

CASE STUDY

Understanding how long-term care (LTC) benefits are paid

The power of indemnity benefits

When discussing LTC insurance products with your clients, there are a few things to consider. One of the most important is understanding how the benefits are paid and the impact it can have, not only on the person receiving care, but also on caregivers.

Once a client is eligible for benefits (depending on the plan), funds are generally paid using a Reimbursement or Cash Indemnity model. While both of these methods may require the insured to be certified as being chronically ill and maintain a plan of care, their monthly benefit payment and flexibility can differ greatly.

Benefit payment methods:

Reimbursement: Generally, reimbursement policies “reimburse” the insured, dollar per dollar, for actual expenses incurred. The amount reimbursed is dependent on the client providing detailed receipts for qualified, or covered, services and care received during a month.

Cash Indemnity: Cash Indemnity policies pay a cash benefit regardless of actual expenses. With the majority of LTC claims beginning and ending in the home,¹ a cash indemnity benefit can provide additional value because it does not have limitations on caregivers, types of care or the setting for which care is received.

Benefit payout comparison

	Reimbursement	Cash Indemnity
Eligibility requirements	The insured is certified as being chronically ill, has a plan of care and has satisfied the elimination period	
Monthly LTC benefit	Only qualified expense incurred are reimbursed, not to exceed the monthly maximum	Up to 100% of the monthly maximum is paid as a cash benefit
Monthly bills and receipts	Required	Not required
Informal care	Limited or no coverage for unlicensed informal caregivers	Yes
Restrictions on use of benefits	Limited to qualified long-term care expenses incurred as defined in the contract	None
Company examples	Lincoln - MoneyGuard® Mass Mutual - CareChoice SM New York Life® - Asset Flex OneAmerica® - Asset-Care Pacific Life - PremierCare® Choice ²	Securian - SecureCare Nationwide - YourLife CareMatters®

¹“Most Long Term Care Insurance Claims Begin and End At Home,” American Association for Long-term Care Insurance, February 23, 2017.

² Also offers a traditional indemnity (requires monthly proof of loss) benefit when selected at the time of claim. Selecting the indemnity benefit for PacLife will reduce the monthly maximum.

Now that you understand the different benefit payment methods, let's examine a hypothetical example of how the different methods could impact your client when going on claim.

Hypothetical Example:

Your client purchases a policy at the age of 60 with a \$5,000 monthly maximum benefit, a six-year benefit period, and a 5% compound interest inflation benefit. At the age of 80, they need care and initiate a claim.

Scenario 1:

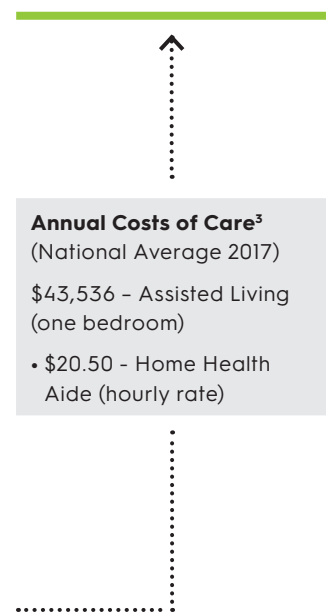
Transitioning from Informal Care to Assisted Living

This scenario shows the power of cash indemnity benefits when care starts in the home beginning with an informal caregiver (spouse, child, etc.) and transitions to an assisted living facility as the condition progresses over six years. It assumes the average costs of care increases at a rate of 3% each year.

Since most care generally begins in the home, the cash indemnity model is ideal because it allows your client to access benefits sooner. Also, by not potentially limiting their monthly maximum benefit payment to actual expenses incurred, they may be able to access more of their benefits faster and avoid benefits going unused as shown in the example below.

	Sample Reimbursement Contract	Cash Indemnity: Securian's SecureCare
Day 1 Long-Term Care Total	\$408,115	\$408,115
Day 1 Monthly Max	\$5,000	\$5,000
Age 80 Long-Term Care Total	\$1,082,850	\$1,082,850
Age 80 Monthly Max	\$13,266	\$13,266
Service: Informal Care Duration: 2 years		
Covered	No ⁴	Yes
Total two year costs ⁵	\$0	\$0
Total Benefits Paid	\$0	\$326,356
Service: Home Health Care Duration: 2 years		
Covered	Yes	Yes
Total two year costs ⁵	\$82,928 ⁵	\$82,928 ⁵
Total Benefits Paid	\$82,928	\$359,807
Service: Assisted Living Duration: 2 years		
Covered	Yes	Yes
Total two year costs ⁵	\$179,654	\$179,654
Total Benefits Paid	\$179,654	\$396,687
Total Benefits Paid for All Types of Care	\$262,583	\$1,082,850

\$820,267 MORE benefits paid over six years with Cash Indemnity vs. Reimbursement



³ Cost of Care, U.S. Department of Health and Human Services, <https://longtermcare.acl.gov/costs-how-to-pay/costs-of-care.html>, October 10, 2017. 3% inflation assumed.

⁴ Some Reimbursement plans offer limited coverage for informal care.

⁵ 20 hours per week

Scenario 2:

Transitioning from Assisted Living to a Nursing Home

This scenario shows a more advanced case of going directly into an assisted living facility followed by skilled nursing care over six years. Using the same average costs of care and inflation assumption as scenario 1, the benefits paid out are over \$200,000 more for the cash indemnity plan versus the reimbursement.

	Sample Reimbursement Contract	Cash Indemnity: Securian's SecureCare
Day 1 Long-Term Care Total	\$408,115	\$408,115
Day 1 Monthly Max	\$5,000	\$5,000
Age 80 Long-Term Care Total	\$1,082,850	\$1,082,850
Age 80 Monthly Max	\$13,266	\$13,266

Service: Assisted Living Duration: 2 years		
Covered	Yes	Yes
Total two year costs ³	\$159,621	\$159,621
Total Benefits Paid	\$159,621	\$326,356

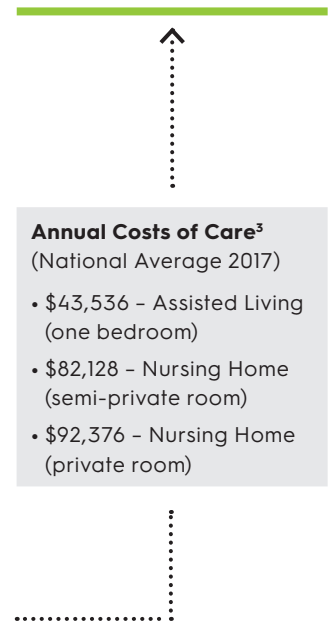
Service: Nursing Home - Semi-private room Duration: 2 years		
Covered	Yes	Yes
Total two year costs ³	\$319,452	\$319,452
Total Benefits Paid	\$319,452	\$359,807

Service: Nursing Home - Private room Duration: 2 years		
Covered	Yes	Yes
Total two year costs ³	\$381,196	\$381,196
Total Benefits Paid	\$381,196	\$396,687

Total Benefits Paid for All Types of Care	\$860,269	\$1,082,850
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\$222,581 MORE

benefits paid over six years with Cash Indemnity vs. Reimbursement



 **Get started now**

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³ Cost of Care, U.S. Department of Health and Human Services, <https://longtermcare.acl.gov/costs-how-to-pay/costs-of-care.html>, October 10, 2017. 3% inflation assumed.

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The Acceleration for Long-Term Care Agreement and Extension of Long-Term Care Benefits Agreement are tax qualified long-term care agreements that cover care such as nursing care, home and community based care, and informal care as defined in the agreements. These agreements provides for the payment of a monthly benefit for qualified long-term care services.

These agreements are intended to provide federally tax qualified long-term care insurance benefits under Section 7702B of the Internal Revenue Code, as amended. However, due to uncertainty in the tax law, benefits paid under this agreement may be taxable.

The death proceeds will be reduced by a long-term care or terminal illness benefit payment under this policy. Please ensure that your clients consult a tax advisor regarding long-term care benefit payments, or when taking a loan or withdrawal from a life insurance contract.

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F87549-23 Rev 4-2018 DOFU 4-2018
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