Long-Term Care Rider
Available on Income Advantage℠ IUL and Life Protection Advantage℠ IUL policies

Get More Out of Life

With a Long-Term Care Rider

LTC Riders – Reimbursement vs. Indemnity

While United of Omaha's LTC Rider follows what is known as a reimbursement rider model, other life insurance companies have LTC riders that use an indemnity model. Knowing the difference is important. The following information will help you get a better understanding of the two designs.

How LTC Rider Benefits are Taxed

First, it's beneficial to have an understanding of how LTC riders are taxed. LTC riders are designed to qualify for favorable federal income tax treatment under Section 7702B of the Internal Revenue Code, as amended. This favorable tax treatment extends up to the greater of the HIPAA limit, or actual long-term care expenses.

The IRS HIPAA limit is currently $410 per day for 2024. That results in $12,300 per month (for a 30-day month).

Chances are, your clients who purchase this rider won't need to use the benefit for 20-30 years from now. If we assume the 2024 limit increases for inflation at 3 percent, the daily HIPAA limit in 25 years would be $867, or $26,010 per month.

Indemnity vs. Reimbursement: What's the difference?

Indemnity – Policyowner can take rider benefits up to the maximum monthly benefit limit regardless of the actual expenses incurred.

Reimbursement – Policyowner is reimbursed based on actual expenses incurred by the insured, up to the maximum monthly benefit limit.

Although this makes it seem like an indemnity rider might be the best choice, most indemnity riders have a "real maximum limit" of 1x the HIPAA limit. If we look ahead 25 years, the monthly HIPAA limit (at 3 percent inflation) would be $26,010. This would be the max benefit even if they purchased a $50,000 monthly benefit. The result: The client may never get to take an amount up to the indemnity limit they purchased unless the IRS significantly changed the HIPAA limits or there is substantial inflation.

Some indemnity carriers have a limit that is a multiple of the HIPAA limit, for example, 2x the HIPAA limit. However, keep in mind that the IRS only automatically allows benefits up to 1x the HIPAA limit to be received untaxed. If the client wanted to take more than the HIPAA limit, they would have to 'prove expenses' to receive favorable tax treatment. So, even though they don't have to submit receipts to the life insurance company, they will still have to keep track of their receipts to prove expenses to the IRS.

With our reimbursement rider, the client can take up to the full monthly benefit as long as they have qualifying expenses. We don't restrict based on HIPAA limits. Your clients will have to prove expenses to get reimbursed, but because there is no HIPAA limit, they may be able to take more benefit from our rider than from a company with a 1x HIPAA limit. And, because your client has to submit receipts, their records will already be 'in order' to prove expenses to the IRS, if needed.

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United of Omaha Life Insurance Company
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A Case Study: Maximum Benefit Limits

Jackie purchases a life insurance policy with a Long-Term Care Rider that has a $50,000 monthly benefit. Twenty-five years from now, she incurs covered expenses of $28,000 per month.

- Under an indemnity policy with a 1x HIPAA limit, the most she could receive in LTC Rider benefits is $26,010 (even if she was paying for a max benefit of $50,000 per month). This means she would need to dip into her personal savings for the additional $1,990 per month
- Under a reimbursement policy without a HIPAA limit, she could get reimbursed for her actual expenses of $28,000 (all income-tax free)

By having more benefit available, Jackie gains flexibility and freedom. She can choose which facility she wants to go to (since she does not need to feel she is restricted to a facility that charges less than the HIPAA limit). She also doesn't need to deplete her personal assets.

One might argue that an indemnity rider is preferable to a reimbursement rider because if the client's expenses are less than their maximum monthly limit, they can take more than their actual expenses.

While this is true, keep in mind the reason your client is purchasing this LTC Rider. The goal isn't to get "extra money." It's to cover LTC expenses so they don't have to deplete their personal assets to pay for long-term care services. The more benefit the client takes in excess of their actual LTC expenses, the less time their LTC Rider benefits will last.

A Case Study: Duration of Benefits

Adam purchases a $1 million life insurance policy with a $1 million LTC Rider benefit pool, and a 2 percent monthly acceleration option. He can take up to $20,000 per month ($240,000 per year). If his actual expenses are $16,000 per month ($192,000 per year):

- A reimbursement policy would last 62.5 months (5 yrs. 2 ½ months)
- An indemnity policy where he is taking the full $20,000 would only last 50 months (4 yrs. 2 months)

At first glance, an indemnity rider may seem like the obvious choice, that your client has access to greater benefits and that they won't need to prove expenses. But once you've taken the time to delve into the product details and considered real-life situations, a reimbursement rider may prove to be more beneficial.

Learn more at MutualofOmaha.com/ltc-rider.