CAPITAS FINANCIAL
VALUE BEYOND INSURANCE

Guide to LTC and Chronic Illness Riders

Long term care (LTC) riders and chronic illness riders are two important and popular riders for life insurance policies that can help protect your clients while they are still living. Below is a brief description of some of the differences between these riders, which can be helpful as you design a policy that will best meet your clients' needs.

LTC and Chronic Illness Rider Differences

LTC Riders

- Internal Revenue Code sections 7702B and 101g
- May be marketed as long term care
- Pays permanent and temporary claims
- State-specific LTC continuing education (CE) may be required
- Reimbursement and indemnity models available
- Additional upfront charge for the rider
- Underwriting based on morbidity

Chronic Illness Riders

- Internal Revenue Code 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 different charge structures: Upfront, discount method, lien method

Why Consider Using One Over the Other?

LTC Riders

- Greater benefit pool desired
- Guaranteed ability to use for temporary needs
- Potentially less stringent underwriting for the rider for clients who can't qualify for stand-alone LTC insurance
- Includes additional consumer protections: unintentional lapse protections, policy reinstatement provisions, 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 an LTC rider

Rule of Thumb

LTC riders pay all chronic illness claims, but chronic illness riders do not pay all long term care claims.

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

CAPITAS® FINANCIAL
VALUE BEYOND INSURANCE®

12.23 LIFE24-6511, 1225 | ML24-014630