



Indemnity vs. Reimbursement LTC coverage

HIPAA update for 2020

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Each year around November, the HIPAA per diem rate for long-term care (LTC) is announced for the upcoming year. This rate will generally increase each year – and only has failed to do so three times since 1997. For 2020, the LTC HIPAA per diem rate was increased to \$380 per day.

This information is particularly important for people who own LTC or similar coverage that pays by the indemnity or cash indemnity method - or - for people who own more than one policy. The rate is applied to calculate the tax-free benefit amount that can be received each year from traditional long-term care (LTC) policies, linked benefit LTC policies, LTC riders on life insurance and annuities, and chronic illness riders.

The table to the right shows the historical increases of the LTC HIPAA per diem over the past two decades.

LTC benefits may be received tax free, cumulative of all policies being paid for the benefit of the insured, and regardless of who owns the policies as either:

- the greater of the HIPAA per diem in the year of claim, or
- actual qualifying LTC expenses incurred.

Historical HIPAA Per Diem Rates				
1997	\$175		2009	\$280
1998	\$180		2010	\$290
1999	\$190		2011	\$300
2000*	\$190		2012	\$310
2001	\$200		2013	\$320
2002	\$210		2014	\$330
2003	\$220		2015*	\$330
2004	\$230		2016	\$340
2005	\$240		2017	\$360
2006	\$250		2018*	\$360
2007	\$260		2019	\$370
2008	\$270		2020	\$380

* Years with no increase in the HIPAA per diem

Thus, any amount of LTC benefits received in the year of claim that are equal to the HIPAA per diem or less will be tax free with no need to justify expenses. Additionally, any amount received that exceeds the HIPAA per diem but does not exceed actual qualifying expenses, will also be tax free. ¹

Reimbursement plans – These plans generally work as follows:

- Only expenses qualifying under the contract are reimbursed, up to the LTC monthly (or daily) benefit purchased.
- Bills and receipts must be submitted monthly to the insurance company to determine the amount that qualifies for reimbursement.
- While some plans may allow direct billing and reimbursement with the care provider, many care providers will not participate in 3rd party billing.
- These plans do not pay any benefit dollars that exceed the cost of care, even if the benefit amount issued is higher than actual expenses.

- Owning two reimbursement policies would typically subject the policy owner to coordination of benefits. Each insurance company pays a pro-rata portion of expenses only — and nothing more.
- Assuming no other policies are being collected from, there is no taxable event.

Indemnity plans – The following may vary based on contract and policy provisions:

- Generally, companies offering chronic illness riders (and some companies offering LTC riders) cap their benefits at the HIPAA per diem.
- Some companies pay LTC benefits up to two times the HIPAA per diem rate or may not place any HIPAA limits.²
 - Even when the insurance company is willing to pay a LTC benefit amount exceeding the HIPAA per diem, the tax formula established by the IRS for collecting LTC benefits still applies.
 - Basic indemnity policies generally require some licensed care be provided, but any leftover benefits can be used as desired.
 - Cash indemnity benefits can be spent as the policy owner wishes with no restrictions from the insurance company
- Receipts will NOT have to be included with the tax return. However, keeping copies of receipts with tax records would be wise should an audit occur, especially if cost of care exceeds the HIPAA per diem.³

The following table compares the claims process and receipt of LTC benefits from cash indemnity policies vs. reimbursement policies.

	Reimbursement	Cash Indemnity
Procedure for filing a claim	<ul style="list-style-type: none"> • File the claim and provide required documentation (including Plan of Care) • Wait for claim approval • Complete applicable elimination period • Re-certify claim least every 12 months 	<ul style="list-style-type: none"> • File the claim and provide required documentation (including Plan of Care) • Wait for claim approval • Complete applicable elimination period • Re-certify claim least every 12 months
Process for collecting the monthly LTC benefit	<ul style="list-style-type: none"> • Pay bills – then send receipts each month to the insurance company • Wait to see what qualifies for reimbursement – then receive a check. • Reimbursements are the lesser of: Qualifying LTC expenses covered under the policy — or — the maximum monthly LTC benefit • Declined expenses must be paid to the service provider out of pocket. • Some insurance companies allow direct billing & payment between the insurer and care provider, however; many care providers are unwilling to do 3rd party billing. • Repeat this process each month 	<ul style="list-style-type: none"> • Receive a check for the maximum monthly benefit (or less if you want to extend the benefit period)
What is covered?	<ul style="list-style-type: none"> • Only bills specific to long-term care services covered under the contract • Homemaker services, such as housekeeping laundry, shopping, lawn care, etc. may be included, but it may be required that the services be performed by the person providing the licensed care — see contract for details • Alternative care services are only covered at the discretion of the insurance company 	<p>Benefits can be used without restriction from the insurance company to pay for a variety of expenses,⁴ such as:</p> <ul style="list-style-type: none"> • Unlimited home modifications • Family members providing 100% care • Medical care and tests • Prescription medicine • Massage therapy • Transportation to doctors and therapists • Homemaker services provided by the person of the insured's choice • Any expense the insured incurs
What is often not covered?	<p>Any expenses not covered under the policy such as:</p> <ul style="list-style-type: none"> • Care from immediate family members • Medical care • Physical therapy and massage therapy • X-rays and tests • Prescription medicine • Certain (or numerous) home modifications • Transportation 	<p>The are no restrictions placed by the insurance company on how benefits can be used, therefore funds can be spent on anything the policy owner wishes.</p> <p>Cash indemnity provides total flexibility to use LTC benefits for whatever is needed.</p>

The value of cash indemnity

Cash indemnity benefits offer value to many clients compared to reimbursement plans — or even basic indemnity plans. Because the insurance company does not restrict how LTC benefits are used and requires no monthly paperwork to collect benefits,⁵ cash indemnity policies may be more flexible and easier to use.

Cash indemnity plans do not discriminate against alternative care services, and no permission from the insurance company is required in order to use LTC benefits to pay for such care. Conversely, reimbursement plans may have contract language to address use of alternative care services — but there are standards the alternative care service must meet to gain approval — thus the insurance company has the authority to decline benefit payments for these types of services.

Cash indemnity plans can be used to pay immediate family members or unlicensed caregivers that may be less expensive to provide 100% of the insured's care.⁶ Reimbursement plans generally do not allow immediate family members to be reimbursed for providing care to the insured and often have limitations or deny reimbursement for unlicensed care providers.

Cash indemnity benefits can be used to pay for care services existing now as well as services invented in the future. This would include traditional care services as well as alternative or "boutique" care services. One cannot predict if a reimbursement plan would pay for creative or alternative services invented in the future.



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¹ A tax professional should be consulted to help determine which of the insured's expenditures would be considered a qualifying long-term care expense for purposes of the IRS formula for tax-free benefits.

² Insurance companies offering this feature generally will pay the lesser of: the monthly available LTC benefit elected, or, two times the HIPAA per diem times 30 (or days in the month)

³ Supra, Note 1

⁴ The insurance company may ask for copies of bills and receipts when verifying a claim and establishing the claim date, particularly when informal care is used. In the case of care provided 100% by informal care givers, the insurance company may depend on the date the Plan of Care is signed to establish a claim date.

⁵ Supra, Note 3

⁶ Please consult your tax advisor when paying immediate family members or unlicensed care providers