provides much money to pay for long-term health care services. The tax, however, can become very expensive.

The states may provide little or no time for consumers to purchase Long-Term Care Insurance to avoid the tax. Residents of all these states are encouraged to obtain coverage now to ensure the ability to get real coverage for long-term care and avoid the tax.

Younger Workers Must Pay Tax

> ***While most experts suggest planning for the costs and burdens of aging as part of retirement planning, the tax in these states may force people, even younger ones, to obtain coverage. Otherwise, these individuals will pay a tax for the rest of their lives.***

Younger people who expect to earn more money throughout their lifetime should consider obtaining coverage now. Life insurance policies with a qualified rider for long-term care (meeting the legal requirement under Section 7702(b) of U.S. Code) are affordable. These life plans meet a critical need for life insurance in addition to the qualified long-term care benefit exempting them from the tax.

Understand that long-term health care services are expensive and are increasing every year. Traditional health insurance does not cover these costs, including Medicare and supplements.

The LTC NEWS Cost of Care Calculator shows the current and expected future cost of care services nationwide based on the major cities throughout each state - **Cost of Care Calculator - Choose Your State | LTC News**.

When you obtain LTC Insurance coverage, try not just to purchase the smallest plan available. With an affordable Long-Term Care Insurance policy, you safeguard income and assets from the tremendously expensive costs of extended care. But there is more. You will have access to your choice of quality care services, including in-home care, without burdening your family. Consider it partly as insurance for your 401(k) and other retirement accounts.

Select a Qualified Policy That Meets Federal Code 7702(b)

Since there may be little or no advance notice before a state enacts a tax, don't delay obtaining coverage. You must have a tax-qualified Long-Term Care Insurance policy following Section 7702(b) of the U.S. Code.

Seek the assistance of an experienced Long-Term Care Insurance specialist representing the top companies. Premiums can vary over 100% between companies for the same coverage. LTC Insurance is medically underwritten. The specialist will match your age, health, and family history with the right company - **Work With a Specialist | LTC News**.

It might be tempting to obtain the smallest plan possible that gets you out of the tax. It would be wise to avoid getting the cheapest available plan unless you have little income and don't expect to earn more in the near future.

You can replace or add to your coverage when you start earning more income, but remember, the coverage would be priced based on attained age and health.

Some LTC Insurance policies lack inflation benefits and are not partnership certified. These two items are essential to have in a policy. Few employer-sponsored plans exist, and those that do are usually not your best option unless you have health issues limiting your choices.

No New Federal Plan on the Horizon

Don't wait for Washington DC to get involved. President Biden has talked about expanding tax incentives if you purchase a policy; however, Congress has little support to do anything more than what they have already done.

While there have been proposals to enact some national plan, there is little support. Several strategies have been proposed, from a national long-term care plan to allowing the use of qualified retirement funds penalty-free to pay for LTC Insurance premiums.

Federal Tax Incentives Exist. Partnership Plans in Most States Available

The existing **federal tax benefits** will continue. The Long-Term Care Insurance Partnership program offers additional dollar-for-dollar asset protection if you own a qualified plan. Most states participate in the partnership program.

The risk of needing long-term health care is real at some point in your life, and the states lack the funds to pay for everyone's future care. Being prepared is a good idea - tax or no tax.

In a speech on October 28, 2021, President Biden said that millions of Americans in the so-called "sandwich generation" feel financially squeezed by raising a child and caring for an aging parent simultaneously. Describing this as a family crisis is not an exaggeration. The consequences of long-term health care are real.

Long-Term Care Insurance is medically underwritten, so don't delay obtaining coverage. Delaying could not only affect the tax in your state but could impact your insurability.

States are attempting to find ways to address the growing problem of aging and long-term care. Many experts think more states will devise similar long-term care tax programs in the years ahead. Meanwhile, being proactive in planning is recommended.

Long-Term Care Rider

Available on Income Advantage℠ IUL and Life Protection Advantage℠ IUL policies

Get More Out of Life

With a Long-Term Care Rider

Help Your Clients Protect Their Assets and Leave an Inheritance

Many people work a lifetime to accumulate assets to pave the way for a comfortable retirement and to leave an inheritance for their children. The last thing anyone wants is to see their hard-earned savings depleted to pay for long-term care services.

Long-term care services, however, can quickly erode a client's assets. Almost 70 percent of people over age 65 will require chronic care later in life – for an average of three years. And, 20 percent of those individuals will need that care for longer than five years.*

Consider the costs:**

- The national average for a semiprivate room in a nursing home is $99,410.40 per year
- If your client needs three years of long-term care services, that equals $298,231.20
- If your client needs five years of long-term care services, that equals $497,052

And, those are based on 2021 numbers. Think about what those numbers would be 25 years down the road, assuming an average inflation rate of 3 percent, which is just under the average U.S. inflation rate of 3.27 percent:***

- The national average for a semiprivate room in a nursing home would be $214,387.60 per year
- If your client needs three years of long-term care services, that equals $643,162.80
- If your client needs five years of long-term care services, that equals $1,071,938

A long-term care rider on a life insurance policy is a good way for your clients to:

- Protect their loved ones in case of unexpected long-term care needs,
- Plan for their long-term care funding needs, and
- Provide a legacy for the loved ones they leave behind

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Case Study

Nick has done well for himself and plans to use his accumulated wealth for retirement income. When he passes away, he also plans to leave an inheritance for each of his three children.

At age 75, Nick becomes chronically ill and requires long-term care services. His remaining assets are worth $1 million. For simplicity, we'll assume that Nick's nursing home cost remains the same throughout his stay.

Consider two different scenarios:

Scenario 1:

Nick purchases a life insurance policy with a long-term care rider

At age 50, Nick purchases a $1 million Life Protection Advantage℠ policy. He chooses to add the LTC Rider with the option to accelerate the entire $1 million for long-term care services at a monthly maximum rate of 2 percent of the maximum benefit per month. This allows him to be reimbursed for up to $20,000 in long-term care expenses per month.

- When he needs long-term care services at age 75, he incurs qualifying expenses of $15,138.75 per month ($181,665 per year) for a semiprivate room in a nursing home. He resides there for four years before he passes. Over this four-year period, he is reimbursed for his four years of long-term care, which totals $726,660
- When he passes, his beneficiaries receive the remaining amount of $273,340 as a death benefit. He also still has his remaining $1 million in assets. When this $1,273,340 is divided among his three children, each will receive $424,446

Nick's planned premium on his Life Protection Advantage policy was approximately $11,000 per year. Even considering premiums paid, this planning strategy still makes sense. Plus, if Nick had died prior to needing long-term care, his beneficiaries would have received the entire $1 million as a death benefit.

Scenario 2:

Nick doesn't plan ahead for long-term care expenses

At age 50, Nick chooses not to plan ahead for the possibility of a long-term care need. By not planning ahead, he ultimately makes the choice to self-insure.

- When he goes into a nursing home at age 75, he starts taking $181,665 per year from his savings to pay for a semiprivate room. He resides there for four years before he passes. Over this four-year period, he spends $726,660 for long-term care services
- His long-term care expenses reduce his $1 million in assets down to $273,340. Each of his three children receives an inheritance of $91,000

And, depending on the types of assets he had, he could end up paying unexpected capital gains tax, income tax and potential surrender charges generated from asset liquidation. Or, he could miss out on any returns the liquid assets were expected to generate.

Summary

By choosing the LTC Rider on his life insurance plan, Nick's premium investment resulted in **each** of his three children ending up with significantly more inheritance than if Nick hadn't planned for long-term care expenses.

Help clients protect their assets and preserve their independence. Show them the value of an LTC Rider on their life insurance policy. Learn more about the LTC Rider at MutualofOmaha.com/ltc-rider.

* Source: U.S. Department of Health and Human Services
** Source: Mutual of Omaha's Cost of Care Study, conducted by Long-Term Care Group, 2021, released 2022.
*** Source: U.S. Bureau of Labor Statistics, Average inflation rate measurement from 1914-2018.

PREPARE TODAY PROTECT TOMORROW

AN ASSET-BASED LTC STRATEGY

No surprise here — but as we live longer, the chance we'll need long term care increases, too. Since we can never be sure of when we may need help, it's best to put a strategy in place now.

Over half of Americans turning 65 will need some type of long term care in their lifetimes.[1] And, of course, the older someone becomes, the more difficult it can be to obtain coverage they need. But by preparing today, you can help your clients protect their assets, giving them more confidence, control, and peace of mind.

A *Transamerica Financial Foundation IUL*® (FFIUL)* insurance policy can be combined with an optional Long Term Care Rider that can accelerate the death benefit if the insured is certified by a licensed health care practitioner to be chronically ill. And that benefit can help pay expenses for qualified long term care services, if they are needed. The policy can provide:

- Cash value that can build and potentially keep pace with inflation
- Federal income tax-free death benefits, if the insured dies too soon
- Long term care benefits that can increase over time

Here's a hypothetical example of how an FFIUL policy with an LTC Rider might work for someone who needs coverage later in life:

JULIE, 45, PREFERRED ELITE[†]

- Buys $100,000 Transamerica FFIUL policy with increasing death benefit option;[‡] names herself the insured
- Pays $246/month for 20 years, total of $59,028
- At age 71, Julie's certified as having severe cognitive impairment, and needs long term care

[1] "Must Know Statistics About Long Term Care: 2019 Edition," Morningstar, 2019

* In New York, the product's name is TFLIC Financial Foundation IUL.

[†] The hypothetical results shown are based on the best risk class for this product and non-guaranteed illustrated rate of 7.75%. Actual results are based on a number of variable factors and could be lower. Age, gender, and risk class can dramatically impact the cost of insurance rates and premium. Based on guaranteed assumptions, the policy would lapse at age 77.

[‡] The increasing death benefit option will result in higher monthly deductions over the life of the policy than the level death benefit option.

117288R2

TRANSAMERICA®

Julie pays for qualified long term care services for 90 days, satisfying the 90-day elimination period. She and her family then file a long term care claim for the maximum monthly benefit amount of 2% of the Long Term Care Rider specified amount.

She accelerates her maximum daily benefits and receives a check for $4,352 a month for 50 months until all LTC benefits have been accelerated, reducing her policy's cash value and death benefit dollar for dollar. Julie's family uses the benefit to pay for a skilled memory care facility until the full $227,067 death benefit is paid in cash benefits.

Julie lives until she's 76, at which point she passes. Her family receives a federal income tax-free residual death benefit that's the lesser of:

- 10% of the lowest face amount of the base policy since its inception (less any outstanding policy loans), or
- $10,000

The family pays Julie's burial costs with the death benefit.

Here's how it might work for someone who does not need long term care benefits:

- Julie does not need long term care
- She pays all of her premiums timely and does not take loans or withdrawals to supplement her retirement income
- At age 76, Julie passes in her sleep

Based on guaranteed assumptions, the policy would lapse at age 77.

IF LTC IS NEEDED:

- $59,028 total premiums paid
- $227,067 total non-guaranteed cash LTC benefits from accelerating death benefit
- $10,000 residual death benefit

IF LTC IS NOT NEEDED:

- $59,028 total premiums paid
- $271,867 total non-guaranteed death benefit
- $100,903 guaranteed death benefit

Contact your wholesaler to learn more about how you can build your business while giving your clients confidence and peace of mind as they prepare for their futures.

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TRANSAMERICA®

EQUITABLE

Covering the costs of long-term care

White Paper

7702B vs. 101(g)

A discussion of riders on
a life insurance policy

A long life is a gift when you have the proper advice, planning and sound financial strategies to enjoy it.

We're living longer. Retirement can last quite a long time — upwards of 30 years. And nearly half of all Americans will need some type of long-term care in their lives.[1] As America's population ages, we can help them focus on what they might need later — sustainable income and protection for their assets as they age. The older people get, the more likely they are to develop health conditions that require ongoing care or support. That support can be expensive, whether it is provided by loved ones who give up their jobs to care for aging parents or by outside sources. With long-term care costs reaching ever-higher levels, long-term care insurance policies or riders can help make sure clients have the means to pay for care, protect their assets and provide a legacy for their children or community.

With long-term care costs reaching ever-higher levels, what are clients to do?

An informative and insightful brochure by Dr. Sandra Timmermann, Ed.D, titled *Connecting the Dots Between Aging at Home and Long-Term Care Protection,* provides relevant and practical information that can help you start a conversation with your clients about the importance of planning for these issues.

This paper adds to our support by helping you understand the details of two different types of life insurance riders that are available to you: 7702B and 101(g) riders.

The median annual costs in 2019[1]

$52,624	Home healthcare aide
$90,155	Semiprivate room in a nursing home

1 Source: Genworth 2019 Cost of Care Survey.

Paying for long-term care

How clients plan for potential long-term care costs will often depend on their current standard of living and the guidance they receive from their advisors. Their options include:

- **Self-insurance.** If they have sufficient assets, or simply hope they won't need long-term care, clients may choose to pay for long-term care expenses out of pocket. However, for most, self-insurance is not an attractive option. After all, a lengthy stay in a nursing home can quickly drain even substantial assets, jeopardizing the family's financial security and depleting any legacy they might want to leave loved ones.
- **Government programs (Medicare or Medicaid).** Government programs are of little help to many. Medicare covers few of the expenses we associate with long-term care and Medicaid is only available to those who have few, if any, assets.
- **Some form of long-term care insurance.** To make sure clients have the means to pay for long-term care, protect their assets and provide a legacy for their children or community, many turn to long-term care insurance policies or life insurance with a rider that will help pay for long-term care costs.

Two insurance options available today

Which type of insurance is best for your clients? The answer will vary, so it is important to understand all the choices. No one type of insurance is better than the other; each has its pros and cons.

Stand-alone LTC insurance policies
Stand-alone long-term care insurance policies that insure against potential long-term care expenses.

Life insurance with a rider to help cover long-term care expenses
Life insurance-based products that include long-term care benefits.

1 Stand-alone LTC insurance policies

At one time, stand-alone long-term care insurance policies were the primary solution for insuring against potential long-term care expenses. Early generations of these products often provided rich benefits and were popular for a number of reasons, among them:

- Lifetime cost-of-living adjustments to protect against inflation.
- Policies may qualify for state Long-Term Care Partnership programs, a joint federal-state program where applicants for Medicaid are permitted to keep one dollar of assets for every dollar of long-term care insurance coverage paid on their behalf.
- Premiums may be deductible for income tax purposes.
- Premiums pay only for long-term care coverage — no additional costs for other insurance benefits that may not be wanted.

Stand-alone long-term care insurance remains an important option for clients. The marketplace has changed, however. Clients may find that fewer insurance companies offer these products and some of the popular features found in earlier-generation products have been limited or are no longer available.

2 Life insurance with a rider to help cover long-term care expenses

Life insurance-based products that included long-term care benefits may be an attractive alternative. Broadly speaking, there are several types of life insurance-based products. So-called "linked benefit" or "hybrid" products are typically funded with a single premium. Alternatively, traditional permanent life insurance policies may include a rider designed to pay for long-term care expenses. Using permanent policies with a rider is the focus of this article. Of course, offer this as a potential solution only when the client has a need for life insurance coverage.

These riders can help clients pay for long-term care expenses by:

- "Accelerating" payments of the life insurance policy death benefit in the event the insured becomes chronically ill and satisfies certain conditions. In other words, it pays some portion of the policy's death benefit before death occurs, so there is only one pool of money available for the client.
- Allowing those accelerated payments to be used for long-term care costs.
- Clients must qualify medically separately for both the life insurance coverage and a long-term care rider.

Any remaining death benefit that is not accelerated can then be paid out to beneficiaries upon the insured's death

Since many people need life insurance to provide for family members, replace lost income or pay debts and taxes anyway, the ability to use life insurance for another purpose is often very appealing. It's a simple, flexible and often a lower-cost strategy. If it turns out that long-term care services are not needed, the life insurance policy cash values can be used to help supplement income, or the unaccelerated policy death benefit can be paid out to designated beneficiaries upon the insured's death, as income tax-free life insurance proceeds.

Two main categories of riders

There are generally two main categories of riders, depending on how the benefit is being paid.

7702B long-term care riders
Qualified long-term care insurance benefits under Internal Revenue Code section 7702B.

101(g) chronic illness riders
Accelerated death benefit for chronic illness under Internal Revenue Code section 101(g).

1 7702B long-term care riders

Section 7702B is the primary tax code authority when it comes to long-term care insurance — whether it's a stand-alone policy or a long-term care rider on a permanent life insurance policy. Section 7702B defines a qualified long-term care contract and treats it as an accident and health insurance contract.

2 101(g) chronic illness riders

Section 101 of the tax code outlines the tax treatment of life insurance death benefits. Section 101(a) provides that, with certain exceptions, life insurance death benefits are excluded from income. Under section 101(g) of the code, payments from a life insurance contract insuring a chronically ill person that are received prior to the insured's death are treated as if they were paid as a death benefit — tax-free. However, benefits paid in excess of the per diem limit will generally be included in income. There is an important exception to this tax-free treatment for business-related policies. Section 101(g)(5) of the code states that if the insured is a director, officer or employee of the policyowner, or is financially interested in any trade or business of the policyowner, accelerated benefits would not be excluded from income.

First, let's look at how these riders are similar or different from each other.

What do these riders have in common?

For both long-term care riders and chronic illness riders:

Benefits are received by the clients, income tax-free, up to IRS limits.

Because benefits are considered an acceleration of a life insurance policy's death benefit, which is tax-free to the recipient, benefits for long-term care are treated similarly.

Clients must qualify for benefits.

That means, to receive benefits, the client must be considered chronically ill, as defined by the policy. A chronically ill individual is defined as any individual who has been certified by a licensed healthcare practitioner as:

(i) being unable to perform (without substantial assistance from another individual) at least two activities of daily living for a period of at least 90 days due to a loss of functional capacity

(ii) having a level of disability similar (as determined under regulations prescribed by the Treasury Secretary in consultation with the Secretary of Health and Human Services) to the level of disability described in clause (i), or

(iii) requiring substantial supervision to protect such individual from threats to health and safety due to severe cognitive impairment.

The rider will pay some stated percentage of the death benefit.

The rider typically pays 1%, 2% or 3% of the policy death benefit each month, once the insured becomes ill and qualifies for benefits and long-term care. If, for example, the insured becomes chronically ill, they may be eligible to receive a monthly benefit of up to 2% of the policy's death benefit, after a waiting period of 90 days. If their death benefit is $1,000,000, they would be able to receive up to $20,000 per month in benefits to help pay for long-term care costs.

Taxation of these riders
To understand the tax issues associated with 7702B and 101(g) riders, read our LTCSR Tax Planning Perspective.

How are the riders different from each other?

There can be significant differences in how benefits are paid when an insured is eligible for benefits, and the level of consumer protection provided to the buyer.

Long-term care riders

Will pay if conditions are temporary.

It may sound counterintuitive, but a chronic illness doesn't have to be permanent for benefits to be paid out under a long-term care rider.

Are treated as a separate long-term care accident and health insurance contract.

Because it's treated like an accident and health insurance contract, 7702B rider benefit payments are generally income tax-free. However, if the taxpayer receives benefits in excess of the per diem limit, those "excess benefits" will be considered income for tax purposes, but only to the extent they exceed actual unreimbursed qualified long-term care expenses. Those per diem limits are indexed for inflation and are $380/day in 2020.

Unlike a stand-alone LTC insurance policy, LTC riders are not generally eligible for state LTC partnership programs or for HSAs, and are not a permissible deductions for income taxes.

Must include consumer protections.

The National Association of Insurance Commissioners (NAIC) Long-Term Care Insurance Model Act and Long-Term Care Insurance Model Regulation, as enacted by the states, establish requirements for certain consumer protection provisions that must be provided under these riders. These provisions include consumer protections relating to non-cancellability, unintentional lapse, minimum standards, disclosure, reinstatement and nonforfeiture, among other things — and provide considerable peace of mind for clients and financial professionals alike.

They also establish rules for marketing these products, as well as training and licensing requirements for those who sell them.

Can be referred to as "long-term care" insurance.

Riders designed to comply with all these various requirements of IRS Section 7702B are sometimes simply referred to as qualified riders. Agents and other financial professionals can refer to them as "long-term care insurance" when communicating with clients and prospects. Because long-term care insurance is considered a form of accident and health insurance, selling agents and financial advisors must be accident- and health-licensed.

May be either indemnity or reimbursement models.

Long-term care riders can use:

- An indemnity payment model, which pays up to the maximum benefit amount specified in the contract regardless of expenses incurred.

For example, a $500,000 policy with a maximum monthly rider benefit of 2% of the policy's death benefit would pay up to $10,000 per month to the policyowner regardless of expenses incurred. If actual expenses in the first month were $15,000, the rider would pay $10,000. If, in month 2, expenses dropped to $4,000, the rider could still pay up to $10,000. As a result, an indemnity rider enables an individual to pay for expenses that are associated with long-term care, but are not considered qualified expenses and not reimbursable under a reimbursement-type rider, including costs of home modification and medical equipment, such as walkers. For most indemnity riders, individuals simply need to qualify and demonstrate there's a plan of care and periodically be recertified. There may be no additional paperwork, though individuals should consult with their carrier for particular claims requirements.

Long-term care riders (cont.)

May be either indemnity or reimbursement models.

- A reimbursement payment model, which reimburses the policyowner for expenses incurred by the insured. After the insured qualifies for benefits, the policyowner must submit receipts for qualifying expenses to receive benefit payments. A reimbursement rider will never pay more than the qualified long-term care expenses that were incurred.

For example, a $500,000 policy with a maximum monthly rider benefit of 2% of the policy's death benefit could pay up to $10,000 per month to the policyowner, but no more than expenses incurred. If actual expenses in the first month were $15,000, the rider would pay $10,000. If in month 2, expenses dropped to $4,000, the rider would pay no more than $4,000. A reimbursement contract also requires periodic paperwork to document the actual expenses included, which can take time on the part of an ill individual or a family member.

Charge an additional current fee.

Therefore, when benefits are paid from the rider, there is then a dollar-for-dollar reduction in the death benefit.

Choose your benefit amount

Some indemnity-style riders allow the policyholder to select the monthly benefit amount, up to the maximum allowable. That gives them the flexibility to use more of the death benefit for lifestyle enhancements, travel before the condition worsens or leave more of the death benefit for loved ones later.

Chronic Illness riders

May or may not pay if conditions are temporary.

The definition of a chronic illness is the same for a chronic illness rider as it is for a long-term care rider. However, while all long-term care riders allow for conditions to be either permanent or temporary, some chronic illness riders will only pay if the condition is permanent. Here's why:

- In about 45 states, insurance companies are members of the Interstate Insurance Product Regulation Commission (IIPRC), which allows them to get faster approval on products if they file a product that complies with the adopted standards.
- In 2007, the IIPRC defined a "qualifying event" (when benefits would be paid) as a terminal or permanent condition. Therefore, most chronic illness riders paid only if the condition was permanent.
- In 2015, the IIPRC amended their standards to include temporary conditions as qualifying events on chronic illness riders. So, since then, some insurance companies have introduced chronic illness riders that allow temporary conditions. However, most still have permanent condition stipulations. This may be because accepting only permanent conditions means the insurance company will have fewer claims and can offer the rider at a reduced cost. You should exercise care in selecting a chronic illness rider if you want the ability for temporary claims.

Are not required to offer consumer protections, like those under long-term care riders.

Because chronic illness riders are not considered long-term care riders, they don't have to abide by the same rules.

Chronic Illness riders (cont.)

Cannot be referred to as "long-term care" insurance.

Because they are not subject to long-term care insurance regulations, they do not qualify as long-term care insurance, therefore, cannot be called "long-term care" in marketing or other material. They may be referred to as accelerated death benefit riders, chronic illness riders or, simply, nonqualified riders. Because these riders are not considered a form of accident and health insurance, selling agents and financial advisors do not need to be accident- and health-licensed to sell them.

Use an indemnity payment model.

Since these riders simply accelerate the death benefit, it makes sense that they use only indemnity payment models, which provide a certain amount of money to the insured each month, once the need for long-term care has been established.

Business-related policies do not receive tax-free treatment of benefit payments.

Although benefits are generally tax-free up to the per diem limits, business-related policies with a chronic illness rider are not eligible for the same tax-free treatment. Specifically, tax-free treatment does not apply to benefits paid to a business where the insured is a director, officer or employee, or if the insured is financially interested in any trade or business carried on by the taxpayer. Of course, these are the individuals whom a business would most want to insure for death benefit and long-term impairment purposes. Therefore, the use of a chronic illness rider as part of a key person insurance arrangement or buy-sell agreement can be problematic, because any benefits received under the rider would be included in the business policyowner's income.

While there is not a specific exclusion for long-term care riders, the tax treatment for business-owned contracts is also not specifically discussed in the tax code. This would be up to the discretion of a business' tax preparer.

May not charge a current fee, but may take more when benefits are used.

Chronic illness riders may be structured similarly to long-term care riders, with a current charge. However, some chronic illness riders do not charge for the rider currently, but instead pay for it by discounting the remaining death benefit in the policy at the time there is a claim under the rider. The result is a greater than dollar-for-dollar reduction in the policy death benefit for payments made under the rider. These discounted death benefit riders are sometimes promoted as "free." If clients don't use the rider, it doesn't cost them anything. But, it may cost them more in reduced death benefits if they use it.

The comparison chart that follows on the next page illustrates the differences between the long-term care rider and the chronic illness rider.

There is an additional current charge for a tax-qualified Section 7702B long-term care insurance. When benefits are then paid from the rider, there is then a dollar-for-dollar reduction in the death benefit.

2 This may vary depending on the state.

3 Though treated as a long-term care contract, there remain some important distinctions between a 7702B rider and a stand-alone long-term care insurance contract. For example, 7702B riders are not generally eligible for state LTC partnership programs. Also, rider charges are not eligible for HSAs, nor are they a permissible deduction for income taxes.

Long-term care rider vs. chronic illness rider

	Long-term care rider	Chronic illness rider
Covers temporary claims	**Yes**	**Maybe** New regulations allow chronic illness riders to pay claims if the condition is temporary. However, most chronic illness riders still require the condition to be permanent.
Qualifies as long-term care insurance	**Yes**[3] Clients may be more familiar with the term "long-term care" that can be used in marketing and sales materials.	**No**
	Includes required consumer protection provisions: The following provisions protect the policy from lapsing unintentionally due to a client's physical or cognitive impairment. While chronic illness riders may include some of these benefits, they are not required.	
Unintentional lapse protection required	**Yes** Clients and their families can rest assured that someone close to the client will receive a notice of nonpayment of premiums before the policy lapses. This protects against unintentional policy lapses.	**No**
Lapse protection while on claim required	**Yes** Clients don't have to worry about paying premiums while the policy is on claim.	**No**
Reinstatement provision required	**Yes** If clients become cognitively impaired and didn't realize that premium payments were due, their policy can be reinstated with proof that the insured was cognitively impaired.	**No**
Nonforfeiture provision required	**Yes** Clients can receive benefits on a lapsed policy if they would have qualified for benefits before the lapse.	**No**
Includes a charge only if your client uses the rider	**No** There is an upfront charge for the rider that guarantees a dollar-for-dollar reduction in death benefit by the amount of LTC benefits paid. The cost of coverage is known at time of policy issue.[2]	**Maybe** Some of these riders have an upfront charge. Others have no upfront charge, but charge a back-end fee by reducing the death benefit by an amount greater than the amount of chronic illness benefits paid. These fees may vary and are not known at policy issue, making planning more difficult.
Tax-free treatment for business-related policies	**Probably Yes** Benefit payments can help employers buy out an insured's share of the business, finance finding a replacement for a key person or offset losses due to a key employee's incapacity. The Tax Code is silent on Section 7702B contracts, where it is very specific in not allowing tax-free treatment for Section 101(g) contracts.	**No**
Requires a health insurance license	**Yes, in most states** This additional credential lets you build credibility with high-net-worth clients and understand more about how long-term care works (such as how it interacts with Medicare) through continuing education courses.	**No**
Normal tax treatment for Modified Endowment Contracts (MECs)	**Yes** Rider charges are not considered distributions, not taxable.	**No** Rider charges are considered distributions, taxable up to the gain.
Accelerated Death Benefits	**Yes** Tax-free up to greater of per diem limit or actual eligible long-term care expenses incurred.	**Yes** Tax-free up to per diem limit only.

Why the right rider matters

Planning scenarios

1

Scenario 1: Consumer protection for aging clients — meet George and Claire.

Individuals who need the protection provided by a long-term care rider are inherently more vulnerable. The consumer protection features included in every qualified long-term care insurance rider are especially important and can mean the difference between having care or not. In the scenario below, George and Claire each own a life insurance policy on which they have included a rider that will assist them with expenses in the event they become chronically ill. George's policy includes a Section 7702B long-term care rider, while Claire's policy includes a Section 101(g) chronic illness rider.

George's long-term care rider includes consumer protections he needs as he ages.

George suffers an accident and becomes cognitively impaired. As a result, he doesn't remember to pay the premium on his policy, and the policy is at risk of lapsing. Fortunately for George, his long-term care rider included unintentional lapse protection provisions. When he applied for coverage, he designated his daughter, Susan, to receive a notice in the event his premiums went unpaid. So, when George didn't pay his premium on time, a notice was sent to Susan, advising her of the nonpayment of premium on her father's policy. Ordinarily, Susan would have intervened and made sure premiums were paid. But Susan had moved several times and the notice was not forwarded to her current mailing address. Therefore, George's policy inadvertently lapsed. However, George's policy also included a mandatory reinstatement provision, which enabled the insurer to reinstate his coverage once they learned from Susan that George was cognitively impaired. George's policy, upon reinstatement, made payments to George to assist with his long-term care expenses.

Claire's chronic illness rider does not include consumer protections.

Claire had become increasingly forgetful before becoming chronically ill and, as a result, neglected to pay the premiums on her policy. A nonpayment of premium notice was sent to her home, but her policy did not provide her an option to name a third party to receive a nonpayment notice, so no one else was aware of the situation. As a result, her policy lapsed. Unlike George's policy, Claire's policy did not have a reinstatement provision. She was not able to reinstate her policy, even if it could be shown that it was her cognitive impairment that caused her failure to pay premiums on time. Unfortunately, Claire has no benefits to assist her in the payment of long-term care expenses.

2

Scenario 2: Business-owned policy.

A business may need to purchase life insurance on the lives of its owners and key employees for reasons such as key person, executive benefits or business succession. What about including a chronic illness or long-term care rider on the policy? This offers the advantage of providing funds to the business while the insured might be alive, but impaired. As discussed earlier, Section 101(g)(5) of the code specifically denies income tax-free treatment to rider benefits received from a 101(g) rider as part of a business-related policy. In business situations then, where the parties wish to provide both life insurance and long-term care protection, a 7702B policy is the safer bet.

MHG Corporation used life insurance and a long-term care rider for protection and executive benefits.

MHG, a successful high-tech consulting group, was lucky enough to have Tony, their most successful sales vice president, on staff. Tony has been responsible for bringing in as much as 40% of the company's new accounts, and the business had become dependent on Tony's continued success and contributions. MHG recognized the need for life insurance to protect the company in the event of Tony's death, and they were concerned that if Tony needed long-term care due to an unforeseen illness or injury, the company would suffer a loss in revenue and incur considerable expenses in finding a replacement. They decided that a long-term care rider on the policy, while not covering the broad range of conditions that disability insurance would cover, would help them provide some coverage, packaged with life insurance.

Because benefits payable to the company from a chronic illness rider would be taxable, MHG purchased a policy with a long-term care rider. Therefore, if Tony should become chronically ill, MHG could apply for benefits which can be used to offset lost revenue and cover the costs of finding Tony's replacement.

MHG also provided a nonqualified deferred bonus to Tony, payable at his retirement (or death, if that occurs sooner) in a lump sum. They intend to pay at least a part of that bonus with the life insurance policy. By transferring the policy to Tony at his retirement, Tony will acquire valuable life insurance protection, policy cash values that can be used to supplement his retirement income or, if needed, long-term care benefits that can be provided through the rider.

Summary

The growth in life insurance-based solutions to pay for long-term care expenses has provided consumers with many additional options. While there are some similarities between long-term care riders and chronic illness riders, they can vary greatly in how they pay out benefits, what types of conditions are covered and the consumer protections they provide. It is wise for consumers to learn all they can about these options, so that they can understand how they work and decide which will best fit their particular situation.

The Long-Term Care Services[SM] Rider is available with Equitable universal and variable universal life insurance policies. It is designed for clients who need both life insurance protection and a relatively affordable, effective way to pay for potential long-term care costs. The Long-Term Care Services[SM] Rider is available for an additional charge, and does have restrictions and limitations. Clients may qualify for the life insurance, but not the rider.

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American Academy of Actuaries

Issue Brief

Long-Term Care Insurance Products and Addressing the 'Use It or Lose It' Concern

FEBRUARY 2020

Key Points

- Tax policy in the past has provided incentives for the purchase of long-term care insurance (LTCI), but those incentives have come with some product design restrictions.
- One restriction on tax-qualified LTCI products is that, other than a return-of-premium feature, they are not allowed to have any kind of cash value feature. This creates a "use it or lose it" concern for some consumers.
- Various life and annuity combination products have emerged that address the "use it or lose it" issue by providing value to consumers even if the LTC benefits are not needed.
- Tax law changes that allow cash values on qualified LTCI could address "use it or lose it" concerns for some consumers and provide additional premium flexibility.

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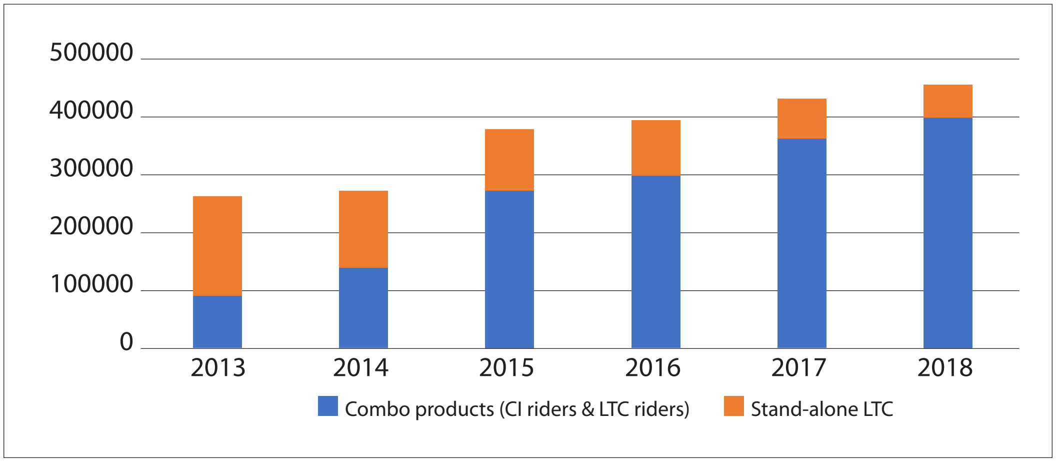
Introduction

Existing public programs do not provide financing for long-term care (LTC) needs unless someone meets the asset and income requirements of state Medicaid programs. To fill that void, private long-term care insurance (LTCI) has been offered to provide financing for the LTC needs especially of importance given the growing elderly population. This coverage has taken many forms. Currently the stand-alone LTCI market has been contracting while the combination products market has been expanding. This issue brief provides a brief history of these products and explores how a cash value LTCI design might provide additional consumer options.

An Evolving Marketplace and Regulatory Environment

Early versions of LTCI policies issued in the mid- to late-1980s primarily provided nursing facility coverage with limited coverage for home and community-based care. After more than two decades of rapid growth through the early 2000s, the LTCI industry underwent significant contraction in both the number of participating insurers and sales. Carriers that left the market cited mounting losses from adverse experience relative to pricing assumptions. LTCI agents cited that consumers' reasons for not buying a policy included cost, difficulty of choosing a policy, lack of confidence in insurers to pay stated benefits, and uncertainty about future product changes or premium increases. As traditional LTCI sales declined and stagnated, sales of combination or hybrid products grew, as noted in the chart below.

Individual Combo Products—New Sales Lives Includes Both Chronic Illness Riders and LTC Riders



Source: LIMRA U.S. individual life combination products—annual review. Combo products include zero premium discounted death benefit features.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) states that qualified LTCI will be subject to favorable tax treatment under the Federal Income Tax Code, similar to accident and health insurance products. Benefits paid by a tax-qualified (TQ) policy will not be counted as taxable income to the policyholder under most circumstances, and premiums paid can be counted as a non-reimbursed medical expense for those itemizing their deductions for tax purposes. Almost all policies sold today are TQ policies, although non-TQ policies continue to be available.

The Pension Protection Act of 2006 (PPA) clarified the tax treatment of cash value distributions under life insurance policies or annuity contracts to pay for LTC. With the 2010 enactment of the new LTC tax provisions, benefits paid under LTC riders attached to either life insurance or annuity products will not be counted as taxable income to the policyholder under most circumstances.

This issue brief was developed by the following members of the Long-Term Care Reform Subcommittee:
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Current LTC Financing Alternatives

There are multiple ways to address LTC financing needs, including savings, insurance, life settlements, and reverse mortgages (for more information, see the Academy's October 2015 brief, "*Long-Term Care Insurance: Product Design Flexibility*.") Several insurance and annuity product alternatives that can provide financing for LTC services are summarized below:

Traditional or stand-alone LTC insurance generally provides comprehensive coverage for nursing facilities, assisted living facilities, and home and community care. Most products sold today reimburse actual expenses, although many indemnity policies and some disability-type[1] policies remain inforce. As discussed above, stand-alone LTCI receives favorable tax treatment under Section 7702(b) of the Internal Revenue Code. This product is generally considered to provide the greatest LTC benefits per dollar of premium, but in the absence of a return-of-premium feature, if no LTC benefits are needed the policy only provides peace of mind.

Life/LTC combination or hybrid products come in three common forms:

- Life insurance with a chronic illness rider—This rider accelerates life insurance benefits, is governed by Section 101(g) of the Internal Revenue Code, and cannot be marketed as LTC insurance. When LTC benefits are paid, the life policy face amount is commonly reduced dollar-for-dollar up to 100% of the face amount of the life policy. A pro rata reduction applies to the cash value. Acceleration benefit options are typically two years, three years, or four years, or range from 1% to 5% of the face amount per month. Chronic illness riders might also provide a lump sum payment for qualified LTC events.
- Life insurance with an LTC acceleration rider—Similar to a stand-alone LTCI policy, LTC acceleration riders are governed by Section 7702(b) of the Internal Revenue Code and must comply with the National Association of Insurance Commissioners (NAIC) LTC model regulation. The LTC rider benefit structure is almost identical to the chronic illness rider above except that a lump sum payment is rarely seen under this rider.
- Life insurance with both an LTC acceleration rider and an LTC extension of benefit rider—Both riders are governed by Section 7702(b) of the Internal Revenue Code. With this type of product, long-term care benefits are first funded by the LTC acceleration rider until the specified total LTC amount (up to 100% of the face amount) is fully depleted. Then the extension of benefit rider provides additional LTC coverage beyond the acceleration rider period, typically for two to four years. Extension of benefit riders are funded by a separate premium as opposed to the policyholder's own account value.

1 Does not require receipt of services like reimbursement and indemnity policies.

A rider could be made available on more than one life base product chassis. Currently a majority of such riders are attached to universal life policies.

Annuity/LTC combination or hybrid products are less common in the market, as there are only a handful of carriers with a filed product. Some carriers with filed products are not actively marketing their annuity combination products due to the prolonged low-interest-rate environment, which makes this type of product less attractive than some other alternatives available to consumers.

A common annuity combination design is a single-premium deferred annuity with LTC benefits, which has an LTC acceleration rider and an extension rider. The single premium is credited with interest until the account value is annuitized—i.e., converted to a lifetime payment stream. If the policyowner dies prior to annuitization, the account value is paid to the beneficiary as a death benefit. If the policyowner needs LTC services prior to annuitization, the account value covers LTC services for the first two or three years of claim. After the annuity's account value is depleted, LTC expenses can be covered by an extension rider for perhaps an additional two to four years.

Enhanced payout options are another variation in the annuity market. Under this design, LTC benefits are available within the guaranteed lifetime withdrawal benefit rider (GLWB) of a variable or fixed indexed annuity. The LTC enhanced payouts increase the lifetime payment amount if the insured meets the benefit eligibility requirements. The amount of the LTC enhancement varies in the market from 50% to 300% of the lifetime payout amount and can be effective for either a limited number of years (such as five years) or for the life of the insured.

A Proposal to Enhance Stand-Alone LTC Product Designs

Although the tax treatment of various LTC products was largely improved and clarified within HIPAA in 1996 and the Deficit Reduction Act in 2005, those laws contained very specific policy and consumer protection requirements, some of which impede the marketing of qualified LTCI policies today.

Perhaps the biggest challenge is that other than a return-of-premium feature available only upon complete surrender or cancellation of the contract, current tax laws do not allow stand-alone qualified LTCI to have any type of cash value feature. This limitation creates a "use it or lose it" aspect to the product. As one article puts it:

> Many people regard long-term-care insurance as having no real value if ultimately the payouts aren't needed. That is, instead of looking at long-term-care insurance primarily as financial protection, many people think of it as an investment — and a bad one at that. They see the premiums as money that would be wasted if the policy owner ultimately doesn't need long-term care. They don't think about the catastrophic losses a policy could help them avoid.[2]

While combination products can address the "use it or lose it" issue, they require consumers to purchase some level of other coverage to address what they might see as primarily an LTCI need. The NAIC recommendations to federal policymakers[3] have suggested that LTCI with a cash value feature could address the consumer concern about not receiving any value from their LTCI if the LTC benefits are not needed. Certainly, cash values would increase the premiums for LTCI, but they might improve consumer perceptions of the cost relative to the value. In addition, from the insurer's perspective, having some growing portion of the policy benefits that will be paid out one way or another could help insurers balance the morbidity and mortality risks in the same way that hybrid products have helped insurers to balance the overall policy risks.

Furthermore, the NAIC recommendations suggested that cash value features can allow more flexible premium options that "could increase consumer choice and flexibility by allowing prefunding for LTC needs under a variety of premium payment patterns."[4] The NAIC LTC Model Regulation currently allows premiums to increase with the age of the insured, but only to age 65. Allowing cash values on qualified LTCI could allow insureds additional premium flexibility while addressing "use it or lose it" concerns. Cash value features could also reduce the portion of premium needed to pay for a death benefit relative to a combination product.

Some have noted that LTCI is already a complicated product and that adding a cash value feature would further complicate LTCI for consumers. On the other hand, having a cash value component could facilitate discussions with people who otherwise might not consider the purchase of an LTCI policy. Whatever cash value designs are developed, companies need to be sure that those designs can be explained to agents and that agents will in turn be able to explain those designs to potential consumers.

Finally, from a macroeconomic level, having more LTC services covered by private funds can help relieve public programs, such as Medicaid, of additional costs in the future. Therefore, adding new features to make existing products more attractive to a broader range of consumers could result in long-term beneficial societal impacts.

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2 Olivia S. Mitchell and Daniel Gottleib; "Why People Don't Buy Long-Term-Care Insurance"; *MarketWatch*; June 25, 2015.
3 NAIC; *Long-Term Care Federal Policy Options to Present to Congress*; April 2017.
4 Ibid.

Conclusion

For decades, consumers and LTC insurers have benefitted from tax incentives for the purchase of LTC insurance policies. However, those incentives have come with some product design restrictions lessening the attractiveness of the products for consumers, including a requirement that eligible policies not have cash values beyond a return-of-premium feature. Various life and annuity combination product designs have emerged that address this “use it or lose it” issue by providing consumer value if the LTC benefits are not needed. Tax law changes to allow cash values on qualified LTCI would be another way to address this issue and could also provide additional premium flexibility for consumers.

Long Term Care vs Chronic Illness

Long-term Care Riders – classified as 7702B

Riders with the additional classification of 7702B offer more comprehensive coverage. To qualify for claim, the client needs to meet the basic definition of chronic illness, which requires a physician to certify the insured- for a period of at least 90 days - is unable to perform at least two Activities of Daily Living (ADLs) or suffers from severe cognitive impairment. This definition allows for the LTC condition of the insured to eventually be fully recoverable, so conditions such as mild strokes, orthopedic repairs, side effects of certain cancers, etc. would qualify for a long-term care claim on this type of policy. In addition, all riders in this category charge an additional fee for the rider, which will add to the policy premium cost. LTC monthly benefits and cumulative total benefits are determined at issue (assuming no withdrawals or loans from the policy) so the policy holder knows from day one what the benefits will be should they need to go on claim.

Indemnity vs. Reimbursement

The main differentiator among 7702B long-term care riders is whether the rider pays by an Indemnity or Reimbursement model.

Reimbursement plans – Regardless of what the stated maximum benefit is, reimbursement plans will never pay more than the qualifying LTC expenses incurred. Qualifying expenses in reimbursement plans do not include the costs of home modification, medical equipment (i.e. walkers), nor other potential expenses that go along with LTC needs. Bills and receipts must be accounted for every month. Some carriers will allow the service or facility to bill the insurance carrier directly and will make direct payment back to the facility. 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 for a service to be billed for that may not be covered by the policy. In that event, the policy holder will have to pay for the ineligible service out of pocket. However, some people may like this plan because when bills are less than the stated benefit, only the amount covering the qualifying costs will be paid, thus providing automatic potential to stretch out the LTC benefit for a longer period of time.

Indemnity plans - This type plan will pay the maximum benefit the policy allows, regardless of what the LTC expenses are. While some plans may require a licensed service to be involved in the care, no bills or receipts are needed to justify the cost of care. However, keep in mind there are a few companies offering an indemnity payout that call for monthly re-verification of services by requiring copies of bills be submitted to prove continued use of a licensed provider (full benefits are still paid). While the entire benefit is available on an indemnity plan, some people may prefer to take only what they need to extend the benefit period.

Chronic Illness Riders – Classified only as 101(g)

Some riders are classified as 101(g) only 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 generally require that the physician must certify the chronic illness *“is likely to last the rest of the insured’s life”*. In other words, the condition must be non-recoverable. 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. For this reason, particular care should be taken when explaining these products to clients so they have a thorough understanding of any limitations in coverage. These riders all use the indemnity model since claims reimbursement is not possible due to not being a long-term care product.

Additional Charge for Rider vs. Discounted Acceleration of Death Benefit
A differentiator among Chronic Illness Riders is whether the rider is paid for by an additional charge added to the policy (which would increase the premium requirement),or, by including the rider as a policy feature, then discounting the amount of death benefit accelerated to provide the chronic illness benefit if necessary.

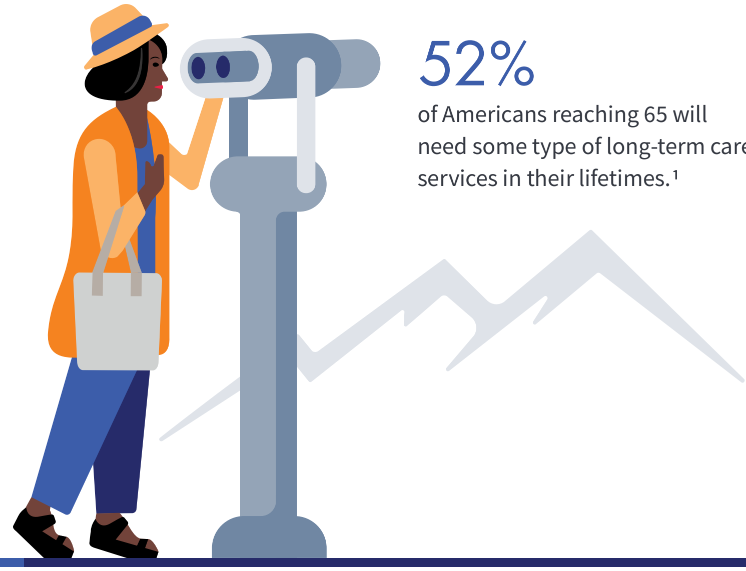
Discounted Acceleration - Some companies "include" the Chronic Illness Rider feature as part of the policy at no additional charge. But keep in mind "no charge" does not equate to "free". Instead of charging for the rider as part of the cost of insurance, these riders discount the acceleration of death benefit when the rider is actually needed. Because of this, benefits can not be determined until the time comes to go on claim. The discounting of the benefit is based on several variables including age, sex of the insured, premium class, as well as 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 out. Women, with all other factors equal, will have a larger discount factor than men, and thus receive less benefit. It is important to explain to clients choosing this type plan that neither the Chronic Illness benefit amount nor the total benefit pool available can be predicted in advance, 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. One company providing this type product offers the example that a 70 year old making an election of the rider would be subject to a discount of around 30%*. On a $400,000 policy, the potential result of collecting for a chronic illness (assuming the entire allowable amount was accelerated), plus the final amount held back to be paid at death, would be a net total of approximately $273,000. While some companies will accelerate benefits on a monthly basis, others require the discounted acceleration to be paid annually or semi-annually. The design of this type rider offers minimal risk to the insurance company.

Additional charge to cost of insurance- Other Chronic Illness products assign a cost of insurance to the chronic illness rider and take monthly deductions from policy values – essentially the same way the base policy is charged for. 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. Clients wanting clarity in what they purchased may find the additional charge minimal in comparison the potential loss of benefits created

AIG

Long-term illness happens unexpectedly

And the financial strain can be overwhelming. Do you have a plan to pay for long-term care so you can look forward to your future?



52%
of Americans reaching 65 will need some type of long-term care services in their lifetimes.[1]

Who might need long-term care, and for how long?

3 years — Average length of long-term care is about three years.[1]

Women typically need care 3.7 years.[1]

Men typically need care 2.2 years.[1]

Long-term care affects those you love.

About 71%
of all long-term care hours are provided in the home by family.[4]

60% of family caregivers
for adults must juggle their caregiving responsibilities with either full- or part-time jobs.[5]

20% of working caregivers
have reported that they reduced their work hours, took a less demanding job or gave up work entirely.[6]

Can you afford long-term care?

100 days

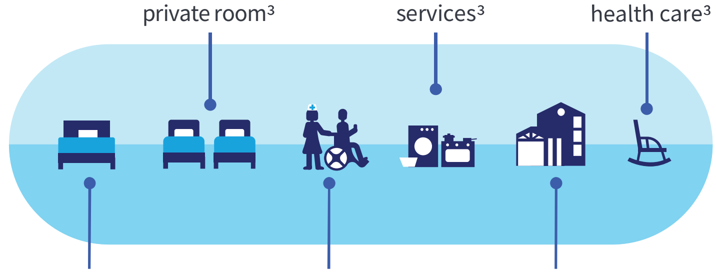
Beyond 100 days, Medicare pays $0 for long-term care services.[2]

Annual costs

$90,155 for a semi-private room[3]

$51,480 for homemaker services[3]

$19,500 for adult day health care[3]



$102,200 for a private room[3]

$52,624 for home health aide[3]

$48,612 for an assisted living facility[3]

Financial flexibility for your future

Keep your options open if diagnosed with a qualifying condition. Unlock a portion of your life insurance benefits while you're facing long-term expenses like nursing homes, home health aides, assisted living, and more.

Living benefits

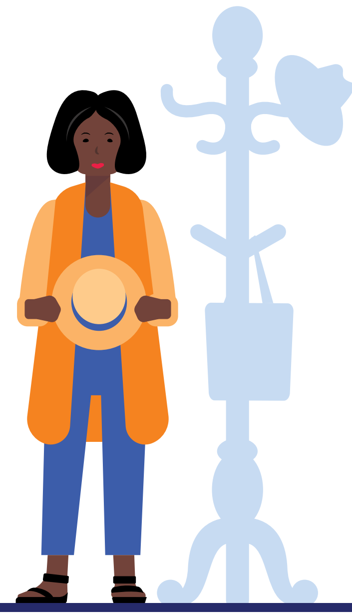
Living benefit riders offer financial protection you need in the event of a qualifying condition. This income tax–advantaged benefit lets you access funds from your life insurance policy while you are living.

Who is it for?

Those who know they need life insurance to protect themselves and their families. Whether you have experienced a recent health care event or are in good health, you know it's best to have your options open in the event your health deteriorates later.

How does it work?

Unlike a long-term care policy, life insurance living benefits are not a "use it or lose it" feature. Your benefits are paid no matter what, and it's up to the policy holder to decide how the funds are used.



With living benefit riders on your life insurance policy, you can access income tax–advantaged life insurance benefits if diagnosed with a qualifying condition.

For information on how life insurance can help with future health care expenses, contact your financial professional.

Name

Title

(555) 555-5555

Email

[1] Morning Star. 75 Must-Know Statistics About Long-Term Care: 2018 Edition. August 2018.
[2] Elder Law Answers. Medicare's Limited Nursing Home Coverage. December 2019.
[3] Genworth. Cost of Care Survey 2019. Conducted by CareScout®. November 2019.
[4] Genworth Cost of Care Survey 2019. US National Median Long-Term Care Support Services Costs. October 2019.
[5] AARP Public Policy Institute. Long-Term Services and Supports. August 2019.
[6] National Care Planning Council. Government Pays for Only about 16% of Long-Term Care. April 2019.

IMPORTANT CONSUMER DISCLOSURES REGARDING ACCELERATED BENEFIT RIDERS
An Accelerated Death Benefit Rider (ABR) is not a replacement for Long Term Care Insurance (LTCI). It is a life insurance benefit that gives you the option to accelerate some of the death benefit in the event the insured meets the criteria for a qualifying event described in the policy. The rider does not provide long-term care insurance subject to California insurance law, is not a California Partnership for Long-Term Care program policy. The policy is not a Medicare supplement.

ABRs and LTCI provide different types of benefits. An ABR allows the insured to access a portion of the life insurance policy's death benefit while living. ABR payments are unrestricted and may be used for any purpose. LTCI provides reimbursement for necessary care received due to the inability to perform activities of daily living or cognitive impairment. LTCI coverage may include reimbursement for the cost of a nursing home, assisted living, home health care, homemaker services, adult day care, hospice services, or respite care for the primary caretaker, and the benefits may be conditioned on certain requirements or meeting an elimination period or limited by type of service, the number of days, or a maximum dollar limit. Some ABRs and all LTCI are conditioned upon the insured not being able to perform two or more of the activities of daily living or being cognitively impaired.

This ABR pays proceeds that are intended to qualify for favorable tax treatment under section 101(g) of the Internal Revenue Code. The federal, state, or local tax consequences resulting from payment of an ABR will depend on the specific facts and circumstances, and consequently advice and guidance should be obtained from a personal tax advisor prior to the receipt of any payments. ABR payments may affect eligibility for, or amounts of, Medicaid or other benefits provided by federal, state, or local government. Death benefits and policy values, such as cash values, premium payments and cost of insurance charges if applicable, will be reduced if an ABR payment is made. ABR payments may be limited by the contract or by outstanding policy loans.

This information is general in nature, may be subject to change, and does not constitute legal, tax or accounting advice from any company, its employees, financial professionals or other representatives. Applicable laws and regulations are complex and subject to change. For advice concerning your individual circumstances, consult an attorney, financial/tax advisor or accountant.

Answer These Questions To Start Planning for Long Term Care

This list will help you get everything in order to plan for long term care.

It's easy to feel overwhelmed with the information, forms, and meetings you may need to have to make the best long term care decisions for you and your family. The following questions can help you navigate this complex and often daunting process by breaking it down into more manageable topics. The goal is to focus on individual topics, one by one, to help plan for next steps.

Here are topics and questions you'll want to discuss with your loved one(s):

Lifestyle:

What does your current daily routine look like?
What are your expectations and hopes for the future?

Are there situations you've seen, experienced, or heard about from your friends that you would like to avoid, especially at a time when you're most vulnerable?

Legal:

Do you have a current will or a living will?
Have you appointed power of attorney to anyone and filed the necessary documents?
Are all documents up-to-date and kept in a secure location?
Is there a loved one or trusted guardian that can easily access the documents when necessary? Keep in mind that if they are in a safe deposit box, access must be granted in advance.

Finances:

What are your current sources of income?
How are bills currently getting paid?
Is there discretionary income that can be redirected, if necessary?

Medical Care:

Who are your primary doctors, and what is the best way to reach them?
Is your medical family history up to date and accessible to family as well as doctors?
Is permission granted to appropriate parties to allow for the release of medical information?

Care Options:

Do you know the different options available for receiving care (private home, nursing home, facility, etc.)?
Where would you like to receive care?
Do you have a preference on who provides care?
Is there anything in place to help pay for care down the line?

Long Term Care Costs:

Have you done any research about the cost of long term care in the area?
Is there anything in place that will help fund in future years?

The sooner you start tackling these questions together, the sooner, you'll gain a better understanding of what is possible for the future and how to prepare for it. Remember, this is an ongoing process and one that will help not only you but your loved ones confidently face the uncertainties of the future.

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Next Steps: Plan for Long Term Care

How Much Do Long Term Care Services Cost?

Use our Cost of Care tool to find the cost of care services.

What Families Talk About When They Think Beyond COVID-19

Families staying at home have a lot to talk about. Here's one topic many haven't made part of the conversation—and should.

By David O'Leary

(15 min read)

"I-24, I-24," Matthew McConaughey called out to the members of the assisted living community near his home in Austin, Texas. An eruption of shouts and cheers followed. "We've got two winners!"

This was no ordinary bingo night—and not just because a movie star was running the show. It was **bingo night, pandemic style**[1]. Not in person, but over video chat.

For those of us physically separated from our loved ones, we can at least appreciate the ways technology has made it easier to connect with them. It's a thin silver lining at a time when families can't visit elders or get together for beloved traditions, like weekly coffee at the local café or an evening at the movies (the usual way to see Mr. McConaughey on a screen).

But for my family, at least, the combination of technology and time on our hands has given us a chance to connect more often than usual.

I hope other families are making the most of more time together—not only by reminiscing about past adventures and special occasions, but also by looking forward to the future. Dreaming up new adventures. Discovering new ways to celebrate those special occasions. And just maybe, to broach subjects we've been putting off or hadn't thought to bring up in the first place.

Time: let's spend a few moments on how the coronavirus—and the economic challenges that have followed—provides a great backdrop for parents and their adult children to discuss some important matters:

1. COVID-19 reminds us we're not invincible. We shouldn't forget that when the crisis is over.
2. We all get old. We will all see our health decline. And we all need to prepare for that.
3. The time to plan for the future is now.

As we discuss these topics, let's first acknowledge our top priority must always be staying healthy. If we can do that, and if we can make the most of this chance to do some long-term planning, enabling families to emerge stronger than before.

1. COVID-19 reminds us we're not invincible. We shouldn't forget that when the crisis is over.

COVID-19 has been a stark reminder that normalcy is never guaranteed. Stepping back from the public health crisis that's right in front of us, and you'll see an even bigger financial crisis behind it.

Many Americans went into the pandemic on shaky financial footing—unprepared to cover **smaller, surprise expenses**[2] they might face in the short term, while also feeling unprepared to meet the **larger, expected expenses**[3] they plan to have in retirement.

We can't afford to think about this as someone else's problem. We will all experience the consequences of failing to address America's lack of financial preparedness.

In response to COVID-19, people have found so many ways to take action to look out for one other. Even something as simple as staying home helps protect our most vulnerable neighbors—including those seniors at bingo night.

I'm grateful to all the health care workers, first responders and their families who are going above and beyond to look after America's most vulnerable. And by the way, we should all see ourselves as part of the "vulnerable population" essential workers are giving every effort to protect.

Although the disease caused by coronavirus disproportionally affects older adults, many younger people have seen themselves as invincible. By now, we're all too aware that no one is invincible.

2. We all get old. We will all see our health decline. And we all need to prepare for that.

What older Americans are living through right now should mean a great deal to all of us—including the younger and nimbler among us. Think about it. It won't be today. Maybe it won't be tomorrow. But in time, the healthiest people with the most longevity will, by definition, become the world's oldest.

As we all grow older, we're likely to need increasingly more help with everyday activities like getting dressed and moving from place to place. In other words, we'll need long term care.

According to the Department of Health and Human Services, "Someone turning age 65 today has almost a **70 percent chance**[4] of needing some type of long term care services and supports in their remaining years." Perhaps the likelihood you'll need help might not come as a surprise. But if you're like most people, the cost of that help will shock you.

Long term care isn't free. Even **unpaid care**[5] from a family member still has its costs. For many, **it isn't affordable**[6].

The **cost of care data**[7] our team at Genworth keeps updated indicates the most affordable type of care—adult day health care—typically costs $1,625 a month, while a private room in a nursing home is $8,517.

Compare that to the typical monthly **mortgage**[8] and **rent**[9] payments in the United States, both of which are around $1,000. Moving a parent to the nursing home care is a lot like buying eight extra homes at the same time—without gaining an iota of square footage.

Except, unlike having eight extra homes, long term care isn't a luxury. Again, for 70 percent of us, it will be as much a basic necessity—and as much a part of the family budget—as housing, transportation, and health care.

The good news is families can manage these costs by planning ahead.

3. The time to plan for the future is now.

That might seem like a daunting task, especially in the midst of an economic crisis. But I know from experience: every recession is followed by a recovery. That includes the housing market collapse in the 2000s, the dot-com bubble in the `90s, and Black Monday in the ‘80s.

Just three years before that crash in 1987, my wife Lin lost her dad, Ken. The two of us spent much of our early 20s figuring out **how to take care of Lin’s mom**[10], Barbara, while cobbling enough income together to cover our own rent. Thanks to sacrifices, careful planning and hard work, we got through it.

Today is no different. We’re seeing families go through a similar experience of moving in together.

The Boomerang—and the Reverse Boomerang

During the pandemic, many parents invited their kids to come home from college or work in faraway cities (**with varying degrees of enthusiasm**)[11]. They’ve temporarily become “boomerang children.” And yet on a more permanent basis, we’re also seeing a so-called “reverse boomerang” phenomenon.

An increasing number of adults have come to rely on their children to put a roof over their head. A **Pew study of housemates in shared living spaces**[12] across America revealed something surprising: the portion who are parents living in their kids’ homes has doubled in the past two decades, from 7 percent in 1995 to 14 percent in 2017.

The New York Times recently **told the stories**[13] of some of these families. One son spoke about his new roommate—his mom—who worked for decades in the hospitality industry. Years ago, she lost her job. She’s now spent down her savings. She’s moving in with her son only as a last resort.

“I don’t know what she could have done better, or how she could have prevented this,” the son told the Times. “She worked long hours, never called in sick and cleaned houses to make extra money when she wasn’t at her hotel job. She had no vices.”

Another spoke about her father, who came to visit and—to the surprise of his daughter, her husband, and the grandkids—never left. Luckily, he’s able to provide a little help with the family’s bills. The couple has loans to pay off, retirement to save for, and, now, three generations to support.

"I hope my kids don't have to do this for me someday, but I think it's beautiful that our children see that we're taking care of our elders," the daughter said.

A Chance to Start Planning Now

Younger adults might not face financial challenges like these for many years. That's helpful, in that they have more time to plan. But it's no excuse to put off planning—and that's a challenge that many are facing right now.

According to a survey from earlier this year, **71 percent of millennials and Gen Xers**[14] say they know "little" or "nothing" about their parents' financial situation.

Worse, more than half of that group hasn't really had a chance to find out. They say they "rarely" or "never" speak to their parents about their retirement plans.

That needs to change. Because **68 percent of those adult children**[14] believe they'll need to financially support their parents at some point.

What Lin and I learned in our 20s is the same advice we'd offer now. Having a little knowledge of the task at hand—and the tools at your disposal—can turn a daunting task into a manageable one. And preparing now can remove a great deal of stress from the equation when a need arises later.

That's where **long term care insurance**[15] comes in. It's one of four key ways to manage the cost of long term care (the others being to pay out of your own savings, to provide unpaid care yourself, or to qualify for Medicaid—an insurance program designed for the destitute that is funded jointly by states and the federal government, and administered by states, according to federal requirements).

But the first step toward feeling prepared is simple, and it costs absolutely nothing. All it takes is starting a conversation to find out where the family finances stand and what the plan is for long term care.

Talking About Both the Urgent and the Important

In normal times, we have to remind ourselves, as the saying goes, not to let what seems urgent crowd out what is important. But during a pandemic, the urgent is important.

Until we get through the pandemic, we must take precautions to protect our health and continue to be there for one other—in spirit, on the phone, and over video chat, if not in the room.

And when children and parents have a chance to be together, I hope they'll take on the tough subject of planning their shared financial future. Here are a few resources that can help:

- **What to Plan For**: Knowing the cost of long term care is essential to planning for it, but the cost varies greatly from place to place. That's why Genworth created the **Cost of Care tool**[16]. Just put in your zip code, and you'll see the prevailing price for everything from in-home care to a private room in a nursing home. You can even get a picture of what costs will be like decades from now.

- **Who to Talk To**: Start with those closest to you. Genworth created checklists specifically to help younger people start the conversation with **their spouse or partner**[17], as well as **with their parents**[18]. Once everyone is on the same page, you might also seek professional guidance from an attorney or financial advisor, as well as include certain other family members and friends.

- **How to Start**: Genworth has suggested several **ways to break the ice**[19]: ask questions, compare situations, tell stories, or, if seems too difficult to have the conversation in person, send a letter or email. However you say it, the important thing is to say something. For more ideas, check out Genworth's **planning tools and checklists**[19].

As families navigate the need for physical isolation during this difficult time, we have a chance to deepen our social connections. In some sense, this unprecedented moment has created the exact circumstances where important family conversations can take place.

I get that nobody wants to think about getting older and needing some extra help. And I get that family finances can feel like a taboo topic. That can make long term care planning seem harder to do than it is in practice. But given how important it is to plan ahead, you'll thank yourself for doing it well in advance.

The public health challenges we face in this moment may not entirely be within our control. But the financial challenges we are likely to face as we age don't have to be.

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2. https://www.federalreserve.gov/publications/files/2018-report-economic-well-being-us-households-201905.pdf
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