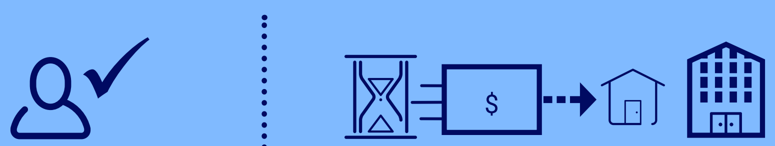
Long-Term Care Insurance: Reimbursement vs. Indemnity

Understanding the differences between long-term care insurance (LTCi) reimbursement and indemnity payment methods can help prospects choose the solution that best fits their needs.

Reimbursement:

Once triggered, LTCi benefits are paid in the form of reimbursement for covered long-term care services.



Policy owner goes on claim and qualifies for LTCi benefits...

...after any applicable waiting/ elimination period, the insurer reimburses for care providers and care at facilities each month.[1]

Tax-free benefits

Limiting spend to qualified long-term care services may help extend how long policy coverage lasts once on claim

Benefits limited to paying for long-term care services

Indemnity (cash):

Once triggered, LTCi benefits are paid as a cash benefit, up to the policy maximums, without regard to the actual long-term care expenses incurred.

Policy owner goes on claim and qualifies for LTCi benefits...

The insurer sends monthly check to policy owner, who can use LTCi benefit dollars as desired each month.

LTCi benefits from a tax-qualified long-term care policy are generally received income tax-free(up to IRS max [$430] per day in [2026])

Full monthly benefit cash payout[2] regardless of long-term care expenses incurred during the tax year means coverage lasts exactly the number of months/years specified in policy

Benefit dollars can be used for any qualified purpose or set aside

Reimbursement (continued):	Indemnity (continued):
Helps to ensure that policy benefits are used for long-term care, while supporting the policy owner in receiving the intended value from the policy	Offers confidence that benefit dollars can be used flexibly, while recognizing that decisions about how to spend the cash may create stress for families
Must provide a receipt for provided care for reimbursement from policy	No receipt needed can simplify the benefit payment process for policy owner
Receipts used to trigger reimbursement create accounting record by default, providing transparency about spending for everyone involved	Inter-family conflicts regarding use or misuse of funds may be more likely to occur with cash benefit
Most policies offer a care management benefit that will help provide a Plan of Care and monitor the care provided for any potential fraud, abuse, or billing issues at no cost to the insured	Some indemnity policies do not provide care management or care planning services. If desired, the policy owner instead has to acquire a Plan of Care at their own cost. New York Life Asset Flex policies with indemnity benefits provide full access to care planning services. Other policies with indemnity benefits may differ.
If using a licensed home care agency, the home care agency (not the policy owner) is responsible for workman's compensation insurance for the home health care agency employee providing services	If paying individual caregivers directly, policy owner employers can potentially be liable for caregiver's work-related injuries, as well as handling various tax filing responsibilities
If using a licensed home care agency, the home care agency (not the policy owner) is responsible for paying individual care providers, doing background checks, and payroll taxes	If paying individual caregivers directly, families need to consider who will act as the record keeper, monitor caregivers, handle any tax reporting and withholding, and pay invoices
If policy will pay a cash benefit for an informal caregiver, the claimant/family may be responsible for any payment processing responsibilities and related tax requirements associated with paying the informal care giver directly, as if it was an indemnity policy[3]	Using an informal caregiver will require a determination of whether to treat the person as an employee receiving a Form W-2 (typically the case); New York Life Asset Flex policies with indemnity benefits provide full access to care planning services, while other indemnity policies may differ[3]
A Form 1099-LTC is sent to the IRS by the insurance company on payments made from the policy	A 1099 form is sent to the IRS by the insurance company on payments made from the policy

See the next page for the questions your clients should consider.

Questions to consider:

Are you considering purchasing a policy to pay directly for your care needs or a policy that provides the freedom (and responsibility) of appropriately using a per diem benefit?

Most claimants are not in charge of their care needs at time of claim. They are no longer able to take care of themselves, or their finances, so someone else may be making decisions for them. Who would be in this role for you? Is that person capable of managing an indemnity benefit, or would a reimbursement benefit be better suited to the situation?

Would you have any concerns about your family managing a cash benefit? Can you be confident that the funds would not be misused?

Will the person you now assume may be your future caregiver (spouse/family/friend) be able to care for you in 15, 20, or 25 years?

Will your caregiver be bonded and insured? If not, an injury or theft could become the insured's or family's responsibility.

Who will be the person to hire your caregiver and keep track of services provided (bookkeeping, payroll, insurance, etc.)?

Are you aware of the responsibilities of hiring a caregiver in your home? To learn more about the responsibilities of being a Household Employer refer to the IRS Publication 926 - Household Employer's Tax Guide.[3]

What kind of demands will a long term care event place on those around the person needing care (a spouse, a child, etc.)?

What might be the impact of those demands on your relationship with those making the decisions?

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[1] Some benefits may have different waiting periods.
[2] The owner can elect up to the monthly maximum amount but is not required to take the full amount.
[3] For additional information, refer to the Household Employer's Tax Guide, Publication 926 (Cat. No. 64286A), available at: https://www.irs.gov/forms-pubs/about-publication-926.

Or use the QR code below: