Nationwide® Financial

Don’t let the small print become the BIG print at claim time.

Long-term Care Riders vs. Chronic Illness Riders

Not all riders on life insurance are the same. Long-term care riders and chronic illness riders may seem alike, but when it comes to filing a claim, there are crucial differences to consider. The case studies below are just one example of why it’s important to understand the differences in the various types of coverage before purchasing a policy.

Mary recently suffered a mild stroke. Due to quick medical intervention, doctors were able to stop the stroke in its tracks. Thanks to rehab in a nursing home and some home health care and therapy, Mary should recover in six to nine months. Fortunately, Mary owned a long-term care rider on her life insurance policy, the type of coverage that also pays claims for temporary long-term care conditions because it is a true LTC product.

In another situation, Tom recently had a hip replacement and suffered complications that required recovery and extensive rehabilitation in a nursing home. Tom owned a life insurance policy with a chronic illness rider he thought would assist with his bills. Unfortunately, he found out at claim time his policy would not pay because his condition was not “likely to last the rest of the insured’s life”.

Making sure your clients are covered with a true LTC Rider will give them the flexibility to protect against both temporary and permanent claims, and it’ll save you from having a very difficult conversation at claim time. Nationwide offers a true LTC Rider that:

- Pays temporary as well as permanent LTC claims
- Tells you at policy issue what your LTC benefit will be[1]
- Accelerates 100% of the death benefit[1] regardless of when a claim begins

Know the difference BEFORE your client buys coverage!

Long-term Care Rider	Chronic Illness Rider	Discounted Chronic Illness Rider
• Section 7702B (or LTC Model Regs) • May be represented as LTC • Pays temporary and permanent claims • Underwritten and charged for • LTC benefit determined at issue • 100% of death benefit is paid, either as LTC benefits or death benefits (or combination)[1]	• Section 101(g) only • May NOT be represented as LTC • Generally, only pays permanent claims • Underwritten and charged for • Chronic illness benefit determined at issue • 100% of death benefit is paid, either as LTC benefits or death benefits (or combination)[1]	• Section 101(g) only • May NOT be represented as LTC • Generally, only pays permanent claims • Rider generally requires no underwriting and has no upfront charge • Chronic illness benefit not determined until time of claim • Death benefit amount accelerated, but not paid as part of the chronic illness benefit, is forfeited. • Highly unlikely to collect 100% of death benefit if accelerated to utilize rider

[1] Assuming no withdrawals or loans.

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Understanding the differences

All Long-term Care (LTC) and Chronic Illness riders on life insurance pay benefits as a tax-free acceleration of death benefit via §101(g). However, that's where the similarities end. The differentiators determine which types of claims qualify for benefits, how benefits are paid out and how riders are charged. Understanding these differences is extremely important so the insurance professional can present clients with a clear picture of what they are actually purchasing.

Long-term Care Riders:

- LTC Riders classified as §7702B — This is the most common way a LTC rider is classified.
- Long-term Care Riders — classified as §101(g) with LTC Model Regulations or similar state regulations — This model is rarely used as a filing for an entire product (though a couple of companies have done so), but more often used to comply with a particular state's requirements to get a rider put in place.

LTC riders offer more comprehensive coverage and may be marketed verbally and in writing as long-term care coverage. To qualify for a claim, the client needs to meet the basic requirements related to chronic illness. That means a Licensed Health Care Practitioner must certify that the insured, for a period of at least 90 days, is unable to perform at least two Activities of Daily Living (ADLs) or suffers from severe cognitive impairment. This definition allows temporary claims to be covered as well, so conditions such as mild strokes, orthopedic repairs, side effects of certain cancers, etc., would qualify for a LTC claim on this type policy. Keep in mind, LTC riders are available for an additional charge, generally require underwriting and will add to the policy premium cost.

Chronic illness riders classified only as §101(g):

All Chronic Illness riders are classified as §101(g) only. The term "long-term care" may not be used in marketing or discussing these products. Thus, you will see these riders generally referred to as "accelerated death benefit for chronic illness" riders. Generally, in addition to satisfying the basic requirements of chronic illness, the physician must certify the chronic illness "is likely to last the rest of the insured's life." In other words, the condition must be non-recoverable. For this reason, temporary conditions would not be eligible for claim.

What differentiates Chronic Illness Riders?

The main differentiator among chronic illness riders is whether the rider is paid for by an additional charge added to the policy, or, is included as a policy feature with no underwriting and discounts the total death benefit to provide the benefit for chronic illness.

- Additional charge to cost of insurance: Other chronic illness products assign a cost of insurance to the rider and take monthly deductions from policy values — essentially the same way the base policy premium is charged. While this does increase the premium for the overall life insurance policy, charging for the rider provides a client with the advantage of knowing from day one exactly how much death benefit and chronic illness acceleration they will be entitled to, no matter when the need arises.
- Discounted Acceleration: Other companies "include" a chronic illness rider feature as part of the policy, with no (or limited) underwriting and at no additional charge. But keep in mind, no charge does not equate to free. Instead of charging for the rider, the accelerated death benefit amount is discounted when the rider benefits are actually needed, and the amount not paid is permanently forfeited. Because of this, benefits cannot be determined until a claim is filed. The discounting of benefits is based on several variables, including age, sex of the insured, premium class, as well as current interest rates and policy cash values at time of claim. For example, the younger you are when filing a claim, the smaller the chronic illness benefit will be, and more of the death benefit is forfeited. All else equal on a policy, women will get less benefit than a man. While some may argue this method spares people never needing qualifying chronic care services from paying rider charges, those needing benefits may not understand at the time of the claim why the total policy death benefit paid is not the amount at policy issue.

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