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What you should know when choosing a long-term care solution with life insurance

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Choosing the right life insurance policy for your needs is important; however, even more care should be taken when adding riders to your policy to provide extra benefits. A Long-term Care rider (available at an additional cost) is a living benefit that lets you collect your own death benefit to help pay the costs associated with long-term care. One advantage of combining your long-term care (LTC) coverage with life insurance is that a benefit will be paid no matter what direction your life takes. If you never need long-term care or only need to use a small amount of your benefits, your beneficiary receives the funds you did not use as a federal income tax-free death benefit. But if you do need long-term care, the death benefit will provide you a tax-free monthly long-term care benefit. Keep in mind however, not all riders you may look at for long-term care needs are alike. It's important to understand what LTC needs will be covered, what guarantees are offered and how your benefit will be paid.

Rider classification — what does this mean?

Long-term Care Riders
If you want your rider to cover all long-term care situations, whether permanent or temporary, you will want to make sure you choose a long-term care rider that is classified by a tax code called Section 7702B. Your financial professional can help you find this type of LTC rider. LTC riders with this classification are allowed to pay you benefits whether your LTC condition will last forever, or just for a temporary period. To qualify for LTC benefits with any company's policy, your licensed health care practitioner must certify that you have a chronic illness. This means that you'll be unable to perform for 90 days or longer, at least of two out of six Activities of Daily Living - also known as ADLs – which are bathing, dressing, using the toilet, eating, transferring, or continence. You can also qualify for LTC benefits if you suffer from severe cognitive impairment which is a condition like Dementia or Alzheimer's disease. With this type of rider, you'll be able to go on claim and collect LTC benefits even if you will eventually get well. And this can help cover the cost associated with conditions such as mild strokes, orthopedic repairs such as hip or knee replacements, side effects of certain cancers and other recoverable conditions. In addition, the death benefit/LTC benefit pool and monthly LTC benefit amount are determined at policy issue and 100% of this money will be paid (assuming no withdrawals or loans are taken from the policy).

Chronic Illness Riders
There is another type of rider called a Chronic Illness Rider and it is classified under the tax code 101(g). Please check the contract you are considering as these riders usually require the chronic illness condition last the rest of your life. These riders are not allowed to use the term "long-term care" in the brochures you read for information nor is the insurance professional allowed to call them long term care solutions. Since more and more instances of chronic illness (what you may think of as long-term care

conditions) have a potential to be temporary, you will want to consider whether this type of "forever" rider will meet with your needs.

A few chronic illness riders will pay a claim as long as the condition lasts an entire "claim period", which is one year. This means that if the condition will last less than a year, the claim would not qualify. But the claim must be renewed each year for a new "claim period", so to continue to receive benefits, you would have to still need care for another full year.

There is also a type of Chronic Illness Rider that does not charge for the rider portion of the policy until you need it, but keep in mind that you are very unlikely to receive the entire acceleration of benefit amount. Your benefit will be discounted substantially by factors such as age, gender, policy rating and discount interest rates at the time of your claim. In other words, you'll be required to accept a lesser benefit at time of claim and permanently forfeit a portion of your death benefit amount in order to receive rider benefits for your chronic illness. With this type product, you will not be told what your benefit is until you are ready to go on claim.

Finally, there is another type Chronic Illness rider that does not charge for the rider portion of the policy until you need it, however, you can only accelerate 50% or less of the death benefit. The remaining death benefit has a lien placed on it at an interest rate that erodes the remaining death benefit. The longer you continue to live after implementing the claim, the less death benefit is left for beneficiaries.

Guarantees on policy premiums costs and benefits

You may be aware of the price hikes taking place with traditional long-term care policies and may wonder, *"Is there a way to lock in policy costs?"* The answer is yes, it is possible! Some companies offer life insurance policies that will guarantee the premium can never go up in price — and that guaranteed premium includes your long-term care rider — meaning you never have to worry about an increase in premium. Of course these guarantees assume you'll pay all your premiums on time and according to the policy provisions (and are subject to the claims paying ability of the underlying company).

Many LTC riders also offer guarantees to assure your policy can't lapse while you are collecting your long-term care benefit. But make sure you understand the guarantees. Some companies will not honor these guarantees unless you are getting care in a nursing home or assisted living facility, which means for instance, the guarantees would not apply if a nurse was caring for you in your home. In addition, some policies only honor guarantees if you own your own policy, so you would not have guarantees if your policy was purchased for you by one of your adult children, for example.

Can the difference between indemnity and reimbursement benefits really affect what I can use my LTC benefit for?

Actually, it can. Reimbursement payouts, no matter what the maximum benefit is, will never pay more than the qualifying LTC expenses you incur. And qualifying expenses in reimbursement plans may not include the costs of home modifications, certain medical equipment, transportation to therapy, nor many of the other expenses that go along with long-term care needs.

An indemnity payout however, will pay the maximum benefit allowed, no matter what your expenses are. With some companies, no monthly bills or receipts have to be turned in while on claim. Please note, some companies offering indemnity benefits will require you to send in "monthly proof of billable services" (which means copies of your bills each month), though they will pay you your full benefit amount. Excess benefits not needed to pay for your care can be used for any other personal needs you may have. Because full benefits are paid with an indemnity benefit plan, in addition to paying your LTC expenses, you could use excess benefit money to:

- purchase medical equipment or pay deductibles on medical bills
- pay bills not covered by other sources
- upgrade your home with safety and accessibility features to remain in your home longer
- hire help to keep your home clean and maintained
- help pay LTC costs your spouse may have (if you are currently on claim yourself)

On Your Side® solutions from Nationwide

Nationwide is pleased to offer long-term care solutions that:

- are true long-term care offerings, fully 7702B classified - you may receive LTC benefits for temporary as well as permanent LTC needs
- You will be told what your LTC monthly benefit amount is when the policy issued, and that full amount will be there for you whenever you need it *(assuming you have not taken any withdrawals or loans from the policy that would reduce LTC benefits).*
- pays a monthly indemnity LTC benefit, so you may use any left over benefit money to pay for other expenses
- does NOT require monthly copies of bills be sent in while on claim
- offers policies with premium costs that are guaranteed never to increase plus death benefit guarantees
- honors LTC benefit guarantees for all state certified long-term care services
- honors LTC benefits no matter who owns your policy

In summary

There is a lot to consider when choosing a long-term care solution attached to life insurance. Your financial professional can help you make an informative choice that may provide you the opportunity to add flexibility, predictability and guarantees to a policy that you and your family will appreciate.

Care should be taken to ensure that the base life insurance product/s are suitable for clients that have a long-term life insurance need. Just remember that as individual's financial circumstances change, so will their life insurance needs. Product features and associated costs that meet these needs currently may not in the future.

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Keep in mind that as an acceleration of the death benefit, the LTC rider payout will reduce both the death benefit and cash surrender values. Care should be taken to make sure that your clients' life insurance needs continue to be met even if the rider pays out in full. There is no guarantee that the rider will cover the entire cost for all of the insured's long-term care as these vary with the needs of each insured. The long term care rider may be known by different names in different states, may not be available in every state and has an additional charge associated with it. A life purchase should be based on the life policy, and not optional riders or features. The cost of a rider may exceed the actual benefit paid under the rider.

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