

HELLO
my name is

What's in
a name?

Part 2

Clarifying Living Benefit Riders on Life Insurance Policies

By Shawn Britt, CLU®, CLTC®

In part two of "What's in a Name," we will address the often misunderstood and improperly interchanged terms of LTC Riders, Chronic Illness Riders and Critical Illness Riders on life insurance. These "living benefits" riders - while similar in some ways - should be understood and presented as unique funding solutions for potential future care needs.

LTC RIDER ON LIFE INSURANCE

These policies are intended for people who still have life insurance needs, but also have LTC concerns for the future. The death benefit is accelerated to provide monthly LTC benefits for qualifying needs. LTC benefits vary by insurance company and range from 1% to 5% per month of the death benefit.

- The length of benefit payments will be tied to the monthly benefit percentage elected. For example: a 2% monthly LTC benefit will last 50 months while a 4% monthly LTC benefit will only last 25 months.
- In addition, 100% of the death benefit will be paid (assuming no withdrawals or loan) either as LTC benefits, a death benefit, or a combination of both. For people who still need life insurance and can't afford a separate LTC policy, this is a good alternative as it provides the life insurance protection needed now but can transition to LTC coverage later after life insurance needs have been reduced or eliminated.
- Some companies offer a guaranteed minimum death benefit - even if the entire death benefit is exhausted by LTC claims. The amount varies by insurance company up to 10% of the original death benefit amount.
- LTC Riders also must comply with LTC Consumer Protections including policy lapse protection while on LTC claim, reinstatement of the policy without evidence of insurability (qualifying circumstances apply) and extension of benefits after policy lapse (qualifying circumstances apply).

- LTC Riders are fully underwritten, for both the life insurance and the LTC portions of the policy.
- LTC benefits are paid by reimbursement, indemnity and cash indemnity benefit models.

Life insurance policies with LTC riders are sold by insurance agents and financial advisors who are life insurance licensed, have completed any required state LTC CE requirements, and also hold any other license required to sell the underlying life insurance policy.

CHRONIC ILLNESS RIDER ON LIFE INSURANCE

These riders are similar, but not equal to LTC riders. In fact, regulations prohibit the use or association of the term “long-term care” in any way (verbally or in writing) with these riders. These policies are intended for people who still want life insurance protection, but also have concerns with future chronic illness needs. The death benefit is accelerated to provide monthly benefits for qualifying chronic illness needs. All chronic illness riders pay benefits in the cash indemnity mode. However, how much the chronic illness benefit is and how much the policy pays out in total depends on the type of chronic illness rider chosen. The two most common types of chronic illness riders are: “dollar for dollar” and “discounted.”

Dollar for Dollar Chronic Illness Riders

Dollar for dollar riders are fully underwritten for the death benefit and chronic illness rider; and there is also a charge for the chronic illness rider

- As such, the full amount of the death benefit will be paid either as chronic illness benefits, a death benefit, or a combination of both.
- There is no residual death benefit in excess of the death benefit
- Depending on the insurance company, temporary claims may or may not be allowed
- Depending on the insurance company, lapse protection while on claim may or may not be available and policy premiums may or may not be due while on claim.
- LTC consumer protections are not required on these policies, thus may not be included or may be limited and vary greatly by insurance company.

Discounted Chronic Illness Riders

- Discounted chronic illness riders are only underwritten for the life insurance component of the policy. The chronic illness rider is a “check the box” if desired, or just included—though there may be a requirement that the



- base policy be a certain underwriting class (such as standard) to qualify for the rider. While there is no charge for the chronic illness rider, it is not free.
- If death occurs without using the chronic illness rider, then the full death benefit will be paid (assuming no withdrawals or loans).
- If the chronic illness rider is enacted, then a portion of the death benefit is accelerated to provide chronic illness benefits, but the accelerated amount is then discounted to "pay for" the rider. How much the acceleration is discounted depends on a formula comprised of many factors:
 - All else being equal, women's acceleration will be discounted more and they will receive less than men. This is because they are expected to live longer and paid less for the policy.
 - The younger a person is, the more the acceleration will be discounted and they will receive less than an older person of the otherwise same circumstances.
 - When the rider is enacted, unless done near age 100, the total death benefit purchased will not be received in total. The amount that is discounted for the acceleration of benefits is the "charge" and the total amount of the discounts will never be paid to the policy owner or their beneficiaries.
- Generally, only permanent claims are eligible for benefits
- Lapse protection and other consumer protections are generally not available or are limited
- This rider may be a good choice for someone who is still life insurable but not long-term care insurable since only the life insurance portion of the policy is underwritten.

Life insurance policies with chronic illness riders are sold by insurance agents and financial advisors who are life insurance licensed and also hold any other

license required to sell the underlying life insurance policy. Currently, no state CE is required.

CRITICAL ILLNESS RIDER

The term "critical illness rider" is often confused with the term "chronic illness rider," but they are two totally different types of benefits and should not be interchanged.

The purpose of a critical illness rider is to provide funds to an insured who has suffered a catastrophic illness. Qualifying illnesses and circumstances vary by insurance company. Common qualifying events would be the need for an organ transplant, stage four renal failure, certain cancer treatments, etc. In other words, the condition is not necessarily terminal (within 12 months), but it is life-threatening and generally requires extreme medical intervention.

A critical illness rider is closer in structure to a terminal illness rider in that with most insurance companies, the critical illness benefit will be the lesser of 50% of the death benefit or \$250,000. Most critical illness riders are included with the policy but have charges associated with implementing the claim. In a few circumstances the critical illness rider will be charged for, but then will offer more robust benefits.

SUMMARY

Having a good grasp of terminology can help a person better pinpoint the type of policy, the type of rider, or included policy features most valuable to an overall planning strategy.



SHAWN BRITT
CLU®, CLTC®

Shawn is Director of LTC Initiatives for Advanced Consulting Group at Nationwide Financial. She has been engaged in the life insurance and LTC industry for over 20 years. Shawn has been a major influence in promoting the need for long-term care and development of Nationwide's LTC product solutions.