LTC AND CHRONIC ILLNESS RIDERS

When your client purchases a life insurance policy with a Long-Term Care or Chronic Illness Rider, they may have options that will allow them to take all or a portion of their death benefit early if they become chronically ill. You may wonder which option is the best one for your client. Like many things in life, it depends on the situation.

The different case studies below will help give you a better understanding of how each rider may work and arm you with the information you need to help your clients choose the option that best suits their needs.

CASE STUDY

Male – Purchased a $1 million life policy at age 50 and becomes chronically ill at age 75. His LTC expenses are $16,000 per month ($192,000 per year)

Let us examine three hypothetical scenarios to compare the cost and benefit variances between an LTC Rider with a maximum benefit of $1 million, using a 2 percent monthly acceleration option, and a Chronic Illness Rider with a maximum benefit of 80 percent of the specified amount.

SCENARIO 1 – Let’s say he has five years life expectancy left	
WITH LTC RIDER	**WITH CHRONIC ILLNESS RIDER**
• Would need $192,000 in LTC Rider benefits to receive $192,000 • 25 years of LTC Rider COI charges = $26,000* • Remaining Death Benefit = $808,000 • Remaining Acceleration Amount = $808,000	• Would need $247,870 in Chronic Illness Rider benefits to receive $192,000 • Cost = $55,870 *(22.5% discount rate**)* • Remaining Death Benefit = $752,130 • Remaining Acceleration Amount = $552,130
SCENARIO 2 – Now let’s say he has two years life expectancy left	
WITH LTC RIDER	**WITH CHRONIC ILLNESS RIDER**
• Would need to take $192,000 in LTC Rider benefits to get $192,000 • 25 years of LTC Rider COI charges = $26,000* • Remaining Death Benefit = $808,000 • Remaining Acceleration Amount = $808,000	• Would need to take $211,100 in Chronic Illness Rider benefits to get $192,000 • Cost = $19,100 *(9% discount rate***)* • Remaining Death Benefit = $788,900 • Remaining Acceleration Amount = $588,900
SCENARIO 3 – Now let’s assume he died at age 75 without ever needing long-term care services	
WITH LTC RIDER	**WITH CHRONIC ILLNESS RIDER**
• 25 years of LTC Rider COI charges = $26,000* • Remaining Death Benefit = $1 million	• Cost = $0 • Remaining Death Benefit = $1 million

**Discount Method - When insurance companies price the cost of life insurance, they plan on the beneficiary receiving the full death benefit upon the insured’s death. Since the insured is taking a portion of his or her death benefit early, the client is getting an advance payment. Each carrier may process this amount differently.*

*** 22.5% discount rate at 4.5% Moody’s Corporate Bond Yield and $100 fee) | *** 9% discount rate at 4.5% Moody’s Corporate Bond Yield and $100 fee*

LTC AND CHRONIC ILLNESS RIDERS

Long Term Care (LTC) Riders and Chronic Illness Riders are two important and popular additions that can help safeguard your clients while they are still alive. Below is a brief description outlining some of the distinctions between these add-ons – utilize this information to tailor a policy that will effectively meet your clients' requirements.

THE DIFFERENCE BETWEEEN LONG-TERM CARE AND CHRONIC ILLNESS RIDERS

LTC RIDERS

- Sections 7702B and 101g
- May be marketed as Long Term Care
- Pays permanent and temporary claims
- State-specific LTC CE may be required
- Reimbursement and indemnity models available
- Additional upfront charge for the rider
- Underwriting based on morbidity

CHRONIC ILLNESS RIDERS

- Section 101g only
- May NOT be marketed as Long Term Care
- Some only pay on permanent claims, while others pay permanent and temporary claims
- State-specific LTC CE not required
- Indemnity models only
- Three charge structures: upfront, discount, and lien.

WHY CONSIDER USING ONE OVER THE OTHER?

LTC RIDERS

- Greater benefit pool
- Ability to use for temporary needs
- Possible less stringent to qualify for the rider when a client is unable to qualify for stand-alone LTC coverage
- Additional consumer protections – unintentional lapse, policy reinstatement, and extension of benefits.

CHRONIC ILLNESS RIDERS

- An option to consider if cost is an issue
- An option for clients not concerned with needing coverage for temporary claims
- An alternative option for clients who can’t qualify for LTC insurance or LTC rider

DEFINITIONS

- Reimbursement: Actual costs of qualifying LTC services are reimbursed, even if greater than HIPAA per diem limits, up to carrier-stipulated maximums
- Indemnity: Full benefit can be paid regardless of what the actual LTC expenses are, up to the lesser of HIPAA per diem limits or carrier-stipulated maximums; excess benefits paid above actual LTC expenses can be used for other purposes
- Upfront charge: Rider charge added to premiums; benefit pool and monthly benefits are determined upfront and are specified at policy issue
- Discount method: Benefit pool and benefit amount cannot be determined until time of claim; actuarial “discounts” occur at time of claim (based on age, gender, rating, formulas, etc.) which lowers the amount that can be accelerated
- Lien method: Final death benefit can’t be determined until death occurs; interest charged on acceleration backed by lien on the remaining death benefit

Most insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Ask your financial professional to provide you with costs and complete details. Guarantees are based on the claims-paying ability of the issuing insurance company. AIMCOR Group, LLC is not an insurer and does not issue contracts for coverage. This material is being provided for informational or educational purposes only and does not take into account the investment objectives or financial situation of any client or prospective clients. The information is not intended as investment advice