

# *Combination Products*

## **Filing Combo Products**

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# Today's Discussion



- Life insurance with accelerated death benefits other than long-term care
- Life insurance with long-term care riders

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Life insurance with accelerated death benefits  
other than long-term care



**15th Annual Intercompany Long Term Care Insurance Conference**

- Rider, endorsement, amendment, or contract provision that provides for the advance payment of some or all of the death proceeds upon the occurrence of a qualifying event
- Governing regulatory provisions apply to all accelerated death benefits except for those subject to long-term care insurance laws/regulations and IIPRC standards
- Descriptive title of the benefit must include “accelerated benefit”
- Benefit must provide the option to take the benefit as a lump sum
- No restrictions are permitted on the proceeds’ use

# Qualifying Triggers



- [NAIC Model 620](#) – Life Insurance Accelerated Benefits

1. A medical condition that would result in a drastically limited life span, for example, twenty-four (24) months or less;
2. A medical condition that has required or requires extraordinary medical intervention, such as, but not limited to, major organ transplant or continuous artificial life support, without which the insured would die;
3. A condition that usually requires continuous confinement in an eligible institution if the insured is expected to remain there for the rest of his or her life;
4. A medical condition that would, in the absence of extensive or extraordinary medical treatment, result in a drastically limited life span. Such conditions may include, but are not limited to:
  - (a) Coronary artery disease resulting in an acute infarction or requiring surgery;
  - (b) Permanent neurological deficit resulting from cerebral vascular accident;
  - (c) End stage renal failure;
  - (d) Acquired Immune Deficiency Syndrome; or
  - (e) Other medical conditions that the commissioner shall approve for any particular filing; or
5. Other qualifying events that the commissioner shall approve for a particular filing.

**IIPRC specifically provides for chronic illness trigger whereas NAIC Model includes “other qualifying events”**

- [IIPRC Standards](#) for Accelerated Death Benefits

Must include:

1. A medical condition that is reasonably expected to result in a drastically limited life span for the insured. (minimum of “6 months or less” and a maximum of “24 months or less”);

May also include:

1. A medical condition that requires extraordinary medical intervention, such as major organ transplant or continuous artificial life support, without which the insured would die;
2. A condition that usually requires continuous confinement in an institution, as defined in the form, and the insured is expected to remain there for the rest of his or her life;
3. A specified medical condition that, in the absence of extensive or extraordinary medical treatment, would result in a drastically limited life span; or
4. A chronic illness defined as permanent inability to perform, without substantial assistance from another individual, a specified number of activities of daily living (bathing, continence, dressing, eating, toileting and transferring), and/or permanent severe cognitive impairment and similar forms of dementia.
5. In 2014, added definition for chronic illness for purposes of complying with IRC 7702B and 101(g)

# Governing Regulatory Provisions



## NAIC Model 620

### Life Insurance Accelerated Benefits

“Accelerated benefit riders and life insurance policies with accelerated benefit provisions are primarily mortality risks rather than morbidity risks. They are life insurance benefits subject to [insert sections referencing life insurance provisions]”

## IIPRC Standards

### for Accelerated Death Benefits

These standards require the submission of an actuarial certification that the value and premium of the accelerated death benefit is incidental to the life coverage

- Florida Regulation 69O-149.002(7) – Life Insurance Accelerated Benefits: The Incidental Test(s)

Accelerated benefit riders are considered to be life insurance products when the benefit is incidental to the total life insurance coverage.

There is one test that all accelerated benefits forms must pass to be considered incidental. The value of the accelerated benefit must be less than 10% of the total value of the benefits provided by the life insurance coverage by a measured formula prescribed in the regulation.

Additionally, if there is a separate premium or cost of insurance (COI) charge the accelerated benefit must also pass an additional test to be found incidental.

- Disclosure form required at solicitation
  - Must include a description of the benefit and triggers, and an explanation of the benefit's effects on the policy
  - Must be provided prior to or concurrently with the application
  - Must be signed by the applicant and the writing agent
  - New form requirement under IIPRC standards that satisfies disclosure requirement in applicable Compacting States
- Statement of the effect of any benefit payment
  - Must be provided when a benefit is requested
  - Must show the effects on the policy
  - Must include tax and government benefit disclosures
- Amended schedule page/endorsement
  - Must be sent when benefit is accelerated
  - Must reflect reduced policy values



- Clear statement required on the cover page of the benefit that the owner should seek information from his personal tax advisor about the tax status of accelerated death benefit payment
- Prominent disclosure required at application, and upon benefit payment, that the benefits may be taxable and that assistance should be sought from a personal tax advisor
- “Benefits paid by accelerating the policy’s death benefit may or may not qualify for favorable tax treatment under Section 101(g) of the Internal Revenue Code of 1986. Tax treatment of an accelerated death benefit may depend on factors such as life expectancy at the time benefits are accelerated, the amount of benefits, the amount of qualified expenses incurred, or if similar benefits are being received under other contracts. Receipt of accelerated death benefits may affect eligibility for public assistance programs such as Medicaid. Clients are advised to consult with qualified and independent legal and tax advisors for more information.”
- Amended IIPRC standard clarifies federal tax requirements

## Do's

- Include “accelerated benefit” in the description
- Include tax and government benefit disclosures
- For CA, include a comparison between chronic illness riders and long-term care insurance

## Don'ts

- Describe or market accelerated benefits as long-term care insurance, nursing home insurance, home care insurance, or health insurance
- Overstate the importance of the accelerated benefit in comparison to the death benefit

# State Challenges



- CA – advertising of accelerated death benefits required to be filed prior to use
- CT – eligibility for chronic illness benefit requires expectation of permanent institutional confinement or confinement in the insured's home
- CT – acceleration for any trigger is only available once (i.e., cannot provide for an annual acceleration for chronic illness)
- DC – chronic illness benefits required to be filed as health insurance, even though it is a life insurance benefit
- FL – in order to be a life insurance benefit, carrier must provide an Excel document demonstrating that the benefit is incidental to the life insurance policy; if there is cost of insurance associated with the benefit, there is an additional demonstration required

# *Combination Products*

Life insurance with long-term care riders



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- “Long-term care insurance” definition includes a rider “advertised, marketed, offered or designed to provide” long-term care insurance
- Life insurance policy with an accelerated death benefit for long-term care is thus subject to long-term care insurance laws
- Base life insurance policy can be any type of life insurance, including universal life (UL), indexed universal life (IUL), variable universal life (VUL), or term

- Types of long-term care riders
  - Accelerated death benefit rider on life insurance – The life insurance policy death benefit is accelerated to pay for long-term care services
    - These are generally indemnity riders – may or may not require covered expenses to be incurred
    - Provided certain exemptions from long-term care insurance laws, including the requirement to offer inflation benefits and the requirement to develop and use long-term care insurance suitability standards
  
  - Accelerated death benefit rider on life insurance designed for use with rider – The life insurance policy is designed to only be sold with the rider that accelerates the death benefit to pay for long-term care services.
    - Can be indemnity or reimbursement
    - Also subject to certain exemptions, but often sold with an extended/extension of benefits for long-term care
  
  - Extended/extension of benefits for long-term care rider – The rider pays benefits independent of the death benefit once the entire death benefit has been accelerated
    - “True” long-term care insurance

# Qualifying Triggers



## NAIC Model 640 – LTC Insurance Model Act and NAIC Model 641 – LTC Insurance Model Regulation

1. A long-term care insurance policy shall condition the payment of benefits on a determination of the insured's ability to perform activities of daily living and on cognitive impairment. Eligibility for the payment of benefits shall not be more restrictive than requiring either a deficiency in the ability to perform not more than three (3) of the activities of daily living or the presence of cognitive impairment.
2. Activities of daily living shall include at least the following as defined in Section 5 and in the policy:
  - (a) Bathing;
  - (b) Continence;
  - (c) Dressing;
  - (d) Eating;
  - (e) Toileting; and
  - (f) Transferring;

## IIPRC Core Standards for Individual LTC Insurance Policies

1. The policy shall condition the payment of benefits on a determination of the insured's ability to perform activities of daily living and on cognitive impairment. Eligibility for the payment of benefits shall not be more restrictive than requiring either a deficiency in the ability to perform not more than two of the activities of daily living or the presence of cognitive impairment.
2. Activities of daily living shall include at least all of the following as defined in the policy:
  - (a) Bathing;
  - (b) Continence;
  - (c) Dressing;
  - (d) Eating;
  - (e) Toileting; and
  - (f) Transferring.

# Governing Regulatory Provisions



## **NAIC Model 640 – LTC Insurance Model Act and NAIC Model 641 – LTC Insurance Model Regulation**

“Long-term care insurance” means any insurance policy or rider advertised, marketed, offered or designed to provide coverage for not less than twelve (12) consecutive months for each covered person on an expense incurred, indemnity, prepaid or other basis; for one or more necessary or medically necessary diagnostic, preventive, therapeutic, rehabilitative, maintenance or personal care services, provided in a setting other than an acute care unit of a hospital.

## **IIPRC Core Standards for Individual LTC Insurance Policies**

“Long-term care insurance” is any insurance policy, rider, endorsement or amendment advertised, marketed, offered or designed to provide coverage for not less than twelve (12) consecutive months for each covered person on an expense incurred, indemnity, prepaid or other basis; for one or more necessary diagnostic, preventive, therapeutic, rehabilitative, maintenance or personal care services, provided in a setting other than an acute care unit of a hospital, unless the area of the hospital or unit where the services are provided is licensed or certified as a nursing care facility and the insured is receiving long-term care services and not acute care.



- **Florida Definition of Long-Term Care**

“Long-term care insurance policy” means any insurance policy or rider advertised, marketed, offered, or designed to provide coverage on an expense-incurred, indemnity, prepaid, or other basis for one or more necessary or medically necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, rehabilitative, maintenance, or personal care services provided in a setting other than an acute care unit of a hospital. Long-term care insurance shall not include any insurance policy which is offered primarily to provide basic Medicare supplement coverage, basic hospital expense coverage, basic medical-surgical expense coverage, hospital confinement indemnity coverage, major medical expense coverage, disability income protection coverage, accident only coverage, specified disease or specified accident coverage, or limited health insurance coverage not otherwise defined as long-term care insurance.

# Governing Regulatory Provisions



- Note that the NAIC LTC Model law and the IIPRC LTC Standards specifically exempt “life insurance policies that accelerate the death benefit specifically for one or more of the qualifying events of terminal illness, medical conditions requiring extraordinary medical intervention or permanent institutional confinement, and that provide the option of a lump-sum payment for those benefits and where neither the benefits nor the eligibility for the benefits is conditioned upon the receipt of long-term care.”
- Dollar-for-dollar exemption in IIPRC Rate Filing Standards
- Suitability process still applies to IIPRC-approved products for Compacting States that did not adopt NAIC Model Law Exemption

- Many disclosures required, similar to long-term care insurance, including:
  - Outline of Coverage
  - Things You Should Know Before You Buy Long-term Care Insurance
  - Long-term Care Insurance Personal Worksheet
  - HIPAA Authorization
  - LTC Replacement Notice (if applicable)
  - A Shoppers Guide to Long-term Care Insurance
- Plus any life insurance disclosure requirements, including life insurance replacement notices, Buyer's Guide, and other disclosure forms

- Life insurance policies that accelerate the death benefits for qualified long-term care insurance benefits are subject to Internal Revenue Code §7702B –
  - Same section that governs traditional stand-alone long-term care insurance

- Product must comply with both the applicable life insurance standards and the long-term care insurance standards
  - For IIPRC filing, can make one filing with all forms – life and long-term care
  - For some states, separate filings are required for the different pieces – a life filing, a health filing and sometimes even a separate rate filing
- For IIPRC and most states, must file all advertising forms in a separate filing

- LTC riders can be filed with the IIPRC for use with policies previously approved by the states (mix and match).
- LTC riders approved by the states may be used with new life insurance policies filed with the IIPRC (reverse mix and match).
- Five states have opted out of IIPRC individual LTC standards – AZ, HI, IN, MT, NJ
- If filing with IIPRC, certain state standards must be still be complied with, such as states' daily minimum benefit amounts
- Partnership approval is within state's authority
- IIPRC's individual LTC uniform standards subject to 5-year review process in latter part of 2015

# Florida Requirements for Filing



- Submit the filing as a “Both” filing in the I-Portal.
- When the filing is received by Florida, it will be reviewed simultaneously by both the Forms Section and the Rates Section.
- Filings that are not complete when received will not be accepted and will be returned Incomplete.
- The Company may receive a letter of clarification from either the Forms Section, the Rates Section or both the Forms and Rates Section.
- It is important that the company respond to the clarification letter by the date certain in the letter/letters of clarification.
- The filing should contain the following items:
  - Universal Standardized Data Letter (UDL), completely filled out; make sure you fill out all of the sections completely.
  - There is a checklist for the forms required; it is beneficial to use it.
  - Make sure that any variable materials are included in the Statement of Variability (SOV).
  - Upload all policies, certificates, riders, endorsements.
  - An outline of coverage is required for many of the products.
  - There must be an Actuarial Memorandum signed by an Actuary
  - All numerical exhibits must be provided in Excel spreadsheets with active formulas where needed.
  - Gross to Net exhibits are required on LTC filings. These must be in an Excel spreadsheet.

- Certain LTC requirements apply to life insurance with long-term care riders:
  - Life insurance producers must be health/LTC licensed in addition to life licensed
  - LTC continuing education required



- Long-term care annual reports are required:
  - LTC Claim Denial Report
  - LTC Lapse Report
  - LTC Replacement Report
  - LTC Rescission Report
  - LTC Suitability Report
- New MCAS Data Call for Long-Term Care Hybrid Products
- Annual Rate Reports/Certifications
  - Florida
  - IIPRC

- Advertising of long-term care riders to life insurance is subject to all long-term care insurance advertising requirements.
- Must be filed for approval and/or file and use prior to use

- Language and format of the suitability Personal Worksheet mandated by most states
- Asks about buying Inflation Protection
- Quotes national surveys of the annual costs of care
- Applicant can “opt out” of providing information – insurer then has the ability to send a letter to the applicant allowing them to continue to apply for the product as long as they sign and return the letter stating that they continue to believe the coverage is what they want
- Letter can also be sent if the applicant does not meet the suitability requirements

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Questions



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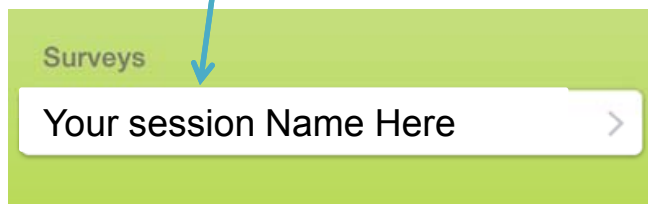
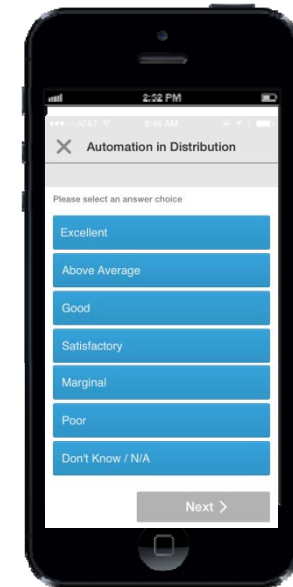
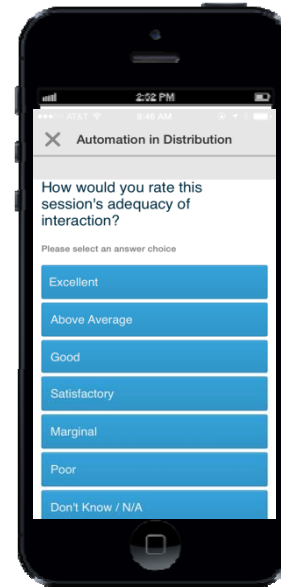
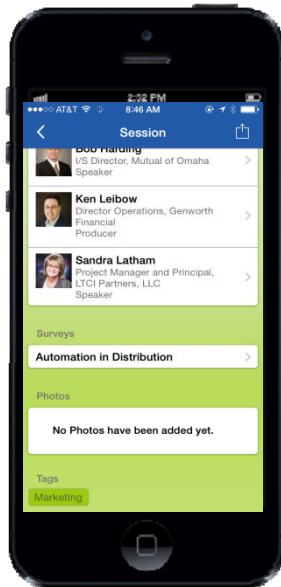
# Don't forget to fill out the survey



1<sup>st</sup> you must have download the ILTCI Mobile App  
- Go to your app store; search ILTCI. It's free.



1. Find the session
2. Scroll to the bottom
3. Tap on the session name below the survey



Tap on the answer you wish to submit

Click Next