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Long Term Care (LTC) as a Protection Planning Tool

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Please feel free to contact me if you have any questions about this article and how it may pertain to your situation. You can also visit our website, www.selectportfolio.com, anytime to find other useful articles and information.

If you are within 10 years of retirement, let me help you understand how the retirement landscape has changed and how these changes can impact your current and future financial decisions.

SPM SELECT PORTFOLIO MANAGEMENT, INC.
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Long-Term Care Insurance (LTCI)(Overview)

What is long-term care insurance (LTCI)?

Long-term care insurance (LTCI) is a contractual arrangement that pays a selected dollar amount per day for a selected period of time for skilled, intermediate, or custodial care in nursing homes and other settings (such as home health care). Because Medicare and other forms of health insurance do not pay for custodial care, many nursing home residents have only three alternatives for paying their nursing home bills: their own assets (cash, investments), Medicaid, and LTCI. For information about Medicare and other government programs that cover only a limited amount of long-term care expenses, see Coordination with Government Benefits. For details about Medicaid, see Long-term Care Insurance (LTCI) as a Medicaid Planning Tool.

In general, long-term care refers to a broad range of medical and personal services designed to provide ongoing care for people with chronic disabilities who have lost the ability to function independently. The need for this care arises when physical or mental impairments prevent one from performing certain basic activities, such as feeding, bathing, dressing, transferring, and toileting--activities known as ADLs ("activities of daily living"). For more information about these activities, see Long-term Care Insurance (LTCI) Provisions. For details about places where you might receive long-term care, see Types of Long-term Care. For information about different kinds of LTCI policies and places where you might purchase them, see Types of Long-term Care Policies.

Long-term care may be divided into three levels:

- Skilled care--continuous "around-the-clock" care designed to treat a medical condition. This care is ordered by a physician and performed by skilled medical personnel, such as registered nurses or professional therapists. A treatment plan is created, and it is usually contemplated that the patient will recover at some point.
- Intermediate care--intermittent nursing and rehabilitative care provided by registered nurses, licensed practical nurses, and nurse's aides under the supervision of a physician.
- Custodial care--care designed to help one perform the activities of daily living (such as bathing, eating, and dressing). It can be provided by someone without professional medical skills, but is supervised by a physician.

How is it useful as a protection planning tool?

The risk of contracting a chronic debilitating illness (and the resulting catastrophic medical bills incurred) is considered by many to be one type of risk best passed on to an insurance company through the purchase of a LTCI policy.

A number of factors can increase your risk of requiring long-term care in the future. Naturally, your health status affects your likelihood of incurring a long stay in a nursing home. Indeed, people with chronic or degenerative medical conditions (such as rheumatoid arthritis, Alzheimer's disease, or Parkinson's disease) are more likely than the average person to require long-term nursing home care. And because women usually outlive the men in their lives, women stand a greater chance of requiring long-term nursing home care. However, if you already have a primary caregiver (like a spouse or child), your likelihood of needing a long stay in a nursing home will be less, particularly if you're a man. Because the cost of long-term care can be astronomical and may exhaust your life savings, purchasing LTCI should be considered as part of your overall asset protection strategy.

> **Example(s):** Sue is a 75-year-old widow with two children, John and Jill. Sue owns her condominium apartment and has $200,000 in liquid assets. After enjoying independence much of her life, Sue suffered a stroke and now needs help with such things as bathing, dressing, and eating. John and Jill look into home health care and discover that it will cost $1,500 per week (or

$78,000 per year). The money that Sue had hoped to pass on to her children will instead be spent on expenses that may otherwise have been covered by an LTCI policy.

How much does it cost?

Although purchasing LTCI seems to be the easy answer to the problem of escalating long-term care costs, the premiums for LTCI can be, depending on benefit levels selected, quite expensive.

Your yearly premium for an LTCI policy depends on a number of considerations, including your age when you purchase the policy, your health, the length of the coverage period (for instance, three years, five years, or lifetime benefits), the amount of the daily benefit provided, and whether you purchase inflation protection. When buying an LTCI policy, you must also consider not only whether you can afford to pay the premiums now but also whether you'll be able to continue paying premiums in the future, when your income may be substantially decreased. For more information about the cost of LTCI and examples regarding how Medicare and Medigap may help defray some of the costs, see Coordination with Government Benefits.

Who should purchase LTCI?

During the "golden years," when income typically declines, the purchase of LTCI should be carefully considered. People with significant discretionary income and substantial resources to protect for spouses, children, and other loved ones should seriously consider purchasing LTCI. Individuals with modest resources (e.g., less than $50,000 net worth) may find the premiums unaffordable, and may qualify for Medicaid by spending down their assets and/or engaging in a little Medicaid planning.

How much coverage is enough?

Insurance protects against an event that might happen in the future. Therefore, buying enough protection is important, but affordability must also be considered. In terms of cost, you need to consider the amount of the daily benefit you want to purchase and also the length of the benefit period.

- Daily benefit--Most policies will let you choose your amount of coverage, typically running anywhere from $40 to $150 or more per day. Of course, the greater the daily benefit and the longer the benefit period, the more the policy will cost. Also, note that the cost of nursing home care varies greatly from one metropolitan area to another, so you need to know where you'll be living out the remainder of your years. Certainly, it wouldn't make sense to purchase a policy with a daily benefit of $40 if the average daily cost of nursing homes in your area is $250 per day--unless, of course, you have substantial resources and plan to use some of your own income to pay for care. Consumers should generally buy enough coverage to cover 50 to 100 percent of nursing home costs. If you don't plan on using your own income to supplement, you should buy enough insurance to cover 100 percent of the nursing home costs.

- Length of benefit period--When purchasing LTCI, you'll be asked to select a benefit period. Benefit periods generally range from one to six years, with some policies offering a lifetime benefit. You'll want to choose the longest benefit period you can afford. If you can't afford a lifetime benefit, consider choosing a benefit period that coordinates with the look-back period for Medicaid (five years). For more information about ineligibility periods, see Look-Back Period for Medicaid.

Tip: The Deficit Reduction Act of 2005 gave all states the option of enacting long-term care partnership programs that combine private LTCI with Medicaid coverage. Partnership programs enable individuals to pay for long-term care and preserve some of their wealth. Although state programs vary, individuals who purchase partnership-approved LTCI policies, then exhaust policy benefits on long-term care services, will generally qualify for Medicaid without having to first spend down all or part of their assets (assuming they meet income and other eligibility requirements). Although partnership programs are currently available in just a few states, it's likely that many more states will offer them in the future.

How do you compare policies and providers?

Unfortunately, LTCI policies are not standardized. Provisions contained in policies vary greatly, and premiums charged vary as well. Therefore, you should compare policies to obtain the best amount and combination of benefits for your premium dollars.

- To compare policies, you should obtain sample policies and "Outlines of Coverage" from each carrier you are considering. The Outline of Coverage summarizes the policy's benefits and highlights the policy's important features. You need to read the policies carefully, ensuring that you understand each provision. There are a number of factors you should be concerned about, such as inflation protection, a full range of care (including home health care), exclusions for pre-existing conditions, and the amount of the daily benefit provided. For a description of the types of provisions typically contained in an LTCI contract, see Long-term Care Insurance (LTCI) Provisions.

- To compare providers, you should check out the financial strength of the companies by reviewing their A. M. Best Company's ratings along with the opinions of other rating services. You can also review the company's financial statements. For more information, see Comparing and Replacing Long-term Care Insurance (LTCI) Policies.

What are the tax ramifications?

If you purchase a "qualified" LTCI policy, part (or all) of the premiums you pay pursuant to the contract may be deductible on your federal income tax return. LTCI polices issued after January 1, 1997, must meet certain federal standards to be considered qualified. However, LTCI policies issued prior to January 1, 1997, that met the long-term care insurance requirements of the state in which the contract was issued are automatically considered qualified. For more information, see Taxation and Long-term Care Insurance (LTCI).

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The effectiveness of any of the strategies described will depend on your individual situation and on a number of other factors. After reviewing your personal situation, we may recommend that you not use any strategy in this document but instead consider various other strategies available through our practice.

Please fell free to contact me to discuss your particular situation.

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