Growing and Protecting Your Net Worth

LONG TERM CARE EXPENSE PLANNING

Long Term Care (LTC) represents one of the largest potential expenses in our future, but the financial risk can be greatly reduced with proper planning. Studies show that 70% of individuals over age 65 will need some LTC services. Statistics also show a 30-50% probability of reaching age 95. This means many of us will be fortunate enough to live a nice, long life, but will most likely need some help for a while. The objective of LTC planning is to provide for an appropriate level of professional care when needed. This will reduce the emotional, physical, and financial strain on family and friends acting as caretakers, too.

Long Term Care Planning should provide answers to these questions:

- ✓ If I need LTC assistance, where will I be? Can I stay at home?
- ✓ Who will be taking care of me?
- ✓ How much will it cost?
- ✓ Which personal assets or insurance policies will I use to pay for it?
- ✓ Can my finances still provide for all my other needs, and discretionary spending?
- ✓ Will my estate still be preserved for my beneficiaries?

Individuals qualify for LTC benefits when they can no longer perform two of these six Activities of Daily Living by themselves: eating, bathing, transference, dressing, toileting, continence. Individuals can also qualify for benefits if they have a cognitive impairment and cannot live independently in a safe manner.

The following example illustrates the importance of LTC planning. At today's rate, just six hours a day of home health assistance adds up to $50,000/yr. If you need this help for a ten year period (say, from age 85 to 95) the total cost would be $500,000. Ten years from now, at 4% inflation (historical average for medical expenses), the cost would be $740,000, and $1,095,562 in 20 years. So, someone age 65 today might spend over $1million dollars on a minimal amount of assistance by the time they reach age 95! And this is not for an expensive nursing home or extreme illness, just several hours a day of help at home.

LTC expenses can be paid using either insurance products, or personal assets. Both methods have numerous advantages and disadvantages; the choice on which to use depends on your financial situation and personal preferences.

Insurance Products for Long Term Care

Several types of insurance products can be used to pay for LTC expenses:

- ✓ Traditional LTC Insurance
- ✓ Life Insurance with LTC Rider
- ✓ Life- and Annuity- Based Products specifically designed for LTC (so-called "hybrid" products)
- ✓ Continuing Care (in a retirement community or at home)
- ✓ Veteran's Benefits
- ✓ Medicaid

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The primary advantage of any insurance product is leverage – a smaller amount of premium paid now yields a larger amount of benefit later. The premiums for LTC products may also be tax-deductible. With the "hybrid" insurance products, all or some of the premiums paid can be recovered (returned to the policy owner or paid later to a beneficiary) if LTC benefits are not used or the policy is cancelled; premiums cannot be recovered for the other products. Benefits may be received tax-free, but can be used only for LTC expenses.

Premiums for insurance products will vary according to the insured person's age and health status, and someone can be too ill to qualify for a policy. This is why individuals should ideally address LTC while they are healthy and younger, so that they can qualify for coverage at a lower cost. Solutions are available, however, for most individuals at almost any age. Note that 41% of LTC recipients are under age 65, due to rehabilitation from accidents or illness, so LTC Planning is not only important for the elderly.

When comparing the benefits of different insurance products, the most important features are:

- ✓ Premium paid by policy owner
- ✓ Total pool of money available over the life of the contract
- ✓ Amount of money that can be withdrawn at one time
- ✓ Frequency of withdrawals
- ✓ Inflation protection
- ✓ Elimination period

For example, a contract might offer a total pool of $219,000 for LTC expenses, to be paid out at up to $200/day for 3 years. Some policies will pay based on a monthly benefit amount instead of daily, which reimburses you for more uneven spending. Joint contracts are available that allow two individuals to share a pool of money, which can be an advantage for couples when one person is healthier than the other. Relationships other than spousal can be used, too, such as siblings or parent/child.

The care recipient should be able to receive assistance at any choice of setting: home, assisted living facility, adult day care, nursing home, or hospice. Products or riders that limit care to nursing home confinement or terminal illness are not true LTC products, though sometimes represented as such.

If you are buying a LTC insurance product when you are in your 40's, 50's, or 60's and most likely not needing benefits until well into the future, inflation protection is important. You want to make sure that your benefit payout will grow with inflation expectations so that your future benefits are paid out at future rather than current LTC costs. For some of the insurance options, premiums can be increased by the carrier over time; for others the premiums are set and will not increase.

The elimination period is an amount of time that the policy is delayed before providing benefits. A longer delay can reduce the policy premium, but would increase your out-of-pocket cost if benefits are needed. A 90 day elimination period is common for some products; others have no elimination period.

Veterans may have benefits available to them, and I suggest they contact the Veterans Administration directly, or go through a Recognized Veterans Service Organization or attorney familiar with Veterans Affairs in their area. I also suggest that individuals who believe they may qualify for Medicaid benefits contact an attorney in their area who is familiar with Medicaid planning.

Using Personal Assets For Long Term Care

Some individuals may prefer to use personal assets to pay for LTC expenses, such as:

- ✓ Personal Savings or Investment Accounts
- ✓ Home Equity Loan or Reverse Mortgage
- ✓ Cash Value in Life Insurance
- ✓ Annuities
- ✓ Trusts

If you are planning to use personal assets to pay for LTC, you have no health status qualifications or age-related premium to pay. You would not worry about paying for a product or service you may not use, and personal assets set aside for LTC can be spent on anything you want if the funds are not needed for this purpose. Annuity payouts used for LTC may be tax-advantaged. But if you do need LTC services, you would be paying expenses out-of-pocket, dollar-for-dollar – your money would not be leveraged.

Self-funding LTC reduces money available for living expenses and other uses, and for your beneficiaries. If the source of funds is an IRA or 401k, taxes might be due on the withdrawals. Even if you can afford to cover LTC expenses yourself, why not take advantage of any leverage "discount" created by using the insurance options available?

How Different Long Term Care Strategies Compare

The table below not only compares the cost of buying some of the LTC products, but also the cost of actually using them to cover a LTC event. In this case, I've compared buying the products at age 65 and then subjecting them to the 10-year, $1million LTC event mentioned earlier, commencing at age 85. Remember, this is for 6 hours a day of home care at $50,000/year, equaling $500,000 for 10 years of care at today's rates, but becoming $1,095,562 for the same 10 years of care 20 years from now with 4% inflation. The total cost shown for the LTC event plus product is the cost of buying the product indicated, plus any additional out-of-pocket money needed for LTC expenses not covered by the product.

If you are using personal assets to pay for LTC, the cost of buying a product is naturally zero. But then your cost for the LTC event is the full amount, since you have not leveraged your money.

I used a common $200/day benefit amount with 3% inflation rider for the Traditional LTC Insurance in this scenario. These policies, today, are designed to provide only partial LTC expense relief; the policy only covers 6 years out of the 10-year LTC event challenge. Premiums paid are not recovered if no LTC benefits are used. Life insurance with LTC Rider is an expensive way to pay for LTC; this is best for someone who needs the life insurance anyway, and adds the LTC Rider for the extra benefits. The policy owner's estate, however, would receive a $1million death benefit in this case if no LTC were paid; the death benefit is reduced by the amount of benefits paid out.

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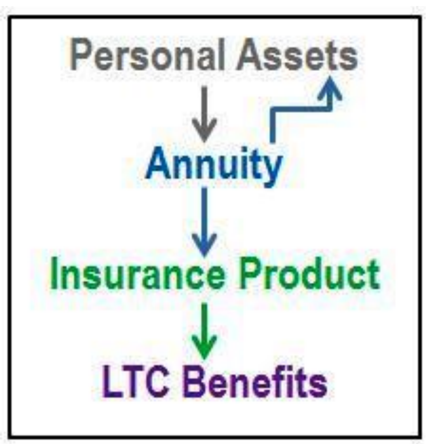
STRATEGY	OUT-OF-POCKET COST OF LTC EVENT & PRODUCT	PRODUCT COST W/ NO LTC EVENT
Personal Assets	$1,095,562	**$0**
Traditional LTC	$569,902	$262,710
Life Ins. w/ LTC Rider	$468,000	$468,000 ($1,000,000 death benefit)
Hybrid LTC Ins.	**$160,000**	**$160,000** ($147k death benefit, around $112k refundable)

The "hybrid" LTC insurance product is the most cost-effective for this case. It has the lowest product cost, and the lowest cost for using it to pay for this LTC event. Also, a significant portion of the product cost can be refunded to the policy owner or paid as a death benefit to beneficiaries, if benefits are not used.

You can see how greatly costs and results can vary among LTC solutions now!

Advanced Long Term Care Planning Strategy

In the illustration above, the hybrid insurance product offers very effective LTC coverage at the most reasonable cost. If we devise a plan that reimburses you for the all or most of the cost of buying this product, then your net cost for LTC coverage is even lower. A portion of your personal portfolio could be used to purchase an annuity designed for growth with safety of principal. The gains from this annuity are then used to pay the premiums for the LTC insurance product. Because this preserves your original principal, instead of spending it on premiums, your net cost for LTC coverage is now greatly reduced. This strategy works because the LTC insurance product provides good leverage for your premium, and then the annuity reimburses you for the LTC premium.



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The Effects of Long Term Care on Caregivers

A LTC event can be as difficult for family caregivers as it is for the person needing care, so the effects of proper planning are very beneficial to everyone involved. One of the most common reasons individuals explore LTC planning is to relieve their families from the heavy financial and physical burden if LTC is needed. Most family caregivers are young enough to still have their own family and career responsibilities, and they experience a great deal of stress coping. No matter how much the adult children want to care for their elderly family members, they may not be able to do it effectively, or without sacrificing their own future retirement and LTC funds.

Genworth, a LTC insurance provider, found these results in a recent LTC study on caregivers:

- ✓ 60% are between 25-54; 52% are adult child of care recipient
- ✓ 43% said it negatively affected their personal health
- ✓ 33% reported extremely high level of stress
- ✓ 55% did not feel qualified to provide care
- ✓ 62% paid for care from their own savings/retirement funds
- ✓ 38% reduced contributions to savings/retirement funds
- ✓ 77% missed work an avg. Of 7 hrs./week
- ✓ 33% provide 30 hrs. Of care per week
- ✓ 16% lost 1/3 of their income; 26% missed career opportunities

Filial support laws are another reason for LTC planning. Family members can be held responsible for LTC and health care expenses left unpaid by the care recipient's estate. Such laws exist now in 29 states and Puerto Rico. They have been rarely used, but as Medicaid and other insurance coverage diminish, states and insurance providers might act more often to recover debts from family members.

Schedule Your Long Term Care Review

LTC planning is complex with many moving parts, and many possible solutions. Yet, it can be explained very simply if you take time to speak with me. Proper planning can greatly reduce the cost of a very expensive LTC event. Understanding all the details of the different products and strategies is critical. I can review any existing policies you may have and propose ways to enhance your existing coverage, or recommend a new strategy ideal for your situation.

Planning for LTC can have a huge impact on the quality of care provided, and the financial stability and happiness of your retirement. It can also allow family members to be involved with less stress, and better preserve your estate for all your beneficiaries.

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