
DRAFT REPORT

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Long-Term Care Insurance

Prepared for

James and Julie Mack

(Main Scenario)

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Long-Term Care Insurance
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FYI

Activities of daily living include:

- Bathing
- Dressing
- Eating
- Toileting
- Continence
- Transferring

Medicaid is a program designed to cover the health care costs of the poor.

Medicare is a part of the Social Security system that pays for general health care for retired persons. It typically only pays for relatively short-recuperative stays in skilled nursing facilities.

Private Health Insurance generally is designed for medical care (doctors, hospitals, etc.), not long-term care expenses.

Out of Pocket/Family funding usually comes from the individual's resources or those of relatives.

Understanding Tax Qualified Long-Term Care Insurance

What is tax qualified long-term care insurance?

Long-term care insurance provides financial benefits for a broad range of medical, personal, and social services for individuals who require assistance due to:

- The inability to perform two or more of the activities of daily living (ADLs)
- Cognitive impairment (i.e., Alzheimer's disease)

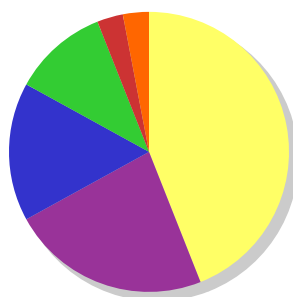
Why long-term care insurance?

You should consider the following when deciding if long-term care insurance is right for you:

- About 19% of Americans ages 65 and over, and 55% of those ages 85 and over, experience some degree of chronic impairment.**
- In the year 2020, some 12 million older Americans are expected to need long-term care.**
- People age 65 face at least a 40 percent lifetime risk of entering a nursing home sometime during their lifetime. About 10 percent will stay there five years or longer.**

Who will pay the cost of long-term care?

Nationally, the average annual cost of nursing home care is \$52,000 for a semi-private room and \$61,000 for a private room.* The chart below illustrates the major sources of long-term care funding from this study.



Medicaid	44% - \$76.5 billion
Out-of-Pocket	23% - \$38.9 billion
Medicare	16% - \$28.2 billion
Private Insurance	11% - \$19.0 billion
Other Public	3% - \$5.2 billion
Other Private	3% - \$4.8 billion

* Georgetown University, Long-Term Care Financing Project; Fact Sheet: Who Pays for Long-Term Care?; May 2003

** America's Health Insurance Plans; A Guide to Long-Term Care Insurance; 2004; page 3.

FYI

Basic LTC Insurance Components

Daily benefit - The maximum amount the policy will pay every day care is received.

Nationally, nursing home costs average \$142 per day.
Georgetown University, Long-Term Care Financing Project; Fact Sheet: Who Pays for Long-Term Care?; May 2003

Waiting period/ Elimination period - How long do you have to wait from the onset of LTC expenses until benefits begin?

Benefit period - How long will you receive benefits when needed?

Cost of living adjustment/Inflation protection method (referred to as COLA in this report) -

Compound - daily benefit grows at a specified rate compounded annually (the amount increases each year).

Simple - daily benefit grows at a specified rate, a percentage of the original amount, annually (the amount is the same each year).

Long-Term Care Expenses

	James	Julie
Recipient's current age	40	37
Recipient's age when LTC expenses begin	78	78
Number of years LTC expenses last	7.0	7.0
Estimated daily cost of LTC expenses	\$187	\$187
Estimated annual cost of LTC expenses	\$68,255	\$68,255

Long-Term Care Resources

Available Assets	Current Balance	Percent Available*	Amount Available
James's retirement assets	\$101,147	10.00%	\$10,115
Julie's retirement assets	\$88,768	10.00%	\$8,877
Cash assets	\$250,000	10.00%	\$25,000
Investment assets	\$184,000	0.00%	\$0
Business assets	\$0	0.00%	\$0
Personal assets	\$1,430,000	10.00%	\$143,000
Other assets available for LTC			\$0

Available Income	James	Julie
Annual amount	\$0	\$0
Years until income begins	0	0
Years income continues	0	0

Long-Term Care Insurance	James	Julie
Daily benefit	\$150	\$150
Waiting period (days)	0	0
Length of benefit (years)	7	7

* Percentage of assets available to fund long-term care needs

FYI

Ways to finance your long-term care expenses.

1 - Do nothing: This means that you are willing to fund the long-term care costs from your current assets even if that meant liquidating those assets. If your assets are not sufficient to cover costs, then other sources of funding would be needed such as calling on family to provide the financing.

2 - Qualify for Medicaid: Medicaid was enacted to provide health care services for the impoverished. Recent legislation has made it extremely difficult for a person of even modest means to qualify for Medicaid benefits.

3 - Obtain Long-Term Care Insurance: This option if you qualify for coverage, may allow you to keep your assets with the insurance providing funding for your long-term care.

Long-Term Care Insurance may help:

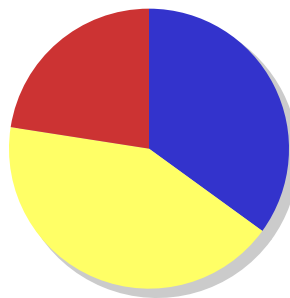
- Provide for choice of services
- You to maintain your financial independence
- You to preserve your personal assets

Summary

It is expected that you could qualify for long-term care insurance today, but this may not always be the case. This analysis illustrates the economic impact of:

- James requiring long-term care in 38 years (age 78) lasting for 7.0 years.
- Julie requiring long-term care in 41 years (age 78) lasting for 7.0 years.

Long-Term Care Expense Coverage



	0.00%	Income Available
	35.00%	Assets Used
	42.46%	LTC Insurance
	77.46%	Total LTC Coverage
	22.54%	Shortfall

		Today's Dollars*
Income available	(+)	\$0
Total assets used	(+)	\$121,484
James's long-term care insurance benefits		\$78,674
Julie's long-term care insurance benefits		\$68,731
Total long-term care insurance benefits	(+)	\$147,405
Total long-term care coverage	(=)	\$268,889
James's long-term care expenses		\$179,780
Julie's long-term care expenses		\$167,357
Total long-term care expenses	(-)	\$347,137
Shortfall	(=)	(\$78,248)

* Today's Dollars - The amount you would need today to be able to meet the total future out-of-pocket amount, assuming a 6.00% discount rate (annual rate of return on assets).

FYI

Is long-term care insurance right for you?

Long-term care insurance may not be suitable for everyone. For some, long-term care insurance can be an affordable form of insurance that can help:

- protect important family assets
- remove the seeking of alternative sources of funding such as seeking funding from family
- preserve financial independence

For others, the cost may be too high, given their available financial resources.

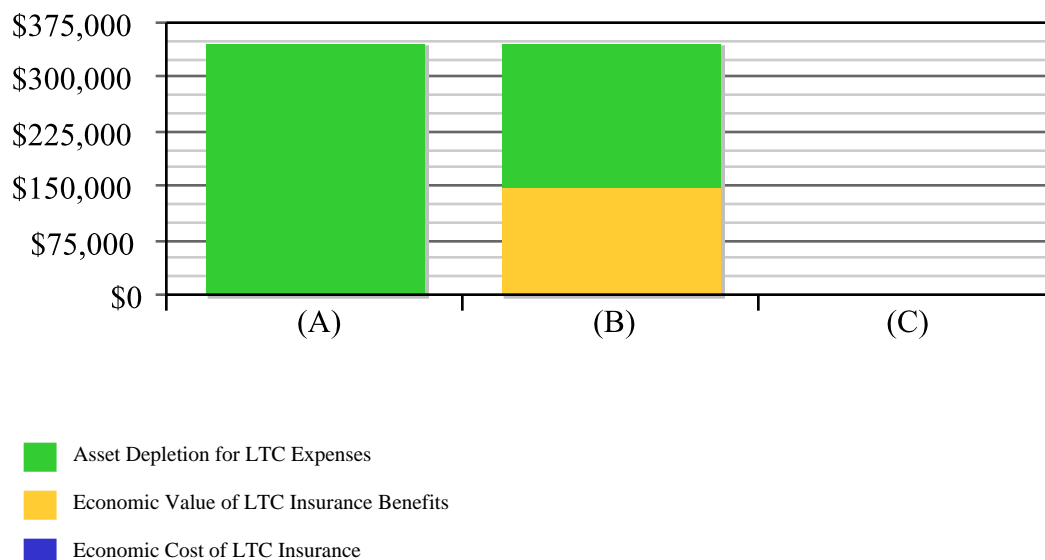
An examination of your resources and potential expenses will help determine if long-term care insurance is appropriate for you.

When selecting long-term care insurance, make sure the policy provides the coverage that you need.

Economic Cost of LTC Insurance

The potential value of LTC insurance can be significant. The following chart compares the benefits provided by LTC insurance with the potential cost of the insurance.

	Today's Dollars
(A) Assets required without LTC insurance ¹	\$347,137
(B) Assets required with LTC insurance ²	(less) \$199,733
Economic value of LTC insurance³	\$147,405
(C) Economic cost of LTC insurance ⁴	\$0

Economic Cost and Benefit of Long-Term Care Insurance

1. This is the value today of the total assets required in the future to fund all LTC needs without insurance during the period illustrated in this analysis.
2. This is the value today of the total assets required in the future in addition to LTC insurance to meet the illustrated needs.
3. Economic value is calculated by subtracting the value of assets you would use if you had insurance (2) from the value of assets required if you had no insurance (1).
4. This is the present value of the total premiums that would be paid throughout the analysis.

All present values assume a 6.00% discount rate (annual rate of return on assets). The premiums used to determine the cost of the long-term care insurance were input as typical premiums for the proposed policy, but may vary based on the age of the person at time of policy issue, the medical conditions the person may have and the actual benefits selected at the time of application for the policy subsequently issued at the underwriting class determined for that person.

Long-Term Care Funding Options

Rely on Family For Care

Advantages

- Free
- Care provided by someone who is trusted
- Some care may be obtained at home

Disadvantages

- Family may not live in the area and may not be able to provide the level of care required for the length of time needed
- A medical condition may require regular, professional medical assistance that may not be obtained in the home
- Potential emotional strain on care giver
- If care requirements ever exceed the ability of in-home caregivers, and the need for assisted living or a nursing-home stay does arise, you may have to pay a substantial amount of costs out of pocket

Rely On Medicare

Advantages

- No premiums (low premiums under Medicare part B option)

Disadvantages

- Hospitalization is a prerequisite for admittance into a care facility. Patient pays \$119 per day after 20 days (2006)
- Short-term coverage. Must be 65 or older
- No care coordination provider

Rely On Medicaid

Advantages

- No premiums/no age limitations

Disadvantages

- Must meet strict income and asset eligibility requirements
- Care facility has to be approved by Medicaid
- Admission to facility depends on space availability
- No control over when and where quality care is provided
- No care coordination provider

Pay For Care Out-Of-Pocket

Advantages

- Patient can select where and when care is received

Disadvantages

- Potentially expensive and potential asset reduction. May result in less control over wealth distribution

Long-Term Insurance

Advantages

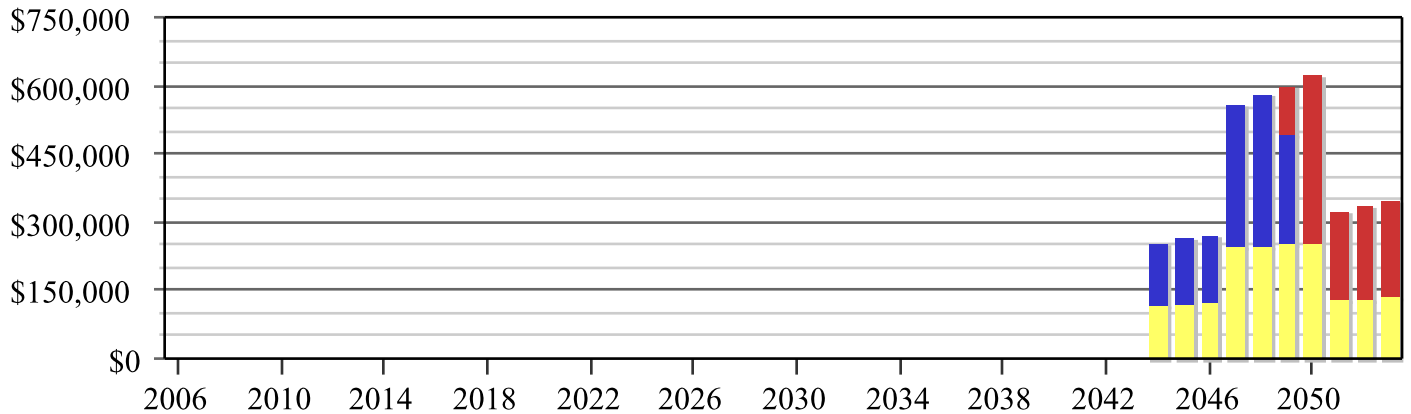
- Pre-determined care cost up to the daily benefit amount paid by insurer after waiting period/elimination period.
- Asset protection and retain control over wealth distribution
- Freedom to choose coverage for home care, assisted living care, or nursing home care
- Care coordinator may be provided

Disadvantages

- Premiums paid for an event that may never occur

Long-Term Care Annual Cash Flow

The graph and table below illustrate the resources available annually to fund long-term care needs.



■ LTC Insurance
 ■ Income Available
 ■ Assets Used
 ■ Shortfall

Year	Age	Age	LTC Insurance	Income Available	Assets Available	Assets Used (After Tax)	LTC Expenses	(Shortfall)/Surplus
2006	40	37	\$0	\$0	\$186,992	\$0	\$0	\$0
2007	41	38	\$0	\$0	\$196,889	\$0	\$0	\$0
2008	42	39	\$0	\$0	\$207,310	\$0	\$0	\$0
2009	43	40	\$0	\$0	\$218,284	\$0	\$0	\$0
2010	44	41	\$0	\$0	\$229,840	\$0	\$0	\$0
2011	45	42	\$0	\$0	\$242,009	\$0	\$0	\$0
2012	46	43	\$0	\$0	\$254,824	\$0	\$0	\$0
2013	47	44	\$0	\$0	\$268,320	\$0	\$0	\$0
2014	48	45	\$0	\$0	\$282,532	\$0	\$0	\$0
2015	49	46	\$0	\$0	\$297,501	\$0	\$0	\$0
2016	50	47	\$0	\$0	\$313,265	\$0	\$0	\$0
2017	51	48	\$0	\$0	\$329,869	\$0	\$0	\$0
2018	52	49	\$0	\$0	\$347,357	\$0	\$0	\$0
2019	53	50	\$0	\$0	\$365,776	\$0	\$0	\$0
2020	54	51	\$0	\$0	\$385,178	\$0	\$0	\$0
2021	55	52	\$0	\$0	\$405,614	\$0	\$0	\$0
2022	56	53	\$0	\$0	\$427,142	\$0	\$0	\$0
2023	57	54	\$0	\$0	\$449,818	\$0	\$0	\$0
2024	58	55	\$0	\$0	\$473,707	\$0	\$0	\$0
2025	59	56	\$0	\$0	\$498,873	\$0	\$0	\$0
2026	60	57	\$0	\$0	\$525,385	\$0	\$0	\$0
2027	61	58	\$0	\$0	\$553,317	\$0	\$0	\$0
2028	62	59	\$0	\$0	\$582,745	\$0	\$0	\$0
2029	63	60	\$0	\$0	\$613,750	\$0	\$0	\$0
2030	64	61	\$0	\$0	\$646,419	\$0	\$0	\$0
2031	65	62	\$0	\$0	\$680,840	\$0	\$0	\$0
2032	66	63	\$0	\$0	\$713,566	\$0	\$0	\$0
2033	67	64	\$0	\$0	\$747,904	\$0	\$0	\$0
2034	68	65	\$0	\$0	\$783,937	\$0	\$0	\$0
2035	69	66	\$0	\$0	\$821,749	\$0	\$0	\$0
2036	70	67	\$0	\$0	\$861,432	\$0	\$0	\$0
2037	71	68	\$0	\$0	\$903,080	\$0	\$0	\$0
2038	72	69	\$0	\$0	\$946,793	\$0	\$0	\$0
2039	73	70	\$0	\$0	\$992,677	\$0	\$0	\$0
2040	74	71	\$0	\$0	\$1,040,841	\$0	\$0	\$0
2041	75	72	\$0	\$0	\$1,091,404	\$0	\$0	\$0
2042	76	73	\$0	\$0	\$1,144,486	\$0	\$0	\$0
2043	77	74	\$0	\$0	\$1,200,218	\$0	\$0	\$0

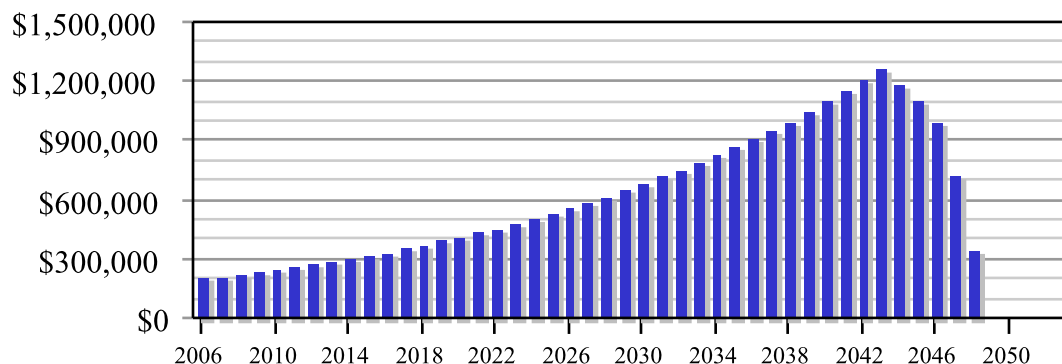
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2044	78	75	\$117,165	\$0	\$1,258,734	\$135,106	\$252,271	\$0
2045	79	76	\$118,808	\$0	\$1,179,236	\$142,293	\$261,101	\$0
2046	80	77	\$120,450	\$0	\$1,089,230	\$149,789	\$270,239	\$0
2047	81	78	\$244,185	\$0	\$987,965	\$315,210	\$559,395	\$0
2048	82	79	\$247,470	\$0	\$710,235	\$331,504	\$578,974	\$0
2049	83	80	\$250,755	\$0	\$338,651	\$243,829	\$599,238	(\$104,655)
2050	84	81	\$254,040	\$0	\$0	\$0	\$620,212	(\$366,172)
2051	85	82	\$128,663	\$0	\$0	\$0	\$320,959	(\$192,297)
2052	86	83	\$130,305	\$0	\$0	\$0	\$332,193	(\$201,888)
2053	87	84	\$131,948	\$0	\$0	\$0	\$343,820	(\$211,872)

Long-Term Care Asset Balances

The graph and table below illustrate the end-of-year balance of available assets to fund long-term care needs.



Year	Age	Age	Beginning Balance	Withdrawal (before tax)	Growth	Ending Balance
2006	40	37	\$186,992	\$0	\$8,397	\$196,889
2007	41	38	\$196,889	\$0	\$8,869	\$207,310
2008	42	39	\$207,310	\$0	\$9,367	\$218,284
2009	43	40	\$218,284	\$0	\$9,893	\$229,840
2010	44	41	\$229,840	\$0	\$10,448	\$242,009
2011	45	42	\$242,009	\$0	\$11,034	\$254,824
2012	46	43	\$254,824	\$0	\$11,652	\$268,320
2013	47	44	\$268,320	\$0	\$12,304	\$282,532
2014	48	45	\$282,532	\$0	\$12,993	\$297,501
2015	49	46	\$297,501	\$0	\$13,720	\$313,265
2016	50	47	\$313,265	\$0	\$14,488	\$329,869
2017	51	48	\$329,869	\$0	\$15,298	\$347,357
2018	52	49	\$347,357	\$0	\$16,153	\$365,776
2019	53	50	\$365,776	\$0	\$17,056	\$385,178
2020	54	51	\$385,178	\$0	\$18,008	\$405,614
2021	55	52	\$405,614	\$0	\$19,014	\$427,142
2022	56	53	\$427,142	\$0	\$20,076	\$449,818
2023	57	54	\$449,818	\$0	\$21,197	\$473,707
2024	58	55	\$473,707	\$0	\$22,380	\$498,873
2025	59	56	\$498,873	\$0	\$23,629	\$525,385
2026	60	57	\$525,385	\$0	\$24,947	\$553,317
2027	61	58	\$553,317	\$0	\$26,339	\$582,745
2028	62	59	\$582,745	\$0	\$27,808	\$613,750
2029	63	60	\$613,750	\$0	\$29,359	\$646,419
2030	64	61	\$646,419	\$0	\$30,997	\$680,840
2031	65	62	\$680,840	\$0	\$32,726	\$713,566
2032	66	63	\$713,566	\$0	\$34,338	\$747,904
2033	67	64	\$747,904	\$0	\$36,032	\$783,937
2034	68	65	\$783,937	\$0	\$37,812	\$821,749
2035	69	66	\$821,749	\$0	\$39,683	\$861,432
2036	70	67	\$861,432	\$0	\$41,648	\$903,080
2037	71	68	\$903,080	\$0	\$43,713	\$946,793
2038	72	69	\$946,793	\$0	\$45,884	\$992,677
2039	73	70	\$992,677	\$0	\$48,165	\$1,040,841
2040	74	71	\$1,040,841	\$0	\$50,562	\$1,091,404
2041	75	72	\$1,091,404	\$0	\$53,082	\$1,144,486
2042	76	73	\$1,144,486	\$0	\$55,732	\$1,200,218
2043	77	74	\$1,200,218	\$0	\$58,517	\$1,258,734

2044	78	75	\$1,258,734	\$135,106	\$55,608	\$1,179,236
2045	79	76	\$1,179,236	\$142,293	\$52,287	\$1,089,230
2046	80	77	\$1,089,230	\$149,789	\$48,525	\$987,965
2047	81	78	\$987,965	\$315,210	\$37,480	\$710,235
2048	82	79	\$710,235	\$390,753	\$19,169	\$338,651
2049	83	80	\$338,651	\$338,651	\$0	\$0
2050	84	81	\$0	\$0	\$0	\$0
2051	85	82	\$0	\$0	\$0	\$0
2052	86	83	\$0	\$0	\$0	\$0
2053	87	84	\$0	\$0	\$0	\$0

Data and Assumptions

Personal Information

Marital status		Married
	Client	Spouse
First name	James	Julie
Middle name	T.	M.
Last name	Mack	Mack
Retirement age	65	65

Defining Long-Term Care Needs

Long-term care analysis for:	James	Julie
Birth date	11/13/1965	10/11/1969
Age long-term care expenses begin	78	78
Years long-term care expenses last	7.0	7.0
State in which long-term care will be provided	PA	PA
Daily long-term care expenses	\$187	\$187
Annual inflation rate		3.50%
Average income tax rate (state and federal)		28.00%
Average rate of return (before-tax) for LTC analysis		6.00%

Assumptions

Asset Liquidation Order	
Taxable accounts	1
Tax-free accounts	2
Roth accounts	3
Tax-deferred accounts	4

Retirement Plans

Description	Owner	Current Balance	Annual Personal Contribution	Annual Employer Contribution	Contribution Increase Rate	Plan Type	Percent Available for LTC
Money Market	Client	\$12,472	\$0	\$0	0.00%	401(k)	10.00%
Lord Abbett Affiliated A	Client	\$54,782	\$7,500	\$0	3.50%	401(k)	10.00%
Lord Abbett Small-Cap Blend A	Client	\$33,893	\$7,500	\$0	3.50%	401(k)	10.00%
Money Market	Spouse	\$65,312	\$0	\$0	0.00%	401(k)	10.00%
AllianceBernstein Growth Income A	Spouse	\$23,456	\$0	\$0	0.00%	401(k)	10.00%

Cash Assets

Description	Current Balance	Annual Rate of Return (Before Tax)	Percent Available for LTC
Bank Account	\$250,000	6.00%	10.00%

Investment Assets

Description	Current Balance	Annual Rate of Return (Before Tax)	Percent Available for LTC
Money Market	\$50,000	6.00%	0.00%
Davis NY Venture A	\$134,000	6.00%	0.00%

Business Assets

No business assets have been entered

Personal Assets

Description	Current Balance	Annual Rate of Return (Before Tax)	Percent Available for LTC
Vacation Home	\$1,300,000	6.00%	10.00%
Home	\$50,000	6.00%	10.00%
Diamond Rings	\$50,000	6.00%	10.00%
Benz	\$30,000	6.00%	10.00%

Other Assets Available for LTC

No other assets have been entered

Income Available for Long-Term Care Needs

No income resources have been entered

Long-Term Care Needs Insurance

For Whom	Daily Benefit	Waiting/ Elimination Period (Days)	Length of Benefit (Years)	COLA Rate	COLA Method	Annual Premium	Annual Premium Increase Rate	Years to Illustrate Premium Payments
James	\$150	0	7	3.00%	simple	\$0	0.00%	20
Julie	\$150	0	7	3.00%	simple	\$0	0.00%	20

Notes

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