Benefitting from Chronic Illness Insurance

For the rising number of Americans diagnosed each year with a chronic illness, additional insurance that pays for medical and nonmedical costs may be the answer to ensuring their needs are met.

By Abbie Cornett

HEALTH INSURANCE IS a safety net to provide people with financial protection in the event of sickness or injury. And, while no one plans on becoming ill, it is a possibility. Responsible people understand and prepare for that prospect by purchasing health insurance. But, how do people protect themselves and their families if the illness is chronic and will require treatment for an extended period or for the rest of their lives? The answer may be chronic illness insurance.

Chronic illness is defined by the Centers for Disease Control and Prevention (CDC) as a condition that lasts one year or longer and requires ongoing medical attention or limits activities of daily living or both.[1] The cost of treating a chronic illness can be devastating, particularly if patients require specialized treatment, equipment or help with daily living activities not covered by health insurance.

Indeed, medical bills are the leading cause of bankruptcy, so the need for financial protection is greater today than ever before. The number of people dealing with chronic illness and its related expenses is larger than most realize. According to statistics, 133 million Americans have at least one chronic illness. Further, it is estimated by 2025, that number will grow to 164 million people or nearly half the population.[2] These numbers are sobering considering 80 percent of the population older than 55 years has less money saved for retirement than they will likely need to cover their medical expenses alone.[3]

What Is a Chronic Illness Rider?

Often, people assume health insurance will cover their medical needs if they become ill. Unfortunately, that isn't always the case. When seriously chronically ill, people may not be able to pay their health insurance premiums, or they may need help performing activities of daily living not covered by a regular health insurance policy such as bathing, preparing food or dressing.

A chronic illness rider is an addition to a standard life insurance (or mortgage protection life insurance) policy that pays for medical and nonmedical care that health insurance does not cover if diagnosed with a qualifying illness.[4] It is a relatively new concept similar to a long-term care policy that has been available for years to address people's inability to perform daily activities. Funds are paid in one lump sum directly to beneficiaries, and they can be used in whatever manner is needed such as for medical bills and/or assisted care, or for modifying a home to make it more accessible.[5] In addition, these funds are not intended to be taxed,[6] although individuals should always consult first with a tax advisor.

A chronic illness rider is often lumped with critical illness and terminal illness riders. The rider allows individuals to use their life insurance benefit while still alive as an accelerated death benefit. The amount of funds available depends on the terms of the policy. Some policies will allow access to all of the death benefit in advance. And, depending on the policy, the rider may be added at no additional cost and will cover care up to the amount specified.

The advantage to buying a rider rather than a separate policy is the benefit does not have to be accessed if it is not needed. When it is not accessed, it is still available to be paid to beneficiaries upon the policyholder's death.[7] For instance, if a person takes out a life insurance (or mortgage protection) policy for $50,000 with a chronic illness rider of $10,000, in the event of a chronic illness, that person would receive the $10,000 in a one-time payment. The $10,000 is part of the insurance money (death benefit) that would have gone to beneficiaries if not used. But, if it is used, beneficiaries will receive only $40,000. The rider is not additional money; it is part of the insurance money from that life insurance policy that is available while still alive (also known as a "living benefit").[4]

Accessing Chronic Illness Rider Benefits

A chronic illness rider will pay a benefit when a licensed healthcare professional certifies the policyholder has a qualifying condition that limits his or her ability to perform two of six activities of daily living (ADLs) or has a permanent severe cognitive impairment requiring substantial supervision (see 6 Activities of Daily Living).[4]

When deciding whether to use the benefit, it is important to assess the impact to the life insurance policy. If the accelerated benefit is used, it will lower the amount of life insurance available to beneficiaries after the policyholder dies. Therefore, it is important to look at other finances that could be of assistance, including other insurance coverage and Medicare and Medicaid benefits.

Many people are unaware that Medicare will provide some support for costs associated with long-term care hospitals, skilled nursing facilities, home health service providers and hospice care providers. Medicare, though, is only a short-term solution for long-term care. Medicaid, on the other hand, can help with a long-term care solution if the individual meets the strict qualifying income. Medicaid's Home- and Community-Based Services waiver program is designed to pay for many services that would be impossible for seniors to afford on their own such as homemaking, personal care and even adult day healthcare services when needed.[8]

Long-Term Care vs. a Chronic Illness Rider

Rather than a chronic illness rider, a long-term care rider may be considered instead. The differences between a long-term care and a chronic illness rider are subtle but significant. Both are designed to help with expenses related to a long-term condition. However, a long-term care rider offers more flexibility.

A chronic illness rider requires an individual to have a qualifying condition that limits his or her ability to perform a minimum of two of the six listed ADLs, or a permanent cognitive impairment that limits the person's ability to perform instrumental activities of daily living (IADLs) with no potential for recovery (see Instrumental Activities of Daily Living).[3] On the other hand, a long-term care rider may also be paid if a person has severe cognitive decline that limits his or her ability to perform IADLs regardless of the ability to perform ADLs.[7] Further, unlike a chronic illness rider, a long-term care rider can provide benefits for conditions that are both temporary and permanent. For example, if a person had to have surgery that required a stay in a rehabilitation center, a long-term care rider would provide benefits while there, and then would stop benefits until they are needed again. A chronic illness rider would not cover the stay since the condition would not be considered permanent.

But, there are also two downsides to the long-term care rider. First, unlike a chronic illness rider, if the benefit goes unused, the money paid for the premium is lost. Second, whereas a chronic illness rider can be used for anything after the payment is made, a long-term care rider may require evidence of actual paid expenses and may be paid as reimbursement.

Instrumental Activities of Daily Living

- Managing finances
- Handling transportation (public transit or personal driving)
- Shopping
- Preparing meals
- Using the telephone
- Managing medications
- Performing housework and basic home maintenance

Top 10 Best Companies Offering Long-Term Care Policies and Chronic Illness Riders

The following table of companies is Asurea's current list of insurers that provide either long-term care policies or chronic illness riders. There is no one best company. The right company is based on specific goals and objectives.

Company	Type of Rider
AIG	Chronic Illness
AXA Equitable	Long-Term Care
Lincoln National	Chronic Illness Long-Term Care
Life Insurance of the Southwest	Chronic Illness
MassMutual	Long-Term Care
Minnesota Life	Long-Term Care
North American	Chronic Illness
Pacific Life	Chronic Illness
Penn Mutual	Chronic Illness
Principal	Chronic Illness
Prudential	Chronic Illness
State Life	Long-Term Care
Voya	Chronic Illness

Purchasing a Policy After Diagnosis

Ideally, people have insurance before they need it since after diagnosis, it is much more difficult to get. However, even if life insurance is not purchased prior to diagnosis of a chronic illness, it is not necessarily too late. It may depend on the condition or the type of life insurance. Some policies will not require a medical exam or will offer guaranteed coverage. Existing life insurance policyholders should check to see if it includes accelerated (living) benefits.[9] Also, prior to purchasing any policy, it is wise to check the rules on preexisting conditions, waiting periods, excluded benefits and any age restrictions that may apply.[10]

Ensuring Financial Well-Being

With the number of people in the U.S. with a chronic illness rising to almost half the population in just half a decade, chronic illness insurance may be the only way to ensure medical needs are met and family members are financially protected. However, the decision to purchase chronic illness insurance depends on many factors. Besides affecting physical health, the cost of a chronic illness can impact both individual and family financial well-being. If resources are available to guarantee a family can manage the disease and its related costs, then purchasing chronic illness insurance is probably not necessary. But, for most, those resources aren't sufficient. Fortunately, chronic illness insurance is now an option. And, even when not purchased prior to a diagnosis, a policy is still possible to obtain.

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