Make an informed choice

Long Term Care or Chronic Illness Rider?

As our population ages, obtaining financial protection against long term care (LTC) expenses is an increasing concern. It is predicted that at least 70% of Americans over age 65 today will require LTC services during their lives.[1]

To answer this need, many life insurance products can pay an accelerated death benefit through a policy rider to help cover LTC expenses. This living benefit enhances the value of life insurance to those seeking more than a death benefit.

The majority of these riders cover **chronic illness** situations.

A few insurers, including Genworth, offer optional riders with broader coverage for **long term care services**. These riders qualify, and can be marketed, as long term care insurance under state regulations.

The difference is significant

While each rider opens accelerated access to a policy's death benefit while the insured is living, qualification requirements for underwriting as well as for use, and benefits can differ significantly. Understanding these differences is essential in helping your clients in selecting a rider that meets their needs. Generally:

- A **chronic illness** is defined as a one-time, permanent situation. Certified by a physician, the chronically ill individual has a severe cognitive impairment or requires substantial assistance with at least two activities of daily living (ADLs) for the rest of their lifetime. **ADLs** include bathing, continence, dressing, eating, transferring, and toileting.
- **Long term care coverage** is available when an insured is diagnosed with an illness or suffers an accident that requires substantial assistance with at least two ADLs for at least 90 days. Benefits for one or more LTC events are available throughout the insured's lifetime—all under the same rider.

What is an LTC event?

A long term care event occurs when:

- Illness or accident prevents an individual from performing at least two activities of daily living (ADLs) for at least 90 days,

or

- An individual is diagnosed by a physician as having severe cognitive impairment requiring substantial supervision

Heart attack, stroke, cancer, accidents, dementia, and other chronic conditions can require long term care.

When diagnosed by a qualified medical practitioner, and policy requirements are met, an insured individual can receive LTC benefits to help meet care expenses.

[1] Medicare & You, National Medicare Handbook, Centers for Medicare and Medicare Services, Revised November 2012.

Genworth

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Understanding the differences

Here's a comparison between Genworth's Accelerated Benefit Rider for Long Term Care Services and standard features generally found in most chronic illness rider provisions:

	Genworth's Accelerated Benefit Rider for Long Term Care Services	Standard Chronic Illness Rider Coverage
Benefits	Accelerated access to up to 100% of the life insurance policy's specified amount if insured suffers a qualified long term care event	Accelerated access through either a loan with interest or an actuarially discounted portion of the policy's death benefit if insured is diagnosed as chronically ill
Flexibility	Broad. Can be used for one or more LTC events, and covers a wide range of benefits including temporary situations expected to last 90 or more days.	Restrictive. Only available if diagnosed by a physician as chronically ill and the condition is considered permanent.
Income tax status	Income tax-free long term care payments, qualifies under IRC Section 7702B	Policy owner advised to consult with tax specialist. Any payments above indemnity limit may be taxable.
Regulation	• Classified and can be marketed as long term care insurance • Includes Section 7702B and 101(g), expense reimbursement	• Cannot be marketed as long term care insurance • Section 101(g) only, must be indemnity payment
Qualification requirements to receive benefits	• Certified by licensed health care practitioner as needing substantial assistance with at least two ADLs for at least 90 days, or • Diagnosed with severe cognitive impairment (loss or deterioration of intellectual capacity) requiring substantial supervision	Diagnosed by qualified medical practitioner with the inability to perform at least two ADLs or a severe cognitive impairment. Condition must be certified by a physician as being permanent.
Type of claims paid	Claims are paid as expense reimbursement, up to monthly and lifetime maximums	Paid as monthly, semi-annual or annual lump sum
Frequency of claims	Available to cover multiple long term care events throughout the insured's lifetime	Available once in a lifetime
Cost of coverage	• Additional cost of insurance charge and expenses based on insured's age and underwriting classification • Cost is known at policy issue	• Included in policy at no initial cost • Administrative fee and expenses are triggered if option is activated by chronic illness diagnosis • Cost isn't known until coverage is activated
Length of coverage period(s)	• Two, three or four-year coverage periods, selected at policy issue • Benefit can be used multiple times as lifetime maximum allows	Paid as monthly, semi-annual or annual lump sum
Elimination period	• Home Care–0 days • Facility Care–90 days • Home Care and Medicare Days satisfy Facility elimination period	• 90 days and higher
Benefit payment	Reimbursement (covers actual expenses)	Indemnity (no receipts unless above indemnity limits)
Death benefit payable	Any remaining death benefit not accelerated through this rider will be payable as a death benefit	Any remaining death benefit not accelerated through this rider will be payable as a death benefit
License and continuing education requirements	• Requires "Health Authority" designation on state license • Licensing state may require continuing education	• No continuing education required to sell this product • "Health Authority" designation not required on state license

Reimbursement vs. Indemnity models

The payment method can impact the flexibility, coverage period, and possibly even the taxation of benefits received.

Under a **reimbursement** product, the amount of the actual expenses is paid up to the monthly maximum amount. While 100% of the specified amount is ultimately available to use for LTC costs, payments are made as expenses are incurred. Any portion of the monthly maximum amount not used is available for future benefits.

The **indemnity** model used by chronic illness riders typically pays accelerated benefit amounts in a lump sum to the insured. Once received, these funds can be used for any purpose.

Remember:

- A chronic illness rider only provides a payment if a permanent diagnosis is made.
- A chronic illness rider pays a lump sum without restrictions on how it may be used.
- A long term care rider only requires the client's need to last 90 or more days. This benefit can be used multiple times over the years.
- A long term care rider can provide a wider range of benefits payable by the rider.

Be sure to do the math

Benefits paid under a Long Term Care rider are income tax-free. Based on the reimbursement payment model, only actual expenses are reimbursed.

In contrast, a portion of benefits paid under a Chronic Illness rider could be taxed as income to your client. The Internal Revenue Service enforces limits on the amount of income tax-free benefits that can be paid under the indemnity model. Currently, amounts paid over $320 per day, or $116,800 per year may be taxable income unless receipts are provided.

Over twice the benefit and it's income tax-free

Here's a hypothetical example:

A 50-year old male has an index universal life insurance policy with $1 million of current specified amount. **If he suffers an LTC event, how much is available to him under each rider?**

	Accelerated Benefit Rider for Long Term Care Services	Chronic Illness Rider Using Discounted Method*
Maximum Rider Benefits	Up to $25,000 per month or $300,000 per year	Present value of 24% of the $1 million death benefit
Year 1	**$300,000** (Policy face amount reduced to $700,000)	**$120,000** (Present value of 24% of the $1 million death benefit. New death benefit is $760,000)
Year 2	**$300,000** (Policy face amount reduced to $400,000)	**$91,200** (24% of present value of $760,000 death benefit. New death benefit is $576,600)

Over two years, the typical Chronic Illness rider could pay up to $211,200—and the portion of that amount that exceeds the IRS limits listed above could be considered taxable income.

During the same time period, the Accelerated Benefit Rider for Long Term Care Services could pay as much as $600,000 that is income tax-free to pay for covered LTC expenses—almost $390,000 more than the Chronic Illness rider.

* Based on a carrier that uses attained age the discount percentage.

Hypothetical examples:

These examples illustrate how each rider could benefit the insured.

Dealing with an unexpected accident

Sudden, unexpected events can have a long-lasting impact.
Where will the financial assistance come from?

The situation:

Feb. 1	Brad is in an auto accident and is admitted to the hospital with extensive injuries that require surgery.
June 1	Brad leaves the hospital and returns home. He is not able to dress or transfer himself. A nurse comes to his home on a regular basis for four months.

Which rider can be activated?

# Days	Event	Accelerated Benefit Rider for Long Term Care Services	Standard Chronic Illness Rider
1-120	Car accident and hospital stay	**No** (Hospitalization not covered)	**No** (Not permanent)
121-240	Extended home care	**Yes**	**No** (Not permanent)

Easing a family's concerns

Some conditions are ongoing, so **the right choice of rider is important.**

The situation:

Jan. 1	Minnie is diagnosed with early onset dementia. Her friend cares for her at home for six months.
July 1	As her abilities decline, her children fear for her safety and decide to move Minnie to a nursing home facility.

Which rider can be activated?

# Days	Event	Accelerated Benefit Rider for Long Term Care Services	Standard Chronic Illness Rider
1–90	Diagnosed, at home care	**Yes** (No elimination period for home care)	**No** (90-day elimination period required)
91–180	End of 90-day waiting period	**Yes**	**Yes** (Permanent)
181+	Moves to nursing home	**Yes**	**Yes** (Permanent)

Hypothetical examples continued

Battling a recurring condition

LTC has the flexibility to provide funds **over multiple LTC events.**

The situation:

2010	**Gloria learns she has cancer and begins treatment.**
June 1	Gloria begins treatment.
July 15	Her condition worsens, and she is unable to feed or dress herself (two of six ADLs) and decides to bring in home care.
Oct. 1	Gloria has gradually improved, and home care is no longer needed.

Oct. 2010–Feb. 2012: Gloria maintains her health and doesn't require LTC assistance

2012	**Gloria's cancer returns and she elects to have surgery in addition to her other treatments.**
Feb. 1	Gloria has surgery and begins her other treatments.
Feb. 15	She leaves the hospital, but again needs home care.
April 1	Gloria's condition deteriorates and she is moved to a nursing home. At this point, her condition is diagnosed as permanent.
Sept. 15	Gloria passes away. She could afford to manage the final months of her life, and her beneficiaries received the remaining death benefit from her policy.

Which rider can be activated?

# Days	Event	Accelerated Benefit Rider for Long Term Care Services	Standard Chronic Illness Rider
2010	**Cancer diagnosed**		
1–45	Treatments start	**No** (Gloria performs all ADLs)	**No** (Not permanent)
46–120	Home care is required	**Yes** (No waiting period)	**No** (Not permanent)
2012	**Cancer returns**		
1–15	Surgery and stay in hospital	**No** (Hospitalization not covered)	**No** (Not permanent)
16–59	Home care is required	**Yes** (No waiting period)	**No** (Not permanent)
60–226	Moves to nursing home, condition is diagnosed as permanent	**Yes** (elimination period already satisfied by Home Care days)	**Yes** (after 90 days)

We want you to know

Exceptions and Limitations

Non-Duplication The Accelerated Benefit Rider for Long Term Care Services (ABR) does not cover Medicare deductibles and coinsurance expenses. ABR reimburses only for covered expenses that exceed what Medicare or other government health care programs or laws (except Medicaid) pay. However, any days that help satisfy Medicare deductibles, coinsurance expenses or days Medicare pays for services will be used to satisfy ABR's 90-day facility elimination period.

Exclusions Benefits are not paid for any expenses incurred for any covered care:

- Provided by immediate family members. An exception is made if the family member is a regular employee of the organization providing the service, the organization received payment for the service and the immediate family member receives only compensation normally provided to employees in that job.
- Provided by or in a Veteran's Administration or federal government facility, unless a valid charge is made to you or your estate.
- Provided outside the United States, its territories and possessions unless specifically provided for by a benefit.
- Resulting from alcoholism or drug addiction, except for an addiction to a prescription medication when administered in accordance with the advice of a physician.
- Resulting from war or any act of war (declared or not), intentional self-inflicted injury or attempted suicide.

A benefit payment reduces the policy's Specified Amount and requires us to adjust the Guideline Single Premium (GSP) and Guideline Level Premium (GLP). The Internal Revenue Service has not provided guidance on the method for making adjustments to reflect such benefit payments. We expect to reduce the GSP and GLP in the same proportion as the Specified Amount is reduced. While we believe this adjustment method is reasonable, its selection in preference to other possible adjustment methods is not intended to be tax advice. You should consult your tax advisor about the income-tax consequences of receiving accelerated benefits for long term care services.

Federal Tax Considerations

Generally, life insurance death benefits are payable to your beneficiary income tax free. In addition, the law provides that cash values that accumulate within a life insurance policy grow on an income tax-deferred basis and are not subject to income tax until withdrawn from the policy or if the policy terminates.

A withdrawal may be free of federal income tax or "tax free." If the policy is not a Modified Endowment Contract (MEC), then, except for certain changes in the policy during the first 15 policy years and especially during the first five policy years that cause cash distributions that may be taxable even if they do not exceed investment in the contract (Basis), withdrawals are not taxable to the extent that they do not exceed Basis. Policy loans are free of federal income tax when taken except if the policy is or becomes a Modified Endowment Contract (MEC). If the policy is a MEC, a distribution (withdrawal or policy loan, including any increase in the policy loan balance because of unpaid loan interest) is taxable to the extent that Policy Value exceeds Basis. A 10% penalty tax may apply to distributions from a MEC if the policyholder is under age 59½. Basis is premium paid minus any LTC rider charges and minus nontaxable amounts previously recovered through policy distributions. Assignment or pledge of a MEC as security for a loan would also be a taxable event.

If your policy becomes a MEC, then any distribution (withdrawal or policy loan) taken in the policy year in which the policy becomes a MEC and in subsequent policy years is taxable the same as a distribution from a MEC. Any distribution taken within two years prior to the policy becoming a MEC may also be taxable the same as a MEC. Termination, other than by reason of the insured's death, of a life insurance policy with a policy loan balance may be deemed a distribution of the outstanding policy loan balance, resulting in possible adverse tax consequences for a policy that is not a MEC. Your client should consult a tax advisor about possible tax consequences. We are not responsible for any adverse tax consequences.

Important information

This ICC LTCI Checklist information is provided to help you understand the ideas discussed. Examples are hypothetical and may not reflect your client's particular circumstances. Read the policy and rider for full information about product features, benefits and limitations. Policy terms and provisions will prevail.

The tax information in this material was written to support the promotion and marketing of the policy. Genworth and their representatives and distributors do not provide tax or legal advice. This material was not written for use by any taxpayer to avoid any Internal Revenue Service penalty. Your clients should ask their independent tax and legal advisors for advice based on their particular situation.

Asset Builder Index UL is flexible premium adjustable life insurance (commonly called universal life insurance) with optional index interest crediting. Asset Builder Index UL is subject to Policy Form No. ICC12GA1004 or ICC12GA1005 (Genworth Life and Annuity Insurance Company, Richmond, VA) or Policy Form No. ICC12GL1004 or ICC12GL1005 (Genworth Life Insurance Company, Richmond, VA).

The Accelerated Benefit Rider for Long Term Care Services and the Accelerated Death Benefit Rider for Terminal Illness are underwritten by Genworth Life & Annuity and are subject to issue limitations and Rider Form Nos. ICC12GA109R and ICC12GA111R, respectively, or by Genworth Life and are subject to issue limitations and Rider Form Nos. ICC12GL109R and ICC12GL111R, respectively.

Policy, benefits and riders may not be available in all states. Terms and conditions may vary by state.

All guarantees are based on the claims-paying ability of the issuing insurance company.

Genworth Life and Annuity Insurance Company,
Genworth Life Insurance Company, Richmond, VA

Insurance and annuity products:	• Are not deposits. • May decrease in value.	• Are not insured by the FDIC or any other federal government agency. • Are not guaranteed by a bank or its affiliates.