Long Term Care University

Long Term Care University – Question of the Month

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Q: We read the article 'Traditional Versus Combination Life and Long Term Care Insurance' and decided we want to purchase a Combination policy. When comparing two Combination policies we realized one of the policies explicitly references to "long term care" while the other explicitly references to "chronic illness". Is there a difference in these policies?

The Problem – Not All Combination Polices are the Same
Combination policies can pay for long term care services by accelerating the death benefit of a policy, according to Internal Revenue Code 101(g). But, there are two distinct types of Combination policies. One type provides the same flexibility of a Traditional Long Term Care Insurance Policy. The other type is more limited and can result in your claim being denied by the insurance company. Below, we compare the policies.

7702B Combination Policies. Insurance companies can explicitly state that these policies will pay for "long term care". The requirements to qualify for long term care benefits with this type of policy are the same as those for a Traditional LTC Insurance policy. Claims approvals are based on a licensed health care professional certifying that you are unable to perform two or more activities of daily living (ADLs: bathing, continence, dressing, eating, toileting and transferring) or have severe cognitive impairment.

One key criterion to qualify for benefits is that the need is **expected** to last 90 days or more. **Like Traditional policies, 7702B Combination policies do not require that your care is expected to be permanent.** For example, this type of policy could pay for your care if your Dr. says your care is expected to last 10 months. Like a Traditional LTC policy, a 7702B policy is designed to pay claims even if you recover and go back on claim in the future.

101(g) Combination Policies. Interstate Insurance Product Regulation Commission (IIPRC) Model Regulation 620 allows insurance companies to offer two types of 101(g) chronic illness policies.
The first type: C(1)(e)(i), requires that the chronic condition is expected to be permanent. Meeting the requirements to qualify for long term care benefits with this type of policy are much more difficult than 7702B policies**.** For example, this type of policy would **not** pay for your care if your Dr. says your care is expected to last 10 months.

The second type: C(1)(e)(ii), does not require that your care is expected to be permanent. It follows the same key criteria as a 7702B policy – the need is expected to last 90 days or more. For example, this type of policy **would** pay for your care if your Dr. says your care is expected to last 10 months.

With the addition of C(1)(e)(ii) in recent years, more insurance companies are choosing to offer this type of chronic illness policy. Since insurance companies can offer C(1)(e)(i) or C(1)(e)(ii) policies, it is critical to know which type you are purchasing.

The Solution – Purchase a 7702B Policy Described as "Long Term Care" or a 101(g) C(1)(e)(ii) Chronic Illness Policy
Before purchasing a Combination policy, verify what type of policy it is. Ideally, purchase a 7702B policy that covers "long term care" or a 101(g) chronic illness policy described as C(1)(e)(ii). A temporary (not expected to be permanent) claim that lasts 10-20 months can easily cost $75,000 to $150,000. While a 7702B policy or 101(g) C(1)(e)(ii) could pay 100% of your costs, a 101(g) C(1)(e)(i) policy would not pay any of your costs.

Action Step – Verify in Writing Whether Your Policy is a 7702B or 101(g) C(1)(e)(ii) Chronic Illness Policy
Look for the explicit reference to "long term care" or C(1)(e)(ii), or lack thereof in the insurance companies' brochures and marketing materials. Go one step further and have the insurance spell out exactly what type of policy they are offering. Understand how to qualify for benefits before you purchase you purchase your policy, not after.

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