Health care

White paper

NATIONWIDE RETIREMENT INSTITUTE®

The Real Value of Long-Term Care Benefits

A guide to long-term care planning

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Long-term care (LTC) planning continues to move to the forefront for mainstream financial advisors

Along with their interest come questions that need clarification. LTC insurance solutions have expanded greatly from the traditional LTC policies to include hybrid solutions such as linked benefit LTC policies and LTC riders on life insurance and annuities. These diverse solutions allow a client to choose LTC coverage that fits their budget and funding source as well as address a financial strategy or life insurance need. Regardless of which type of coverage is chosen, it is important that the client understands and is comfortable with the type of model used to pay LTC benefits.

LTC also means "look toward claim"

LTC benefits are generally paid in one of three ways: **cash indemnity**, **indemnity** or **reimbursement**. Each benefit model has its advantages; however, when a client is considering the purchase of LTC coverage, it may help to first consider LTC benefit payment models before discussing other policy options.

After all, the most important component of LTC coverage is how the policy will work at the time of claim.

It doesn't matter how good the policy is if the benefits are unable to be utilized in a manner that best meets the client's personal preferences and needs. Thus "looking toward claim" during the early stages of an LTC discussion makes sense in the planning process.

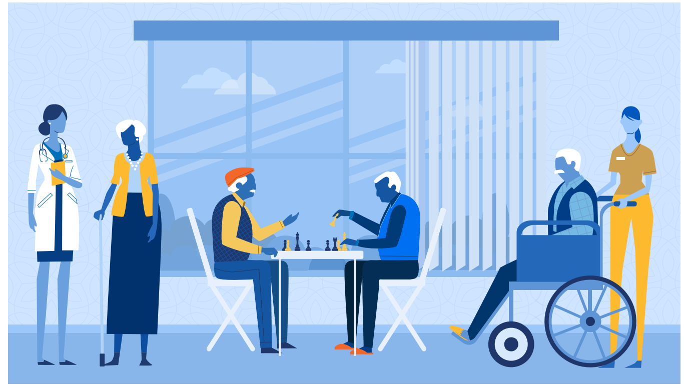
Start with questions such as:

"Where do you want to receive care?"

"Who do you want to care for you?"

"If you could choose how to receive care with no limitations, what would be something that would appeal to you?"

"Would you prefer to receive a monthly cash payment for the full LTC benefit amount and then manage your own needs, or would you rather have the insurance company reimburse only your qualifying LTC expenses?"



Of course you also have to be prepared to help the client who says, "I have no idea what I am facing in the future, and I don't even want to try to imagine it." But as clients answer these and other questions, they will likely provide enough information to eventually land on one of the following benefit payment models: indemnity, cash indemnity or reimbursement.

Ask the client to look into the future and imagine what they would like their care experience to look like. Encourage the client to dream up the most optimal situation they can think of. Research shows that 77% of individuals would prefer to receive care at home[1], yet each individual will have a unique vision of what their potential LTC situation might look like and how they would want services to be implemented to best meet their needs.

More imaginative clients may even think beyond the typical care choices such as home health care and assisted living. The discussion may take some surprising turns as clients bring up possibilities of the future such as robots assisting in care. Putting some thought and imagination into this step can help narrow the list of choices for LTC coverage.

1 2018 Nationwide Health Care and Long-term Care Consumer Survey of affluent U.S. adults, age 50+ with a household income of $150k+, 2018.

Breaking down the details of LTC benefit models

Once the LTC claim is validated and claim requirements have been met, benefit payments can begin. This is when choosing the right LTC benefit model can help make a difference between a good claims experience or an experience riddled with frustration.

Indemnity plans

How it works: The primary definition of indemnity LTC benefits is that the full amount of the contractual benefit is paid — meaning the daily benefit (for traditional LTC policies) or monthly benefit amount is paid regardless of what the insured's LTC expenses actually are.

Indemnity plans are the most flexible of the benefit models but come in several variations, which affects the degree of flexibility the plan may have or whether bills and receipts will need to be submitted to collect benefits. There is a misconception that indemnity plans do not require monthly bills and receipts to be submitted, but that is not necessarily true. What defines the policy as an indemnity plan is simply the fact that the full amount of LTC benefits is paid per the specifics of the policy contract.

Types of plans include **cash indemnity**, **professional indemnity** and variations in between.

Cash indemnity

How it works: The full contractual LTC benefit amount is paid each month without having to prove that care took place.

This benefit model, long vanished from the traditional LTC marketplace, has re-emerged in the linked benefit and LTC rider space. Cash indemnity is the most flexible of all benefit models. One value of cash indemnity plans is that the policyowner is in full control of how the monthly LTC benefits are spent. In general, cash indemnity policies work as follows:

The life insurance company will place no restrictions on how benefits are used:

Informal unlicensed caregivers — who are typically less expensive — can be 100% utilized

Immediate family members can be paid to provide 100% of the insured's care[2]

Benefits can be used as needed for items or services such as home modifications, transportation and prescriptions without permission from the insurance company

High net worth clients purchasing policies with larger LTC benefits can use the policy to pay for concierge-level LTC services that might not be covered under other plans

2 Please consult with a legal and/or tax professional for guidance and advice since such arrangements may create reporting and withholding equirements for the payer and the payee.

Future Value

There is also a future value to cash indemnity benefits because this type of policy places no restrictions on how LTC benefits are used. Innovation is moving forward at a faster pace than ever. Robotic surgery already exists and we are about to see driverless cars on the road. A decade from now, we may be flabbergasted at what evolves to assist with long-term care services. A cash indemnity LTC policy will have future value such as:

- LTC benefits will be able to be utilized for care supports and services that currently do not exist, but will as future thought into imaginative care services becomes a reality.
- Clients who are unable to picture how they would plan for LTC services can make decisions now knowing that policy benefits can be used without restriction later.

Professional indemnity

How it works: A professional indemnity plan pays the full benefit amount for each day the insured receives a professional (or licensed) care service.

This type of plan is more likely to be seen with traditional LTC insurance policies issued with daily benefits. To determine the number of days that qualify for LTC benefits, at least one bill or receipt must be shown for each day in which care services were received. The amount of each bill is not considered — only the fact that a service was performed on a particular day and qualifies to be indemnified.

Monthly professional indemnity, is one variation in which the full monthly LTC benefit is paid as long as there is “proof of billable services” for at least one licensed professional service during the month. This is accomplished by submitting a copy of at least one billed service or an affidavit affirming that at least one billed service was paid for during the claim month. The total cost of care each month is not considered.

Monthly indemnity plan, is the most lenient variation, one that does not require any bills or receipts to be submitted each month in order to receive monthly LTC benefits. Proof that care is coming from a licensed service is provided during the claims verification process and applicable elimination period, but once the claim is validated, no monthly paperwork is necessary to receive the full available monthly LTC benefits. Any further validation of professional services being used would generally occur at the annual claim recertification.

The advantage of indemnity policies is that any funds left over after paying licensed providers can be used without any restrictions from the insurance company. This can add flexibility to care choices and allow informal caregivers and immediate family members to be paid as part of the caregiving team.[3] In addition, the insurance company will allow the policyowner to take less than full LTC benefits, if they wish, in order to help extend the period of time LTC benefits are paid.

The main disadvantage of any type of indemnity plan is that people who choose to take their full benefit, but who are not good with saving money, may not conserve leftover funds for future care needs.

Reimbursement

How it works: This type of plan reimburses the actual qualifying LTC expenses of the insured.

The monthly LTC benefit available is the lesser of the maximum monthly LTC benefit or actual costs incurred that qualify under the policy. Thus, if you have a maximum monthly LTC benefit of $6,000 a month, but have qualifying LTC expenses totaling only $3,000 a month, the policy would reimburse $3,000 each month — nothing more — to pay the covered LTC expenses. In addition, there may be limitations on certain benefits. For example, there may be limitations on how much LTC benefit can be used for home modifications or durable medical equipment. Transportation costs may not be included at all.

To determine what expenses qualify for reimbursement, bills and receipts must be submitted each month. However, the policyowner may have a choice on how the LTC benefits are reimbursed.

Most reimbursement policies sold today will generally allow the policyowner to sign off and permit the facility or care provider to bill the insurance company directly and be directly reimbursed for the qualifying billed expenses. However, this method of reimbursement will not necessarily eliminate the need for the policyowner to pay bills on their own. The policyowner will be billed by the care provider for any expenses that didn't qualify for that month's reimbursement or exceeded the insured's maximum monthly LTC benefit amount.

The policyowner also has the choice of handling all of their own paperwork, directly paying all of their bills for care received and then submitting bills and receipts to the insurance company for reimbursement of any qualifying LTC expenses.

3 Please consult with a legal and/or tax professional for guidance and advice since such arrangements may create reporting and withholding equirements for the payer and the payee.

One advantage of the reimbursement model — especially for a person who is not good at saving money or handling finances — is when LTC expenses are less than the maximum monthly benefit, the excess funds stay in the policy. This protects the LTC benefits from being unnecessarily squandered and can help extend benefits over a longer period of time.

However, reimbursement policies may also be more restrictive in that many of these plans only allow licensed care providers to be used. Informal caregivers may be prohibited, restricted with a reduced benefit payment, or approved only when meeting vetting requirements. Immediate family members are usually not allowed to be paid caregivers, or they're allowed only when the immediate family member is working for and paid by the licensed service or facility. Alternative services not specified in the contract, or care services that may come in the future, will be considered and vetted by a set of standards, but there is no guarantee these services will be approved for reimbursement by the insurance company.

In summary:
The future is wide-open

Every client will have a unique vision of how they hope to receive LTC services should they ever be needed.

For clients wanting coverage that provides flexibility, cash indemnity offers the future value of accommodating:

- A choice to make LTC decisions later without concern about what the policy will cover
- A change of strategy down the road if new options for care services come into being
- Care changes with more ease while on an LTC claim — when life takes an unexpected turn

It is important to find out your client's vision, as well as any concerns they may have, early in the discussion so you can show them insurance solutions with benefit payment models that will best meet their overall financial and LTC strategy.

The Nationwide Retirement Institute® provides practical thought leadership through timely insights and education, client-ready tools and consultative support. Our comprehensive approach helps financial advisors, plan sponsors and clients break down and simplify the most complex retirement challenges.

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Known at Nationwide for her extensive work with the Long-Term Care Rider and the LTC hybrid solution marketplace, Shawn Britt has been a major influence in promoting the need for long-term care and the development of Nationwide's LTC product solutions. She has been widely published and credited as a source on long-term care for publications such as The National Underwriter, InsuranceNewsNet and The Wall Street Journal. She is a frequent presenter and keynote speaker at industry events and conferences and serves as an adjunct professor at The Ohio State University, lecturing on long-term care.

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