LONG-TERM CARE RIDER

Available on Income Advantage SM IUL and
Life Protection Advantage SM IUL

The Two Methods of LTC Rider Benefit Payouts: Reimbursement and Indemnity

While United of Omaha's LTC Rider follows what is known as a reimbursement model, other life insurance companies use what's known as an indemnity model. And knowing the difference between the two is important.

How LTC Rider Benefits are Taxed

First, it's beneficial to understand 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 LTC expenses.

HIPAA Limits Explained

The IRS HIPAA limit in 2025 is currently:

- $420 per day
- $12,775 per month (based on a 30-day month)

If we assume the 2025 limit increases by 3% annually for inflation, the HIPAA limit in 25 years would be:

- $879 per day
- $26,370 per month (based on a 30-day month)

What's the Difference?

Indemnity		Reimbursement
Policyowner can take rider benefits up to the maximum monthly benefit limit regardless of the actual expenses incurred.	VS.	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 have a "real maximum limit" of 1x the HIPAA limit. If we look ahead 25 years and assuming 3% annual inflation, the monthly HIPAA limit would be $26,370. This would be the max benefit even if they purchased a $50,000 monthly benefit. This means the client may never be able to receive the monthly maximum benefit that they paid for.

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 to HIPAA limit to be received untaxed. If the client wanted to take more than the HIPAA limit, they would 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. Your clients will have to prove expenses to get reimbursed, but because we don't restrict based on HIPAA limits, they may be able to take more benefit from our rider than from a company with a 1x HIPAA limit. And, because your clients has to submit receipts, their records will already be 'in order' to prove expenses to the IRS, if needed.

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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.

Indemnity		Reimbursement
Under an indemnity policy with a 1x HIPAA limit, the most she could receive in LTC rider benefits is $26,370, even if her monthly max should be $50,000 per month. This means she would need to dip into her personal savings for the additional $1,630 per month.	VS.	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 because if the client's expenses are less than their monthly max, they can take more than their actual expenses.

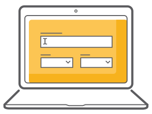
And while this is true, keep in mind the reason your client is purchasing this LTC rider. The goal isn't to get "extra money." It's to cover LTC expenses so they don't have to deplete their personal assets to pay for LTC services. The more benefit the client takes in excess of their actual LTC expenses,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

Case Study — Benefit Duration

Adam purchases a $1 million life insurance policy and his LTC benefit pool is the same with a 2% acceleration option. He can take up to $20,000 per month ($240,000 per year). Let's assume his actual LTC expenses are $16,000 per month ($192,000 per year).

Reimbursement		Indemnity
A reimbursement policy would last for 62.5 months (5 yrs. 2 ½ months)	VS.	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 since your client has access to greater benefits and 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:
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