Income Advantage℠ IUL and
Life Protection Advantage℠ IUL

Chronic Illness Rider or LTC Rider

Which is Right for Your Client?

When your clients purchase an Income Advantage℠ or Life Protection Advantage℠ Indexed Universal Life insurance (IUL) policy, they have options that allow them to take all or a portion of their death benefit early if they become chronically ill. You may wonder which one is best for your client. Like many things in life, it depends on the situation.

The information provided will help you understand how each rider works, and arm you with the information you need to help your clients choose the option that best suits their needs.

	Chronic Illness Rider	Long-Term Care Rider
Availability	All ages, all risk classes	Insureds ages 30-79, up to table 4
Additional Underwriting	None; this rider is automatically included with all policies at issue.	Requires additional underwriting to qualify for the LTC Rider.
Cost	No additional up-front charges; however, if used, the benefit amount is reduced by an actuarial discount and a flat $100 fee. Because the actuarial discount is calculated based on the insured's remaining life expectancy and the current Moody's Corporate Bond Yield average, the cost is not known until the time the benefit is requested. If your clients never use the benefit, they won't be charged.	Cost is known up front. It's a recurring monthly cost of insurance rate that cannot increase. The client will be charged regardless of whether the client ever uses the benefit. Rider charges are waived once the client goes on claim.
Maximum Benefit Level	Maximum total benefit is 80% of the specified amount at the time of the first benefit payment (up to $1 million). At the time of claim, the client decides how much benefit they need and it is available in a lump sum with no restrictions on the use of the benefit. Limited to HIPAA maximum at time of claim.	Maximum total benefits are based on the amount chosen at time of issue (the benefit pool). Max of $2m for 1% and 2%, and $1.25m for 4%. Qualifying LTC expenses are reimbursed and there is no option to take a lump sum.
Benefit Period Frequency	Once every 12 months, so clients may need to estimate the expenses they will incur over the coming year.	Benefit can be paid until the maximum total benefit pool has been exhausted.
Qualification for Benefits	Chronically ill; defined as substantial cognitive impairment or the insured's inability to perform 2 of 6 Activities of Daily Living.	Chronically ill; defined as substantial cognitive impairment or the insured's inability to perform 2 of 6 Activities of Daily Living; and, has qualifying long-term care expenses.
Benefit Type	Indemnity – There are no restrictions on the use of the benefits. The policyowner must only provide proof that the insured is chronically ill.	Reimbursement – LTC Rider reimburses the policyowner for qualified LTC expenses. The policyowner must provide proof the insured received covered services.
Income taxation	Income tax-free benefits, qualifies under Section 101(g) of the Internal Revenue Code.	Income tax-free benefits, qualifies under Section 7702B of the Internal Revenue Code.
Death Benefit	Any remaining death benefit not accelerated will be payable to the beneficiary.	Any remaining death benefit not accelerated will be payable to the beneficiary.

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Case Study

A male client, in preferred health, purchases a $1 million life insurance policy at age 50 and becomes chronically ill at age 75. His LTC expenses are $16,000 per month ($192,000 per year).

Let's look at three hypothetical scenarios to determine the cost and benefit differences between an LTC Rider with a $1 million max benefit using a 2 percent monthly acceleration option and a Chronic Illness Rider with a max benefit of 80 percent of the specified amount.

Scenario 1:

Let's say he has five years life expectancy left

With the LTC Rider

Would need to take $192,000 in LTC Rider benefits to get $192,000

25 years of LTC Rider COI charges = $26,000*

Remaining Death Benefit = $808,000

Remaining Acceleration Amount = $808,000

With the Chronic Illness Rider

Would need to take $247,870 in Chronic Illness Rider benefits to get $192,000

Cost = $55,870 (22.5% discount rate at 4.5% Moody's Corporate Bond Yield and $100 fee)

Remaining Death Benefit = $752,130

Remaining Acceleration Amount = $552,130

Scenario 2:

Now, let's say he has two years life expectancy left

With the LTC Rider

Would need to take $192,000 in LTC Rider benefits to get $192,000

25 years of LTC Rider COI charges = $26,000*

Remaining Death Benefit = $808,000

Remaining Acceleration Amount = $808,000

With the Chronic Illness Rider

Would need to take $211,100 in Chronic Illness Rider benefits to get $192,000

Cost = $19,100 (9% discount rate at 4.5% Moody's Corporate Bond Yield and $100 fee)

Remaining Death Benefit = $788,900

Remaining Acceleration Amount = $588,900

Scenario 3:

Now, let's assume he died at age 75 without ever needing long-term care services

With the LTC Rider

25 years of LTC Rider COI charges = $26,000*

Remaining Death Benefit = $1 million

With the Chronic Illness Rider

Cost = $0

Remaining Death Benefit = $1 million

* The LTC Rider COI rate is applied to the policy's net amount at risk, which means that even through the COI rate is guaranteed, the actual rider charges will vary. The rider charges shown are approximate and for illustrative purposes only.

Your clients' individual situations will determine which long-term care services solution is the best fit for them. Become familiar with the differences between the Long-Term Care Rider and the Chronic Illness Rider so you can help your clients with this important decision.

To learn more, visit MutualofOmaha.com/ltc-rider.