

# Reimbursement vs. Indemnity

## Two ways to pay long-term care benefits

### Why we use the reimbursement model:

#### 1. It simplifies the process

We believe that long-term care protection should pay licensed professionals to provide quality care services. This not only ensures that your clients receive the care they need, it also allows family and friends to help supervise the care instead of providing it themselves.

#### 2. It eliminates paperwork

Care providers bill us directly and we handle the billing administration. Your clients and their families won't have to worry about dealing with any of the bills or receipts.

#### 3. It lowers cost

The risk for fraud is greater with indemnity policies, which leads to high costs for consumers. The reimbursement model ensures accountability through inherent safeguards.

#### 4. It can be absolutely tax-free

The reimbursement model adheres to the 7702(b) contract, which guarantees the entire amount sent to a care provider is distributed tax-free.

### The benefits of reimbursement versus indemnity

|                              | Our reimbursement   | Indemnity  |
|------------------------------|---|--|
| <b>Tax implications</b>      | Reimbursement amounts are distributed tax-free  | <ul style="list-style-type: none"> <li>• Benefits paid in excess of the IRS daily per diem can create significant tax consequences</li> <li>• Receipts are often required by the IRS to prove what benefits are not taxable and must be retained for 7 years for tax auditing purposes</li> <li>• Family or friends that serve as caregivers may incur additional tax liabilities</li> </ul> |
| <b>Cost</b>                  | Often lower — we pay for exact expenses   | Can be higher — a fixed amount is paid, regardless of whether the actual expense is lower  |
| <b>Benefit period</b>        | Pays a guaranteed amount of benefits for a predetermined period of time   | Can exhaust benefits faster if cost of care is lower than monthly benefit amount   |
| <b>Benefit restrictions</b>  | Requires care to be provided by a licensed professional   | Does not always require care to be provided by a licensed professional   |
| <b>Paperwork requirement</b> | Care provider can bill us directly to pay the claim OR insured can pay a care provider directly, then submit receipts for reimbursement | Insured must often prove they have incurred care expenses, pay provider directly, then submit to carrier for indemnity payout  |
| <b>Monthly LTC benefit</b>   | Pays the exact amount incurred for qualifying expenses, up to a monthly maximum   | Pays a set benefit amount, regardless of the amount of expenses, possibly exhausting benefits quicker  |

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