LONG-TERM CARE: PRODUCT SOLUTIONS OVERVIEW

LONG-TERM CARE (LTC) INSURANCE

LTC insurance is a product that helps cover costs associated with aging and/or chronic medical conditions, such as an extended or permanent disability or cognitive impairment. Since it generally pays for expenses not covered by Medicare or health insurance, it can be used as a planning tool to assist individuals in paying for LTC expenses in the future.

Coverage provides income to fund caregiving expenses while also protecting other income and assets that may otherwise be designated for other expenses and goals, such as generating retirement income for a spouse, charitable gifts, etc. These policies provide not only payment for care, but also allow the client greater control and choice on care decisions.

Qualified LTC insurance policies offer tax-free benefits that can help cover the costs of a multitude of LTC services in a variety of settings. They must meet certain standards regarding service:

- **Qualified LTC Services:** necessary diagnostic, preventative, therapeutic, curing, treating, mitigating, and rehabilitative services; maintenance or personal care services that are required by a chronically ill individual and are provided pursuant to a plan of care prescribed by a licensed health care practitioner[1]
- **Licensed Health Care Practitioner:** any physician (as defined in Section 1861(r)(1) of the Social Security Act) and any registered professional nurse, licensed social worker, or other individual who meets such requirements as prescribed by the Secretary of the Treasury[2]

They must also satisfy certain benefit triggers, which include:

- **Chronically Ill Individual:** any individual who has, in the preceding 12 months, been certified by a licensed health care practitioner as:
  - being unable to perform—without substantial assistance, either hands-on or standby, from another individual—at least two activities of daily living (ADLs) for a period of at least 90 days due to a loss of functional capacity
  - having a similar level of disability
  - requiring supervision to protect him or her from threats to health and safety due to severe cognitive impairment

[1] IRC Sec. 7702B(c)(1)
[2] IRC Sec. 7702B(c)(4)

- **Activities of Daily Living:** The LTC insurance contract must use at least five of the following six ADLs in determining whether the insured is chronically ill:
  - Eating, toileting, transferring, bathing, dressing, and/or continence[3]

QUALIFIED LTC INSURANCE

Qualified LTC insurance has three major offerings:

1. Traditional (individual) LTC insurance
2. Hybrid "asset-based" life/LTC using life insurance
3. Qualified LTC accelerated benefit riders added to individual life insurance policies

TRADITIONAL LTC

Traditional LTC is a guaranteed renewable LTC product. This product provides the lowest price point and the clearest guidance for tax deductions. Nearly all products available require lifetime premium payments. Coverage is for a specific term and is generally "use it or lose it." Cash value or life insurance benefits are not available, although some products do offer a return of premium at death or before age 65 (less any LTC benefits used).

HYBRID LIFE/LTC

Also known as asset-based or linked life/LTC products, hybrid life/LTC insurance is a product that pays benefits for long-term care first and the death benefit second. If long-term care is needed, funds are used to cover the costs and the death benefit is reduced accordingly. Otherwise, the entire death benefit passes to the policy's beneficiaries tax-free.

Hybrid life/LTC is typically funded with a single premium payment or premiums over 10 years. Single-pay options are often funded by a repositioned, low-yielding asset such as a certificate of deposit (CD). Other multi-year payment options are available. Premiums are leveraged to provide a greater LTC benefit pool.

There are three benefit triggers to the policy:

- Return of Premium—A client may terminate the policy and get 70-100% of their premiums back.[4]
- LTC Benefits—Often, a total LTC benefit pool of three to six times the initial premium amount is used to fund qualified LTC expenses.
- Life Insurance—Death benefits go to a beneficiary. The amount may be reduced dependent upon the amount of LTC benefits utilized.

Life insurance benefits are minimal as product emphasis is on LTC benefits. Premiums and benefits are guaranteed.

QUALIFIED LTC ACCELERATED BENEFIT RIDERS

Qualified LTC accelerated benefit riders are added to life insurance policies and reduce life insurance benefits dollar-for-dollar based on the type of rider chosen.

Please note that not all accelerated benefit riders are qualified LTC riders. Many carriers offer chronic illness riders that do not meet all requirements and definitions discussed earlier.[5]

Qualified LTC vs Chronic Illness Riders

Life insurance allows various accelerated death benefit options. For extended care events, insurance companies often offer one or both of the following riders as defined by the Internal Revenue Code:

- **7702B – Qualified LTC**
- **101g – Chronic Illness**

Qualified LTC has uniform standards regardless of product type. Chronic Illness may look similar, but could also be defined differently at the insurance company's choosing.

[3] IRC Sec. 7702B(c)(2)(B)
[4] Subject to carrier vesting schedules. See specific product provisions for details.
[5] Most often filed as IRC 101(g).

GENERAL SUMMARY

LTC PRODUCT TYPE	LIFE INSURANCE BENEFIT	RETURN OF PREMIUM/ CASH VALUE	INFLATION OPTIONS	PREMIUM FUNDING	PREMIUMS/RATE GUARANTEES
Traditional LTC	No	No	Yes	Mostly lifetime premiums	Guaranteed renewable policies
Hybrid (Asset-based) Life/LTC	Yes	Yes	Yes	Mostly single-pay and 10-year payments, but other options available, including lifetime	Guaranteed premiums
Qualified LTC Rider on Life Insurance	Yes	Yes	No	Highly customizable	Premium may vary depending on underlying life policy

The facts and circumstances of an individual's situation will determine the most appropriate and suitable choice for LTC insurance. It is important to consider multiple alternatives and compare the advantages and disadvantages of each. For more information, please discuss with your insurance advisor.

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