# Long-Term Care Insurance

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# Introduction

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| In this course, we address a risk management issue that represents a potential financial expense of significant magnitude to any client: ***Long-Term Care***. Long-term care (LTC) refers to a continuum of medical, custodial, and social services needed when physical or cognitive limitations, usually due to the aging process, begin to restrict the ability of an individual to live independently. Long-term care services may be required for a brief period after an acute medical episode or LTC assistance may be required for many years. LTC services do not include "acute medical care" that results from illnesses or accidents that require skilled medical care. LTC services are typically provided in the home, community, assisted living facilities, Alzheimer's facilities, and sometimes in nursing homes. | **Course Objectives**  In this course, we will address this risk management issue by investigating the following factors:   1. The risks of long-term care. 2. The possible options to alleviate the risks. 3. Long-Term Care Insurance as an option to alleviate the risks. 4. Case Studies: Application of Long-term Care Insurance coverages. |

**Click the icon to view the answer.**

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| |  |  | | --- | --- | | DocumentationIcon_32px | **Who needs long-term care?** | |
| Long-term care is a distinct possibility for millions of Americans. Today's "baby-boomers" and their parents are living longer, but longer life expectancies are often accompanied by a need for extended custodial care and, in some cases, extended skilled medical care. According to the U.S Department of Health and Human Services, more than 70% of Americans 65 and older will need some form of long-term care. (1)  *1 http://online.wsj.com/ad/article/longtermcare-future* |

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| |  |  | | --- | --- | | DocumentationIcon_32px | **What are the potential costs?** | |
| Long-term care costs vary greatly, depending on the nature of service provided and geographic location. Skilled care (the highest level of care within a long-term nursing facility in a semi-private room) nationally averages about $67,000 per year. Assisted Living facilities have a national average base cost of about $38,000 per year. Day care and home health care services can be less expensive, but only if scheduling of care is limited. (2)  Clearly, an extended need for long-term care can be devastating to a retirement income portfolio as well as estate planning and wealth transfer objectives. .  *2 Genworth Cost of Care Survey, April 2010.* |

# Defining the Risk

The American health care system, public and private, has substantial shortfalls in providing long-term care services to citizens of all ages without regard to economic status, as illustrated by the following programs.

**Click each program to learn more.**

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| **Medicaid** |
| ***Medicaid*** provides a wide range of *medical* and some long-term care services to the indigent. Aside from excluding citizens who are not impoverished, this system does not provide custodial care unless the patient qualifies to be in a Medicaid-approved and participating nursing home. Home health care services are limited and vary by state. |
| **Medicare** |
| ***Medicare*** allows eligible citizens to receive extensive *medical* care regardless of financial status, although the custodial care services are more limited than Medicaid. Home health care services are limited to *medical* treatment with various restrictions and limitations. |
| **“Medigap” and Private Group Medical Insurance** |
| ***"Medigap" and private group medical insurance*** are coverages that fill in some of the gaps of Medicare coverage, such as deductibles, co-insurance and limitations on hospital and nursing home stays. Some of these medical treatments are capped (e.g., Medigap policies will extend nursing home care only up to one year). More importantly, these programs also provide no custodial care services. |

**LTC Expense of Parents**

Concern about long-term care costs are not only a concern of clients as part of their own personal financial planning. In addition, many working families could be financially responsible for the care of aging parents.

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| |  |  | | --- | --- | | DocumentationIcon_32px | **Click the icon to view an example.** | |
| At least 70 percent of people over age 65 will require some long-term care services at some point in their lives.(1)  40% of persons receiving long term care are between 18 and 64. (2)  The likelihood of a disability grows as we age:  Ages 44-54: 22.6%  Ages 55-64: 35.7%  Ages 65-69: 44.9%  *1* US Department of Health and Human Services  *2 Guide to Long-Term Care.com, 2014.* |

**LTC Expense Impact on Estate Planning**

Long-term care expenses can erode the planned distribution of estate assets. Even a seemingly very substantial estate can be significantly depleted by extended health care, such as required by dementia or Alzheimer's disease. Depending on the extent of long-term care costs, transfer of wealth may become "optional" for many clients, while a surviving spouse (or any other dependents) may find depleted financial resources inadequate for normal living expenses, not to mention their own potential long-term care needs.

A business owner wishing to transfer a business interest, farm, or substantial asset to heirs may have an estate plan unravel if LTC costs deplete estate assets maintained for survivor income and estate settlement costs. Even a life insurance policy in an ILIT needs periodic contributions to maintain premium payments.

# The Ultimate Risk – Insufficient Funds

Ultimately, the risk is that individuals will not have necessary resources to obtain the long-term care that they need and/or desire. On the following pages, we review the following types of long-term care providers:

* Nursing Homes
* Assisted Living Facilities
* Alzheimer’s Facilities
* Adult Day Care
* Daily Money Managers
* Home Health Care

For each, we shall provide estimates of usage in order to further illuminate the extent of the financial risk of long-term care.

# Nursing Homes

An older person's likelihood of entering a nursing home or other long-term care facility is particularly high immediately after the death of a spouse, new research indicates.

*Source: American Journal of Public Health, July 2008.*

***Nursing homes*** are licensed facilities that may provide **skilled nursing care**, **intermediate care**, and **custodial care** services. Medicare does not cover purely custodial care services.

Skilled nursing care is covered by Medicare for 20 days at no charge to the patient. The patient pays $161.00 per day (as indexed in 2016) of co-pay for a maximum of 80 additional days. No coverage is provided after 100 days.

According to the [U.S. Department of Health and Human Services](http://www.longtermcare.gov/LTC" \t "_blank), over 70% of those turning 65 will utilize long-term care services in their lifetime. Of those who do, 37 percent will require nursing home care. Many will need only short-term recovery-care, but the **average** facility stay is about two and a half years. Note that seniors are not the only citizens requiring LTC services.

The national median cost of nursing home care is $6,450 per month for a semi-private room. Private room averages are about 13% higher. \*

\* *Genworth Cost of Care Survey, 2014.*

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| ***Skilled care*** in a nursing home provides 24/7 services by licensed health professionals such as nurses and various types of therapists, under the direction of a physician. |
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| ***Intermediate care*** in a nursing home provides the same service, but on a less frequent basis than skilled care. |
|  |
| ***Custodial care*** provides assistance to patients who have deficiencies in physical or cognitive functions. It is very rare for a patient with exclusively custodial needs to be in a nursing home, particularly since the cost would not likely be covered by Medicare, although it may be covered by Medicaid if the patient qualified for nursing home care. |

# Assisted Living Facilities

***Assisted living facilities*** provide supportive services and assistance with **Activities of Daily Living (ADLs)** and **Instrumental Activities of Daily Living (IADLs)** for residents who are not able to live by themselves because of physical or cognitive limitations, but do not require constant care or significant medical care. Medicare and Medicaid do not cover assisted Living Facilities.

According to research sponsored by the U.S. National Institutes of Health in the late 1990s, over 3.3 million persons aged 18-64 living in the community received assistance with ADL or IADL tasks, compared with 3.8 million of community-dwelling persons aged 65 and over. Thus, the under age 65 population requiring custodial care assistance represents 2.1% of the general 18 to 64 population and 46.7% of the entire long-term care population living in the community.

The national average cost of an assisted living facility is $3,185 per month for a private one-bedroom unit.

\* *Genworth Cost of Care Survey, April 2010.*

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| ***Activities of Daily Living*** are basic and necessary tasks and functions required in daily life. They typically include:   * bathing * eating * dressing * maintaining continence * mobility * toileting * transferring in and out of bed/wheelchair, chair |
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| ***Instrumental Activities of Daily Living (IADLs)*** are necessary activities of living that require greater skill than ADLs. Due to deficiencies in intellectual capacity, a person cannot perform IADLs such as those listed below:   * shopping * managing money * using the telephone * meal preparation * medication management * housework |

# Alzheimer's Facilities, Adult Day Care, and Daily Money Managers

The following care providers offer services that are either more specialized or more restricted than those of generic nursing homes or assisted living facilities.

**Click each service provider to learn more.**

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| **Alzheimer's Facilities** |
| An ***Alzheimer's facility*** may be a stand-alone facility or may be an adjunct unit of a nursing home or assisted living facility. Alzheimer's care requires a higher level of staffing and capabilities, thus these services typically cost more: An assisted living facility with Alzheimer’s care, semi-private room averages $57,000 per year. A semi-private nursing home with Alzheimer’s care averages $75,000 per year. Alzheimer's facility monthly costs can vary widely depending on services required. *(MetLife Mature Market Institute, October 2010.)* |
| **Adult Day Care** |
| ***Adult day care*** centers provide social, some medical, assisted living, therapeutic, and rehabilitative services for individuals with physical or mental limitations. Typically, family caregivers need care assistance while they are working and these centers offer caregivers relief while they pursue careers during the day. They often provide meals and transportation as well as educational and entertainment programs. The centers are usually open 6 to 12 hours per day, Monday through Friday.  According to the U.S. Department of Labor, the fastest growing segment of older adults is the population aged 85 and older. Historically, approximately 80% of the frail elderly remain in the community and are cared for by relatives, most commonly by adult daughters. Today, however, an increasing number of women aged 35–54 are in the workforce and unable to care for aging parents or disabled adult children living at home. Adult day care offers a welcome solution to working caregivers.  The national average cost of an adult day care center is $60 per day. (*Genworth Cost of Care Survey, April 2010.)* |
| **Daily Money Managers and Administrative Services** |
| Due to a person's cognitive or physical limitations and inability to handle day-to-day financial affairs, a ***Daily Money Manager (DMM)*** may be retained to pay bills, make bank deposits, file and maintain records of medical claims, etc. Trust companies may also provide these services. In many cases, family members may not be capable or available to handle these tasks. These services generally cost $35 - $100/hour. *(Bankrate.com, May 2005)* |

# Home Health Care

Without families’ contributions, both state and federal health and long-term care budgets would be overwhelmed by the need for services.

[*AARP Public Policy Institute Study: Valuing the Invaluable: A New Look at the Economic Value of Family Caregiving*](http://www.thefamilycaregiver.org/pdfs/NewLookattheEconomicValueofFamilyCaregivingIssueBrief.pdf) *(2007)*

***Home Health Care*** is a venue that includes virtually any home environment, usually that of a family member. Technically, for insurance purposes, it can include any residence where a person resides and receives care outside of a professional care facility. Services can range from 24/7 third-party skilled care to assisted living services provided by family members.

### Is Home Health Care Less Expensive than a Nursing Home or Assisted Living Facility?

From the perspective of Medicare, Medicaid, and private insurance, Home Health Care is usually less expensive than facility care because there is no facility cost. However, it may require the expense of medical equipment and modifications to the residence, such as medical response systems, stairway elevator seats, ramps, enlarged doorways, etc.

In addition, from the perspective of the family caregiver(s), insufficient resources to provide services not covered by medical insurance can result in any of the following impacts on family caregivers:

* + - Erosion of family financial resources
    - Stressful wear and tear on family members who must make complex administrative and care decisions
    - Intra-family conflict regarding the patient's needs and/or the needs of other family members

***"Ironically, it is not the afflicted who suffer but rather the caregivers."***

Harley Gordon, JD; *"Financial Planners Risk Lawsuits for Failing to Recommend Realistic Plans for Long-Term Care;"* Journal of Financial Planning, August 2005

* + - Pressure on family members to provide services that they are not well-equipped to do
    - Financial sacrifices by caregivers due to reduced employment time and opportunity, as well as additional hard costs
    - Caregivers statistically show substantial increases in mental and physical health problems of their own while trying to provide care for family members over an extended period of time.

### What does home health care really cost?

According to the American Association of Retired Persons (AARP), in 2013, about 40 million family caregivers in the United States provided an estimated 37 billion hours of care to an adult with limitations in daily activities. The economic value of this unpaid care was about $470 billion.

# Is it Time for a Reality Check?

When clients are considering the risk of needing long-term care, any individual or couple must consider the realities and costs of family care. The financial professional can assist clients by having them ask themselves the following important questions:

* Who will realistically be able to provide caregiving for us at home?
* How certain are we that the caregiver will still be available when we need the care?
* How certain are we that an informal caregiver will have the necessary skills to provide care?
* What financial costs will the caregiver incur?
* Will the caregiver be physically strong enough to provide care?
* How will the family members cope with our care if we do not have the financial resources to provide for long-term care?

Can you think of additional questions that should be considered? What would happen in your family?

# Potential Resources to Pay for Long-Term Care Expenses

As discussed on the previous pages, the costs of long-term care can be very expensive and may continue for a number of years. With growing public awareness, determining how to address this substantial financial risk is a primary concern for individuals and couples.

A client's willingness to rely upon a financial professional's assistance in planning for their financial security will be largely dependent on the professional's understanding of their long-term care risk as well as a realistic comprehension of potential resources available to resolve their concern. Potential resources are listed below in two categories: public and private.

**Click each category to learn more.**

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| |  | | --- | | **Public** | | Potential ***Public*** resources to provide for Long-term Care include:   * Medicare * Medicaid * Long-Term Care Partnership Program * Veterans Administration Health Care | | |  | | --- | | **Private** | | Potential ***Private*** resources to provide for Long-term Care include:   * "Medigap" insurance * Extended group medical post -retirement * Family support/care * Community support * Long-term Care Insurance * Self-insure | |

On the following pages, we will review each of these potential resources by investigating the pros and cons of each resource as a solution to providing and/or paying for long-term care costs. Medicare

***Medicare*** is the federal health care program “for people age 65 or older, under age 65 with certain disabilities, and any age with End-Stage Renal Disease (permanent kidney failure requiring dialysis or a kidney transplant)." (*Medicare.com*)

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| **Overview** | Medicare is comprised of four parts. **Click on each part to view more information.** |
| **Medicare Part A** | ***Medicare Part A*** (Hospital Insurance) helps to cover inpatient care in the hospital. Part A also helps cover a skilled nursing facility, hospice, and home health care if you meet certain conditions. |
| **Medicare Part B** | ***Medicare Part B*** (Medical Insurance) helps cover **medically necessary** services like doctors’ services and outpatient care. Part B also helps cover some **preventive services** to help maintain your health and to keep certain illnesses from getting worse. |
| **Medicare Part C** | ***Medicare Part C*** is similar to Parts A & B, but is operated by private insurers like PPO or HMO plans with similar coverages. |
| **Medicare Part D** | ***Medicare Part D*** covers prescription medications. |

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| **Medically Necessary**—Services or supplies that are needed for the diagnosis or treatment of your medical condition and meet accepted standards of medical practice. *(Medicare.com)* |
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| **Preventive Services**—Health care to prevent illness or detect illness at an early stage when treatment is likely to work best (for example, preventive services include Pap tests, flu shots, and screening mammograms). *(Medicare.com)* |

It is important to understand three important points about Medicare:

1. Medicare provides a comprehensive range of care for acute medical conditions.
2. Medicare does not provide long-term custodial or assisted living services. Medicare provides treatment for chronic medical conditions such as arthritis, dementia, Alzheimer's, multiple sclerosis, etc., but only for prescribed medical treatments.
3. Some of the medical services are limited, as described below.

**Click on each heading to learn more.**

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| **Medicare in a Nursing Facility** |
| Medicare covers care in an approved skilled nursing facility under the following circumstances:   * A minimum three-day prior hospital stay is required. * The patient must enter a facility within 30 days after discharge from a hospital. * The patient must continue to show improvement. * Benefits are paid in full for 20 days and for an additional 80 days with co-pay equal to $161.00 /day (in 2016, as indexed). There is no coverage after 100 days. |
| **Medicare in a Home Setting** |
| To obtain coverage for home care, the patient must be confined to the home (i.e., normally unable to leave home) and under a doctor's care. Prior hospitalization is not required.  There is coverage for part-time “*skilled nursing care,”* for physical therapy, speech-language therapy, and home health aide services. Skilled care includes medical procedures such as short-term IVs or tubing, physical or speech therapy, and dressing bedsores.  Most people will also need “*non-skilled care*” as well. Non-skilled care includes care such as oxygen or respiratory therapy, colostomy drains, catheter maintenance, and assistance with “activities of daily living” (ADLs). These unskilled services *are not covered* and will require either someone in the family to perform them or will have to be paid for out-of-pocket.  Medicare coverage can be reviewed in detail in their annual 136-page publication, “*Medicare and You Handbook” (at Medicare.gov).* |
| **q** |
| PACE (Program of All-Inclusive Care for the Elderly) **PACE** is a government and privately funded non-profit organization established in 1997 "to provide in-home care to elderly individuals who are eligible for both Medicare and Medicaid and who are at risk of needing nursing home care." This program attempts to provide social and medical services primarily in adult day health centers, supplemented by in-home and referral (non-government) services. PACE is intended to prevent, limit, or defer an elderly person's need for more expensive hospital care or nursing home care.  More than two dozen sites in the United States are in operation nationwide that provide services for about 17,000 persons. The future impact and growth of this program remains to be seen. Currently, care is limited to those who are "nursing home eligible," live in the few communities where PACE is offered, and are subject to the resources available in any particular location. More information about PACE is available at [www.medicare.gov/nursing/alternatives/pace.asp](http://www.medicare.gov/nursing/alternatives/pace.asp)  www.medicare.gov/your-medicare-costs/help-paying-costs/pace/pace.hmtl |

# Medicaid

***Medicaid*** is designed to provide medical and health-related services to low-income people of every age. Patients normally pay no part of costs for covered medical expenses except for a small co-payment. Medicaid is funded by federal, state, and local tax funds.

While clients might be under the impression that Medicaid can provide some form of long-term care benefits, the likelihood is that they will either not qualify for Medicaid benefits because of their income/wealth, or, after they review the coverage provided, they will be concerned with the care restrictions or location of care available. Medicaid *will* provide certain long-term care services in a Medicaid-approved nursing home facility for qualified individuals.

**Click on each heading to learn more.**

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| **Medicaid Qualification Requirements** |
| To qualify for Medicaid, the government will examine an applicant's financial history, including reviews of previous year’s income and net worth statements, to determine the ability for a client to pay for his or her own care. Specific qualifications are very complex, subject to continuing changes in an environment of tight government budgets, and vary by state within federal guidelines. Ultimately, when an individual is in need of long-term care services, the individual will need to evolve to a point of income and assets that leaves little or no room for transfer of any wealth to heirs.  "Medicaid planning" by a competent elder care attorney may mitigate the loss of assets and income to some degree. Note that federal legislation has been, and may continue to be, passed to ensure that only the poor and impoverished qualify for Medicaid. The federal and most state governments also strongly encourage their own employees to voluntarily participate in discounted long-term care insurance programs offered as an employee benefit option paid for by payroll deduction. This is a clear indication that the government has no current intention of providing long-term care services to any Americans other than the indigent, particularly in today's environment of strained federal, state and municipal budgets. |
| **Medicaid Coverage** |
| Medicaid services are generally comprehensive for medical care and may provide some long-term care services. Actual services and qualifications vary somewhat by state. Clients who assume that they will rely on Medicaid for long-term care should address the realities of qualifying for Medicaid and the ramifications of receiving this type of care:   * A client with substantive assets and/or retirement income will not qualify or will have to deplete their wealth before being eligible for Medicaid. * A Medicaid patient is on public assistance and loses significant ability to manage his or her care. * Medicaid selects the providers of health care, including a nursing home facility based primarily on availability, not patient preference. (Note that most nursing homes prefer private patients who pay more than Medicaid patients, and thus allocate a small portion or no beds to Medicaid patients). * If a Medicaid patient requires hospitalization, a return to the previous nursing home may not be possible.   For more information on Medicaid benefits and services, go to [www.cms.hhs.gov/](http://www.cms.hhs.gov/). |

# Long-Term Care Partnership Program

In the late 1980s, the Robert Wood Johnson Foundation supported the development of a new LTC insurance model with a goal of encouraging more people to purchase LTC coverage. Four states—California, Connecticut, Indiana and New York—implemented Partnership programs in the early 1990s. By 2010, at least 45 states have implemented, or are in process of implementing, a Long-Term Care Partnership Program.

### How Does the Program Work?

The ***Long-Term Care Partnership Program*** was designed to incent consumers to purchase LTC insurance who might not otherwise consider the coverage affordable. States offer the guarantee that if benefits under a Partnership policy do not sufficiently cover the cost of care, particularly in regard to *duration* of benefits, then the consumer may qualify for Medicaid under special eligibility rules while retaining a pre-specified amount of assets.

The Partnership policies are issued by private insurance companies with typical duration of benefits that lasts from 1½ to 4 years. Thus, if the insured still requires care when benefit limits under the policy are exhausted, the individual can then apply for Medicaid benefits without losing a specified amount of or all assets, depending on the plan chosen. The result is consumers are protected from having to become impoverished to qualify for Medicaid, and states avoid the entire burden of long-term-care costs for plan participants.

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| **Overview** | As a financial advisor, you should be aware of the profile of the likely market for the LTC Partnership Program, as well as the reasons why it is not likely be applicable for the wealthy.  **Click each heading to learn more.** |
| **The Likely Market** | The LTC Partnership Program will appeal primarily to a narrow sector of citizens who have the following characteristics:   * They wish to purchase LTC insurance, but find the choice of lifetime benefits of LTC insurance too expensive and shorter benefit periods insufficient. * Their income is too high to qualify for Medicaid. * They own enough assets to make impoverishment unpalatable. |
| **Key Issue for Wealthy Clients** | This program will not be attractive to most affluent or HNW clients because:   * Their income from all resources would likely exceed the cost of Medicaid services. In the Partnership Program, most or all income received by the Medicaid applicant must be applied to the cost of care. * They will be able to afford more comprehensive LTC insurance coverage. * They will prefer to be in control of selecting private services. Medicaid services for home health care and assisted living are limited and nursing home care under Medicaid is restricted to Medicaid-participating facilities on an as available basis. |

The specific details of how the plans work will vary by state within certain guidelines.

# Veterans Administration (VA) Health Care

The ***Veterans Administration Health Care Services*** exist primarily to provide medical care for injuries and diseases resulting from military service. As a secondary priority, veterans who are unable to pay costs of medical care may be able to acquire a range of medical care services from the VA. Other veterans may be eligible to receive care if they are willing to make co-payments.

VA programs do provide a range of long-term care services for veterans, although they vary by location. LTC services can include VA nursing homes (not private), outpatient care, adult day care, and domiciliary (assisted living facility) care. The qualifications to apply for and to be approved for long-term care are complex. VA benefits are most available to indigent veterans and veterans with service-related injuries or illnesses. For veterans with substantive financial resources, substantial co-pays will apply and services may be on an "as-space-is-available" basis. Therefore, most veteran affluent clients will likely consider this source for providing long-term care as uncertain and potentially expensive.

Note: If you are interested in reviewing the details of benefits, eligibility and costs, a good deal of information is available at www.va.gov.

# Medicare Supplemental Insurance

**Medigap Policies**

Medigap policies are designed to supplement the Medicare A & B coverages by covering deductibles, co-insurance and certain limitations of Medicare coverage. For detailed information regarding these coverages, go to Medicare.gov.

**Extended Group Medical Insurance**

Some employers will allow employees to extend their group medical insurance into retirement. These plans provide coverage for medical care but minimal long-term care services are covered. This insurance typically acts like Medigap coverage with fewer limitations.

# Care by Family and Community

Two options for providing long-term care that are quite common are care provided by family members and the community. While these options can certainly be beneficial, they often are selected out of necessity and result from a lack of sufficient resources to provide professional care to a family member or members.

### Long-term Care Provided by Family Members

As discussed earlier, the cost of long-term care provided by family members can be deceptively expensive and very possibly inadequate. Even with substantial financial resources, family members will still be actively involved in the management and implementation of long-term care for a family member.

### Community Services

A wide range of community services may be available by for-profit or non-profit organizations. Social services, adult day care, meals on wheels, companion services, etc., can serve as helpful assistance in caring for an individual or couple in need of intermediate long-term care services and provide substantial assistance, to the degree available, to family caregivers. Many of these services will require payment and can become quite expensive when care needs are substantial. Convenience and availability can be a concern.

Near-Term Impact of the Patient Protection and Affordable Care Act of 2010 (PPACA) on Long-Term Care

The more significant provisions of the PPACA that have been implemented are listed below. Beware that many aspects of new health care will change over the next several years due to the PPACA or likely as subsequent legislation and regulations evolve.

Beginning in 2011, employers may elect to participate in a program that entitles employees to pay monthly premiums via payroll deductions that pays cash benefits toward the cost of home services if a participant is disabled or sick. A participant is eligible for benefits after paying premiums for five years.

Long-Term Care Insurance

Long-Term Care insurance (LTCi) has changed and evolved significantly over the past three decades. Today, insurance companies offer a wide array of coverages that can be rather intimidating in their complexity. This complexity reflects the fact that some insurance companies require several hours of agent training before they will accept LTCi applications from a licensed agent.

This course will not attempt to provide a detailed explanation of the many complex contract provisions and optional benefits of LTCi policies. It will, however, review what we believe are the most relevant provisions of LTCi and identify which benefits and provisions are most relevant for the vast majority of clients. We will also offer considerations of the pros and cons of purchasing LTCi.

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| To that end, we will review the following important contract provisions of a credible LTCi policy on the next several pages:   * Tax Qualified (TQ) or Non-Tax Qualified (NTQ) * Benefit Trigger/Eligibility for Benefits * Types of Care Covered * Benefit Amounts * Reimbursement Policies vs. Cash Payment or Indemnity Policies * Elimination Period * Maximum Benefit Period or Lifetime Maximum * Inflation Protection * Renewability Provisions/Nonforfeiture Provisions * Nonforfeiture Benefit * Exclusions and Limitations * Premium Cost Factors * A Note About Group LTC Insurance |

Types of Care Covered and Benefit Amounts

### Types of Care Covered

Policies are available that offer facility care only, home care only, or comprehensive care that covers both facility and home care. Which should clients consider? For help in answering that question, let’s examine the insurance claims that are paid.

The American Association for Long-Term Care Insurance accumulated data for 2007 from over 60 long-term care insurers who represent 98 percent of all LTC policies currently in force. The data showed that the long-term care insurance industry paid out $3.5 billion in benefits in 2007 to individuals, broken down as follows:

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| **2007 Long-Term Care Insurance Claims**   * 43.0 % of claims paid were for home care * 30.5% of claims were for assisted living * 25.7% of claims covered nursing home care |

The data above strongly suggests that a client should usually only consider a comprehensive policy that covers facility care in a nursing home and assisted living facility as well as home health care.

Benefit Amounts

An LTCi policy would be issued with a maximum daily or monthly benefit amount that the applicant selects at the time of application. The financial professional will need to have good data available regarding current costs of various types of services in the area where the client lives, or plans to live in the future, in order to assist the client in selecting an accurate maximum benefit amount. As discussed earlier, the location of care has a significant impact on cost. In some cases, the insurance company will stipulate a variance in the maximum daily/monthly benefit based on the type of care being provided, e.g., nursing home, assisted living, or home health care.

# Eligibility for Long-Term Care Benefits

To be eligible for LTCi benefits, the insured must qualify based on ***one of two*** guideline criteria. For each summary of the guideline criteria, ***Activities of Daily Living (ADLs)*** and ***Cognitive impairment***, note that hospitalization is not a necessary precedent for qualification.

**Click each criterion to learn more.**

|  |
| --- |
| **1. Activities of Daily Living (ADLs)** |
| The number of ***Activities of Daily Living (ADLs)*** that the insured is unable to accomplish without "substantial assistance" often regulates eligibility for long-term care benefits. “Substantial assistance” need not be “hands-on”; it may also be “standby” assistance. Benefits are paid if the insured cannot perform a certain number (usually two) of these functions.  Required ADLs usually include at least the following six:   |  |  | | --- | --- | | * Eating | * Toileting | | * Dressing | * Continence | | * Bathing | * Transferring (e.g., moving from bed to chair) |   Typically,a licensed health care practitioner must certify that the need for assistance with the ADLs is reasonably expected to continue for at least 90 days. |
| **2. Cognitive Impairment** |
| ***Cognitive impairment*** involves the deterioration or loss in intellectual capacity causing impairment in some or all of the following:   * Short- and long-term memory loss * Loss of orientation to people, places, and time * Loss of deductive or abstract reasoning (including judgment)   Deficiencies in cognitive function are reflected in the inability to perform certain ***instrumental activities of daily living (IADLs)*** which typically include the following:   * Shopping for personal items * Managing money * Using the telephone * Preparing meals * Managing medication * Doing housework   Benefits payable upon activation of cognitive impairment begin when the individual has been certified by a licensed health care practitioner to require substantial supervision to protect himself or herself from threats to health and safety due to cognitive impairment. |

Method of Claims Payment

LTCi policies are issued as a “Reimbursement” type of policy or a cash payment of a “Cash Indemnity” type of policy.

Click each type of policy to learn more.

|  |
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| **Reimbursement Policy** |
| ***Reimbursement***policies are by far the most common and the claims process works in a manner similar to a medical insurance claim. Once eligibility for payment of benefits is determined, the insured can submit qualified expenses for reimbursement up to the maximum daily benefit amount, or the expenses can be assigned for direct payment to the service provider. |
| **Cash Indemnity Policy** |
| ***Cash Indemnity***methods of LTCi claims payment can be provided by a supplemental rider to a reimbursement policy, or be purchased as a separate policy. An indemnity policy or rider pays a flat daily amount (usually expressed as a daily or "per diem" benefit) to the insured once the insured has become eligible for long-term care benefits.  This allows for greater flexibility in paying for actual long-term care costs. For example, LTCi reimbursement policies typically exclude informal family care, but cash payments from a cash indemnity policy could be used to compensate informal caregivers for services or to reimburse them for expenses incurred, such as transportation costs. The claims process is typically simpler and faster since specific expenses need not be submitted.  A cash indemnity policy also may pay a benefit that actually exceeds the LTC costs incurred. If a cash indemnity policy pays more than $330 per day (in 2015, as indexed), the excess is taxable income if not used for the payment of long-term care expenses.  These types of policies are not common and are more expensive than a policy that reimburses the insured only for the actual qualifying incurred expenses. |

# Elimination Period

The ***Elimination Period (EP)*** is a form of "deductible." It is a "waiting period" of time that an insured must wait before qualifying for long-term care policy benefits. A longer Elimination Period will decrease premium payments and a shorter EP will increase premiums. Insurance companies and state statutes typically limit Elimination Period choices to between 0 and 730 days. The most commonly selected Elimination Periods are between 30 and 90 days.

The primary criterion for selecting an Elimination Period is based on the ability to pay premiums and the ability to self-insure any LTC expenses during the Elimination Period. The financial professional can assist the client in making this decision by providing insight into the array of financial resources, both public and private, that are available to cover LTC costs.

The actual terms of an Elimination Period can vary and thus promise a varied range of value to a client. We have listed below two key EP considerations to watch for in an LTCi policy.

**Click each provision to learn more.**

|  |
| --- |
| **Accumulation of "Short-Term" Qualified Days** |
| Many policies issued today allow the insured to accumulate documented short-term periods when the insured would have qualified for LTC benefits if there had been no Elimination Period. Usually there is no time limitation to accumulate these days and once the necessary number of days is satisfied, the Elimination Period is satisfied for the life of the policy.  For example, assume that Jack Bailey's LTCi policy has a 90-day EP and he is in a nursing home for 11 days after surgery in 2008, in a nursing home again for 12 days in 2010, receives home health care in 2016 for 10 weeks, and then enters an assisted living facility in 2017. How long does he need to be in the assisted living facility to receive benefits? If his previous LTC treatments count on a cumulative basis with no restrictions, he has already satisfied his Elimination Period (11 + 12 + 70 = 93 days). If the EP must be satisfied with consecutive care or with no accumulation of prior care, he will need to satisfy a new Elimination Period of 90 days in 2017. At a hypothetical assisted living facility cost of $3,000 per month, this would cost Jack $9,000 because of a more restrictive definition of satisfying the Elimination Period. |
| **How Does the Policy Count Home Health Care Benefits to Satisfy the Elimination Period?** |
| Policies vary in how they count home health care services. Some policies will count qualifying services of one day per week as satisfying one week of the Elimination Period. Other policies may only count two or three days of care as satisfying one week of the EP. Some policies count each day as one day.  Thus, the value of this provision can vary. If a policy specifies that one day of care counts as one day toward the EP, a once per week LTC patient could take 90 weeks to satisfy his EP of 90 days. On the other hand, a policy that counts one day per week as satisfying one week of the EP, the insured would satisfy the EP in 13 weeks. |

Maximum Benefit Period or Lifetime Maximum Benefit

The *Maximum Benefit Period (MBP*) or *Lifetime Maximum Benefit* is actually a limitation on the cumulative dollar amount of benefits the policy will pay over the lifetime of the insured policyholder. For example, if a policy has a maximum Monthly Benefit Amount of $4,500 per month and an MBP of 5 years, the actual Lifetime Maximum that can be paid by the policy is 60 months x $4,500 = $270,000, *plus* annual adjustments for inflation. The actual maximum benefit is determined by the amount of inflation through the life of the coverage and the timing of benefits actually utilized. Another way to express the same concept is to say that the actual Lifetime Maximum in the example above would be $270,000 *in today's dollars.*

Note, too, that many paid claims in a reimbursement policy could be less than the Maximum Daily Benefit (or Monthly Benefit). For example, a maximum daily benefit of $200 would be more than sufficient to cover qualifying claim payments of $125 per day. These "unused benefits" will extend the life of the policy since the Lifetime Maximum Benefit should really be considered a finite pool of inflation-hedged funds available to pay claims with the restriction of a maximum daily benefit.

The EXCEPTION to the above explanation of the MBP is when a "Lifetime" MBP is selected by the applicant. In this case, there is no time limit on benefit payments, although a daily maximum restriction would still apply. For example, qualifying expenses of $250 per day would be limited to the maximum daily benefit, which might be $200 per day. However, with a Lifetime Maximum Benefit Period, the $200 maximum daily benefit would be paid for as long as the insured required care. The insured cannot *outlive* the benefits with a Lifetime MBP.

Typically, the applicant selects from a small menu of MBP options: usually 3 years, 5 years, 10 years, or Lifetime. This decision by the applicant can be difficult since selecting less than a Lifetime MBP raises the possibility that the policy coverage may expire before the client’s need for benefits expires.

# How Does a Client Decide on a Maximum Benefit Period?

Most LTCi sales literature and academic material cites nursing home statistics to validate the need for long-term care and often implies the use of those statistics to assist in selecting an MBP. For example, The American College textbook, *Meeting the Financial Need of Long-Term Care*, 2nd ed., 2005, quotes the following on pages 101 and 102 where they are discussing selection of an MBP:

Approximately 55% of all persons currently in nursing homes have been there in excess of one year. This figure drops to about 30% for stays of 3 years or longer. On the average, the length of stays has been about 2½ years. However, about 14% of stays exceed 5 years, and stays for such conditions as severe arthritis and Alzheimer's disease sometimes exceed 10 years.

This begs the question of what are the odds of requiring assisted living care or home care, and why are these statistics often not used in sales material? Until Congress passed HIPPA in 1996, most LTCi policies did not include substantive assisted living and home health care benefits. The insurance companies are just beginning to acquire and analyze their own utilization experience. Independent research groups find it relatively easy and inexpensive to acquire longer-term *nursing home* data since nursing homes have been regulated for several years and most of their services are paid for by Medicare and Medicaid. Data regarding assisted living and home health care is much more difficult and expensive to acquire. However, as mentioned previously, the long-term care insurance industry paid out $3.5 billion in benefits in 2007 to individuals, broken down as follows:

43.0 % of claims paid were attributed to home care

30.5% of claims were for assisted living

25.7 % of claims covered nursing home care.

While meaningful statistics regarding claim duration will take more time to develop, common sense suggests that many individuals will progress from home care, to assisted living care, and finally to the more intensive nursing home care. Some individuals will require long periods of home and/or assisted living care only. Clients will usually evaluate and understand these possibilities from their own family experiences.

# Conclusions

In summary, the client will generally make a Maximum Benefit Period choice based on emotions, their own vicarious experiences with long-term care, and their risk tolerance. The preliminary statistics indicate that the financial professional will find it difficult to suggest less than a Lifetime MBP, but budgetary restrictions may demand that clients accept shorter MBPs because they provide substantially more coverage than no coverage at all.

If a client has an “average” need for long-term care, a five-year MBP should be more than adequate. Some insured clients will never use the coverage at all, although with much broader coverage today than was available in the past, this is becoming less likely.

Most affluent and high net worth clients can afford and will choose a lifetime MBP for the assurance that they will not outlive their benefits. Some, however, will “play the odds,” backed up by substantial financial assets.

# What about Inflation Protection?

Long-term care costs continue to rise significantly each year. In fact, many experts report that costs are increasing by more than 4% per year.\* To assure that benefits keep pace with LTC costs, there are two basic formulas of inflation protection options that provide increased coverage over time.

**Click each option to learn more.**

|  |
| --- |
| **Compound Percentage Benefit** |
| This is the most comprehensive coverage. Under this policy structure, the daily or monthly benefit will increase at a pre-determined rate (typically a maximum of 3% to 5%) each year on a compound basis. The benefit amount increases each year, beginning on the first anniversary of the policy, regardless of whether the insured is or is not collecting benefits under the policy. |
| **Simple Percentage** |
| This solution offers a daily or monthly benefit amount that increases at a predetermined percentage rate each year on a simple interest basis. Typically, the predetermined percentage is 3% to 5% annually.  As an example, if the daily benefit amount is $100 and the percentage is 5%, each year the daily benefit will increase by $5. The benefit amount increases each year regardless of whether the insured is or is not collecting benefits under the policy. |

Note that the National Association of Insurance Commissioners (NAIC) guidelines that are followed in most states require inflation provisions in an LTCi policy. If the applicant does not want a benefit with automatic annual increases based on inflation, the applicant must decline the inflation provisions in the application.

*\* Health Spending Projections through 2013, Office of the Actuary, Centers for Medicare and Medicaid Services, February 2004*

# Unique Provisions for Long-Term Care Insurance

Federal legislation and requirements of tax-qualified policies have assisted insurance companies in recognizing the unique needs of senior insureds. As a result, today's LTCi policies are issued with special policy provisions listed below that are unique to long-term care insurance policies.

**Click each heading below to learn more.**

|  |
| --- |
| **Nonforfeiture Benefits** |
| Nonforfeiture benefits provide a policyowner with some value (rather than none) if the policy lapses for nonpayment of premiums, provided previous premiums were paid and the policy has been in force for a number of years, typically at least three. The most common type of nonforfeiture benefit is a shortened Maximum Benefit Period that is paid-up for the life of the insured. The maximum benefit is typically the greater of one month's Indemnity Amount or the total of premiums paid while the policy was in force. This benefit may be included in the policy or offered as a rider. |
| **Contingent Nonforfeiture Benefits** |
| In the event premium rate increases exceed certain limits as specified in the policy, the policyowner may, under certain conditions, opt to select a lower Maximum Benefit Period, or reduce the daily/monthly Indemnity Amount by maintaining the level of premium required prior to the increase.  This benefit has some value, but decreasing benefits as the policy ages may leave a client with a "meaningless" long-term care policy if the client does not have financial resources to make up the shortfall of benefits. The client might be forced into care by Medicaid, in which case all LTCi benefits would serve only to reduce Medicaid's costs. This provision highlights the fact that a financial professional should not recommend LTCi unless it appears very likely that the client will have the resources to pay premiums for the rest of his or her lifetime. |
| **Third Party Notification of Pending Lapse** |
| To mitigate the potential lapse of a policy by an elderly and possibly frail policyholder, an applicant for LTCi is given the option of designating a third party to receive notification of a policy in danger of lapsing due to non-payment of premium. In most states, this option must actually be declined in writing if not desired. In some cases, more than one individual or entity may be notified. |

# Other Long-Term Care Policy Provisions

In addition to the policy provisions already discussed, you should be familiar with the following additional provisions.

**Click each heading below to learn more.**

|  |
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| **Waiver of Premium** |
| Generally, the policy premium is waived when the insured qualifies for benefits. |
| **Renewability** |
| Virtually all policies written today are *guaranteed renewable* as long as premiums are paid. Policies rarely guarantee premiums and are subject to rate increases. |
| **Shared Coverage** |
| For couples where each partner purchases an LTCi policy with less than a Lifetime Maximum Benefit Period, the two purchasers can elect to share the Maximum Benefit Period for the two issued policies. This election lowers the LTCi premium. The claims of each insured would be combined to determine when and if the Lifetime Maximum Benefit Limit is reached. In addition, the Waiver of Premium benefit typically applies to both policies if either of the two partners qualifies to receive benefits. This election should be made carefully, since the combined maximum benefit is half of the benefit provided by two policies with separate maximum benefits. |
| **Exclusions and Limitations** |
| Exclusions and limitations of benefit payments will vary by state and by insurance company, but most state statutes will adhere closely to NAIC model legislation. Financial professionals will prefer policies that exclude or limit benefits to a lessor degree than the NAIC model legislation exclusions and limitations listed below:   * Preexisting conditions or disease for which treatment was received or recommended within six months prior to the LTCi effective date or for long-term care treatment that begins within six months of the effective date. (This is not a common exclusion.) * Mental or nervous disorders, not including Alzheimer's disease. (It is generally preferable to avoid this exclusion; it is not typical in today's policies.) * Alcoholism or drug addiction (non-prescribed). * A condition arising out of war, participation in a felony, service in armed forces, self-inflicted injury. * Services where a duplication of benefit payments would occur, such as Medicare, Workmen's Compensation, Veteran's benefits, other insurance, etc. One exception that is NOT excluded is a service provided by Medicaid. * Services provided by a member of a covered person's immediate family (usually excluded unless the services are in a professional capacity and the employer of the family member services and charges are normal for any equivalent patient). * Services for which no charge is normally made. * Services outside the United States can be limited. (Benefits are usually restricted, but riders can often expand this coverage. Optimal plans provide international coverage for 12 months. This issue should be addressed carefully for clients who anticipate international travel.) |

# Summary of LTC Services, Costs, and Insurance Coverage

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **LTC**  **Service** | **LTC Service**  **Estimated Cost** | **Covered by Medicare?** | **Covered by Medicaid?** | **Covered by LTCi? (1)** |
| Home Care | **Home Health Care Aides Cost $19 Per Hour on Average**  **Homemaker/ Companions are $18 Per Hour on Average (2)** | Limited | Probably, but restrictions apply; sometimes patients with ADL or IADL needs are moved to nursing homes | Yes, within policy limits |
| Adult Day Care (4) | Avg. $60/day (2) | No | Maybe; depends on state | Yes, within policy limits |
| Assisted Living | Avg. $3,185/month (2) | No | Maybe; sometimes patients with ADL or IADL needs are moved to nursing homes. | Yes, within policy limits |
| Alzheimer's facility (Assisted Living) (3) | $57,144/year | No | Maybe; sometimes patients with ADL or IADL needs are moved to nursing homes. | Yes, within policy limits |
| Nursing Home | Avg. $5,600/month (semi-private) to $6,200/month (private)(2) | Yes, but co-insurance to 100 days, then no coverage | Yes | Yes, within policy limits and beyond Medicare coverage |
| Alzheimer's facility (Nursing Home) | $75,190/year (semi-private) to $83,220/year (private) (3) | Probably, for medical care only | Probably, for medical care and/or nursing home only | Yes, within policy limits |
| DMMs (5) | $35 - $100/hour (6) | No | No | Maybe |

***Footnotes:***

*(1) Policies can vary in various coverages. We assume here that the client would be considering premium LTCI coverages from highly-rated insurance companies.*

*(2) Genworth Financial 2010 Cost of Care Survey, April 2010*

*(3) MetLife Mature Market Institute, October 2010.*

*(4) Adult day care centers provide social, some medical, assisted living, therapeutic, and rehabilitative services for individuals with*

*physical or mental limitations.*

*(5) A Daily Money Manager (DMM) may be retained to pay bills, make bank deposits, file and maintain records of medical claims, etc.*

*(6) Bankrate.com, May 2005*

Group LTC Insurance

**Print**

Clients will occasionally be employed at a company that offers group LTCi coverage on a voluntary participation basis. This coverage, unlike other most forms of group health insurance coverages, is portable (meaning the employee can take the coverage with them if they terminate employment), and the coverage is typically almost identical to individual coverage. These plans will usually offer slightly discounted premiums to individual coverage and are usually issued with very limited underwriting. This last factor can make this coverage very attractive to clients who have issues that would otherwise make the acquisition of individual LTCi expensive, provide limited benefits, or possibly impossible to acquire. When possible, clients with underwriting issues should apply for this coverage on a "limited-pay" basis so that they will have a paid-up policy at the end of 10 years or age 65, etc. Once the policy is paid up, the policy is not subject to rate increases and premiums will not need to be paid from retirement income.

On the other hand, because the guaranteed issue or simplified underwriting of group LTCi incurs higher risk, a healthy client with no negative underwriting issues will likely be able to acquire comparable coverage for less premium by applying for individual coverage.

In some cases, an employer will pay all or some of the premium of group LTCi coverage, which makes the group plan more attractive. In addition, some employers will provide individual LTCi policy coverage for a select group of executives and may pay some or the entire premium cost. This coverage is also portable and may have a much lower premium than could be acquired after termination of employment.

Both group and individual policy LTCi coverages offered through employers are often available to the employee's family members including parents of the employee.

# Whenever the employer provides access to LTCi coverage, the financial professional will want to assist the client in determining if the employer's coverage is comprehensive enough to meet the objectives of the client.Federal Income Taxation of Long-Term Care Insurance



In 1996, Congress passed the Health Insurance Portability and Accountability Act (HIPPA). Under the provisions of this bill, long-term care policies were divided into two segments: "qualified" and “non-qualified.” "Qualified" policies issued on or after January 1, 1997, must adhere to numerous regulations and stipulations regarding LTCi established by HIPPA in order to realize specified income tax benefits regarding LTCi premiums paid and benefits received**.** At least 95% of policies issued today are “qualified.”

**Click each heading below to review specific tax benefits of Qualified LTCi policies.**

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| **Individual Taxpayers** |
| For ***individual taxpayers***, qualified policies provide the opportunity for individuals to *deduct the premiums* for long-term care insurance (LTCi), based on the itemized deductions on their personal tax returns being in excess of the 7.5% of the Adjusted Gross Income (AGI) threshold. *Benefits are received tax-free,* although daily (cash indemnity) benefits in excess of $330 (in 2015, as indexed) may be taxable.  State taxation varies by state, but most states provide for deductions or tax credits, subject to limitations, for LTCi premiums paid. |
| **Sole Proprietors** |
| Any ***sole proprietor*** can deduct the premium of a qualified LTCi policy, subject to net profit and the annual limitation as shown in the chart below**.**   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | When deductibility of any LTCi premiums is limited to “eligible premiums” by IRS guidelines, the restrictions are listed below by the age of the taxpayer at the end of the year. These limits are adjusted for inflation annually.   |  |  | | --- | --- | | **Age attained before the end of the taxable year** | **Amount allowed as a medical expense in** | | 40 or under 41-50 51-60 61-70 71 or older | **2016** | | $ 390 $ 730 $ 1,460 $ 3,900 $ 4,870 | |   The deduction is classified as a “self-employed health insurance premium” for the proprietor and any dependents, and is subject to self-employment tax.  If premiums are paid for employees, the premiums are deductible to the employer and employees do not report the premiums as income. There is *no requirement* for the medical expenses to exceed 10 percent of your AGI when self-employed. |

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| **Owners of more than 2% of partnerships** |
| A partnership can pay an entire LTCi premium and deduct it, but the premium paid on behalf of a partner is added to a partner’s share of partnership income. The partner can then deduct the premium as a “self-employed health insurance premium” on Form 1040 subject to the limitation in the chart below.   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | When deductibility of any LTCi premiums is limited to “eligible premiums” by IRS guidelines, the restrictions are listed below by the age of the taxpayer at the end of the year. These limits are adjusted for inflation annually.   |  |  | | --- | --- | | **Age attained before the end of the taxable year** | **Amount allowed as a medical expense in** | | 40 or under 41-50 51-60 61-70 71 or older | **2016** | | $ 390 $ 730 $ 1,460 $ 3,900 $ 4,870 | |   If a premium is paid for less than a 2% owner-employee, the employee does not report the premiums paid on their behalf as income. |
| **Owners of more than 2% of Sub S corporations** |
| A Sub S corporation can pay an entire LTCi premium and deduct it, but the premium paid on behalf of a shareholder is added to the shareholder’s W-2. The shareholder can then deduct the premium as a “self-employed health insurance premium” on Form 1040 subject to the limitation in the following chart.   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | When deductibility of any LTCi premiums is limited to “eligible premiums” by IRS guidelines, the restrictions are listed below by the age of the taxpayer at the end of the year. These limits are adjusted for inflation annually.   |  |  | | --- | --- | | **Age attained before the end of the taxable year** | **Amount allowed as a medical expense in** | | 40 or under 41-50 51-60 61-70 71 or older | **2016** | | $ 390 $ 730 $ 1,460 $ 3,900 $ 4,870 | |   If a premium is paid for less than 2% owner-employee, the employee does not report the premiums paid on their behalf as income. |

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| **Employees of C Corporations** |
| An employer can "carve-out" or designate certain classes of employees that will be covered by LTCi. Retirees can be included as well as owners, although exceptions may apply to plans that cover just owners. A company may deduct the entire premium paid for the benefit of an employee and dependents but the premium is excluded from the employee’s income. This form of LTCi premium payment is the most advantageous from a tax standpoint.  Most LTCi policies can be purchased on a "limited pay" basis. This means, for example, that premiums could be paid for only ten years (10-Pay) or until age 65 (Paid-Up at 65) versus for the insured's lifetime. Such premiums are higher than premiums paid for life and still subject to rate increases, but once the payment period is completed, no more premiums are due. A paid-up LTCi policy could reduce a significant budget item in retirement. Individuals who own businesses operating as C Corporations have a significant advantage in purchasing LTCi for employees. |

# Review Exercise

**Select the correct answer for each question.**

1. A qualified LTCi policy specifies that eligibility for long-term care benefits is based on the number of Activities of Daily Living (ADLs) a person cannot perform or on cognitive limitations (IADLs).
   * + True

Correct!

* + False

Incorrect.

1. The vast majority of people requiring assistance with **ADL** or **IADL** tasks in the United States are over age 65.
   * + True

Correct!

* + False

Incorrect. According to research sponsored by the U.S. National Institutes of Health in the late 1990s, "In 1994, over 3.3 million persons aged 18-64 living in the community received assistance with **ADL** or **IADL** tasks, compared with 3.8 million community dwelling persons aged 65 and over.”

1. Licensed facilities that provide skilled, intermediate, and custodial care services are:
   * + Nursing homes

Correct!

* + Assisted Living Facilities

Incorrect. Assisted living facilities provide supportive services and assistance with Activities of Daily Living (ADLs) for residents who are not able to live by themselves because of physical or cognitive limitations, but do not require constant care or significant medical care. Try again.

* + Adult Day Care

Incorrect. Adult day care centers provide social, some medical, assisted living, therapeutic, and rehabilitative services for individuals with physical or mental limitations. Try again.

* + All of the above

Incorrect. Try again.

* + None of the above

Incorrect. Try again.

1. All of the following are potential services that an LTCi policy would cover EXCEPT:
   * Home health care

Incorrect. This would typically be covered by an LTCi policy. Try again.

* + Adult Day Care

Incorrect. This would typically be covered by an LTCi policy. Try again.

* + Daily Money Managers

Incorrect. This would typically be covered by an LTCi policy. Try again.

* + Assisted Living Facility

Incorrect. This would typically be covered by an LTCi policy. Try again.

* + - None of the above. All are potential services an LTCi policy would cover.

Correct!

1. According to a study by the National Institutes of Health, which of the following long-term care services provided in 2004 had the greatest estimated value?
   * + Family care at home

Correct! Estimated cost: $149 Billion to $483 Billion.

* + Professional Home Care

Incorrect. Estimated cost: $49 Billion. Try again.

* + Nursing Home Care

Incorrect. Estimated cost: $115 Billion. Try again.

1. All of the following are potential ***public***resources to pay for at least some long-term care expenses EXCEPT:
   * Medicaid

Incorrect. Medicaid is a substantial provider of limited LTC services for the indigent. Try again.

* + Medicare

Incorrect. Medicare provides limited LTC services. Try again.

* + Veterans Administration Health Care

Incorrect. The VA Health Care system provides varying LTC services to veterans. Try again.

* + - Medigap insurance

Correct. Medigap insurance is *private* insurance coverage to supplement Medicare coverage.

1. Medicare provides adequate assisted living care services.
   * True

Incorrect. Medicare provides virtually no assisted living care.

* + - False

Correct! Medicare provides virtually no assisted living care.

1. LTCi policies can be issued as a “Reimbursement” type of policy or a cash payment of “Cash Indemnity” type of policy. Which type is the most common?
   * + Reimbursement

Correct!

* + Cash Indemnity

Incorrect. Try again.

1. Long-term care insurance providers provide a Third Party Notification of Pending Lapse provision for which of the following reasons?
   * They charge extra for sending out notifications.

Incorrect. Try again.

* + - To mitigate the potential lapse of a policy by an elderly and possibly frail policyholder.

Correct!

* + Both of the above.

Incorrect. Try again.

1. Qualified LTCi policies provide the opportunity for individuals to deduct the premiums for long-term care insurance, based on the health care itemized deductions on their personal tax returns being in excess of the what percentage of AGI?
   * 2.0%

Incorrect. Try again.

* + 2.5%

Incorrect. Try again.

* + 5.3%

Incorrect. Try again.

* + - 7.5%

Correct!

* + 10.0%

Incorrect. Try again.

# Private Resources - Self Insure the Risk?

Having examined the fundamentals of long-term care insurance, we now turn our attention to the decision of whether a person insures or not. It is important to remember that the purchase of insurance of any kind is typically not required or technically necessary. Insurance is a financial tool that we may choose to use in order to alleviate intolerable financial risk. Long-term care risk intolerance is not based on a universal formula, but rather on the characteristics of the risk and the individual circumstances and attitudes of each client. To self-insure or insure the risk of long-term care expenses is a subjective decision since the need for long-term care not a certainty.

As financial professionals, it is our role to fully illuminate the potential emotional and financial risks of long-term care, as well as how long-term care insurance (LTCi) can alleviate the risk.

|  |  |
| --- | --- |
| **Overview** | To address the decision-making process of whether or not to purchase LTCi vs. self-insuring the risk, we have listed below ***seven critical factors*** that the financial professional must understand prior to assisting the client in the decision-making process.  **Click on each factor to learn more.** |
| **Age** | The individual's or couple's age may influence their eligibility for coverage and will certainly affect the amount of premium necessary to maintain coverage. Not everybody is insurable. According to Genworth Financial, 57% of those who apply for long-term-care insurance at age 80 or older are declined by insurers, while only 11% of those who apply between the ages of 50 and 59 are turned down.  There is a tension between accumulating adequate funds to provide sufficient retirement income and managing financial risks in retirement. If your client is in the accumulation phase, they will find it more difficult to make a decision about resolving a risk that they perceive as most likely one of old age and can thus be deferred. They will be more decisive when they are comfortable that their retirement income will be adequate to pay the premiums or that their income or capital base is possibly high enough to handle the risk.  We need to remind clients that the risk of needing long-term care is a possibility regardless of age; it just increases with age. As a reminder, about 47% of the long-term care population is under age 65. |
| **Family Health History** | The family health history may have some impact on underwriting, but more importantly, it will influence the client's attitude toward the risk of long-term care. A person whose older family members had illnesses that required lengthy custodial services in old age will probably be much more sensitive to the risk than a person who is not aware of significant long-term care needs of older family members. |
| **Family Demographics** | Are the parents of your client still living? Is it possible your client will bear some burden of their LTC costs? LTCi paid for by children is a common resolution of LTC risk for children of parents who cannot afford the premium.  If your client has children, is your client concerned about being a burden to the children in the event of LTC needs and expenses?  What family members could be involved in your client's LTC decisions? Where are they located? What role would your client want them to play if the client has LTC needs?  Remember that if your client has a spouse, the possibility of LTC involves either or both spouses. The possible LTC needs of both spouses can result in not only substantial costs, but also the loss of a possible caregiver and absence of management of the household and personal affairs. |
| **Projected Predictable Lifetime Income (account for inflation)** | Projected predictable lifetime income is ***the*** major factor in LTC planning. We have listed three categories of clients that help us make pragmatic evaluations of a client's LTC profile. **Click each category to learn more.**   |  | | --- | | **1. Cannot afford LTCi premium or LTC costs (Lower-Middle Income Client)** | | Possible Solutions:   * Look for a premium from another source, such as family members. * Look for assets that could potentially be converted to income-producing assets or annuities. * Refer the client to an elder care attorney who can assist them in minimizing their potential loss of assets in order to qualify for Medicaid. | | **2. Can afford premium, but not LTC costs (Affluent Client)** | | Possible Solutions:   * These are primary prospects for LTCi. Make sure that you and your client are comfortable with their long-term ability to pay for LTCi premiums that are likely to increase over time. * If he, she, or they are not convinced of the substantial financial risk of LTC and/or they do not believe they can afford the premium, they will not purchase LTCi. It is the financial professional's role to assist the client in understanding and feeling the magnitude of the risk and to help them determine how they can afford the premium cost. | | **3. Can afford premium and LTC costs (High Net Worth Client).** | | Possible Solutions:   * If the client has a substantial and predictable lifetime income substantially higher than any reasonable assumption of LTC costs, the risk management strategy is different than insuring a "need." * Would the client rather pay premiums at a substantial discount to potential LTC expenses, or deplete potential wealth that would otherwise be transferred to family? The answer to this question depends largely on the client's priority of estate transfer objectives and risk tolerance. | |
| **Nature and Value of Assets** | Assets must be analyzed in conjunction with income. Typically, the level of a person's income is reflected in the value of their assets. However, a client could realize a substantial retirement income from Social Security, a pension, and annuities with modest net worth.  More likely is a client with substantial assets, but with a projected lifetime income that is a small percentage of their net worth. Assets such as land, second homes, and interests in closely held businesses may not generate income and are not likely to be liquid. If the current or future sale of the assets is not preferred, this client may be a primary prospect for LTCi. If their projected lifetime income would be insufficient to pay for potential LTC costs, they would need to liquidate the assets they wish to keep and/or transfer to family. LTCi can remove the risk of unwanted asset depletion. |
| **Estate Planning Objectives** | How concerned is your client about depleting assets resulting from long-term care expenses? Some people have a strong desire to leave assets or specific assets to children, grandchildren, etc., and depletion of assets due to LTC costs may threaten this objective. Others may not see leaving assets to family as a high priority. Similarly, some clients may consider charitable bequests to be an important objective and a depletion of their estate may threaten this goal. |
| **Risk Tolerance** | This is a relatively simple but important client characteristic to evaluate when assisting with managing the risk of long-term care. The very low risk tolerant client may have a tendency to over-insure while the client who has high risk tolerance will tend to minimize insurance coverages. In any case, a financial professional can serve a client well by encouraging a realistic balance of utilizing insurance to reduce financial risk exposures. |

On the next few pages, we will review cases to examine how our understanding of these factors helps us to determine how to approach and assist various types of clients when making a decision regarding the purchase of LTCi.

# Case Study One: Clara Barkley – The Facts

**Clara Barkley**

Clara Barkley is single, age 60, and is retiring after teaching high school math for 30 years. She is in good health. She owns a condominium worth about $250,000 and she has a mortgage balance of $125,000.

She has personal savings of $15,000 and a Roth IRA balance of $25,000. She is covered by the Teacher's Retirement System medical coverage for life, which will supplement Medicare when she turns 65. Her pension will provide $2,500 per month for life and is indexed for inflation (no survivor benefit). Clara is not eligible for Social Security.

She will supplement her income for the next five to ten years by tutoring, which she believes will add $25,000 of annual income. She requires about $2,000 per month of living expenses, which she believes her pension will sufficiently cover since the pension is indexed for inflation.

Based on your conversation with Clara, her lifestyle, and investment experience, she has a low risk tolerance.

Clara has two adult daughters who are both married with children of their own. Both daughters live several hundred miles away. She would like to assist with the educational costs of her current and future grandchildren and has established a trust in her will for that purpose. Clara does not want to be a burden to her children in any way.

Both of her parents, who live about 300 miles away, require custodial care. Her father has Alzheimer's disease.

Clara is concerned about long-term care expenses and asks you what you think she should do. Your answer?

On the next page, we will review this case situation in terms of the seven critical factors that the financial professional must understand prior to assisting the client in the decision-making process.

# Case Study One: Clara Barkley – Analysis

Each of the seven critical factors is discussed below.

|  |  |
| --- | --- |
| **Overview** | **Click each factor to view more information.** |
| **Age** | Clara is at an affordable age to purchase coverage and she is in good health. If she waits to purchase LTCi later, the premiums will be higher and she may develop health issues that limit coverage or cause her to be declined. |
| **Family Health History** | Clara has first-hand experience in dealing with issues of long-term care since her parents both have required custodial care. She will likely want to purchase LTCi if she can. |
| **Family Demographics** | Clara does not want to burden her daughters with any potential custodial care. This may be because she is spending some time overseeing the care of her parents. |
| **Projected Predictable Lifetime Income (account for inflation)** | If Clara is able to tutor for several years, she should be able to maintain an inflation-hedged lifetime income in excess of her needs. Even if she is able to work for several years and save capital, if she requires long-term care services, she may find her income and capital inadequate to pay for her possible long-term care. |
| **Nature and Value of Assets** | Clara has a net worth of about $165,000 that will grow if she is able to save discretionary income in the future. |
| **Estate Planning Objectives** | Clara does not want to be a burden to her children and would like to provide support for her grandchildren's' education expenses. |
| **Risk Tolerance** | Clara is not comfortable with risk. |

# What would your recommendations be to Clara? On the next page, we discuss the possible options.Case Study One: Clara Barkley – Conclusion

Clara has first-hand experience with the risk of long-term care and wants to eliminate any financial risk of being a burden to her children. Clara's income and assets may be insufficient to cover the substantial costs of long-term care. If she were to deplete her assets, she may not qualify for Medicaid because her income may be too high.

Clara would be happiest with LTCi that provided Lifetime care in an amount sufficient to cover all potential LTC costs. This would give her peace of mind, would allow her flexibility of care selection, and would fulfill her desire to assist with her grandchildren's education expenses.

It is important to assist Clara in reviewing her budget to determine if she can afford coverage providing full care in her geographic area with Lifetime coverage, both now and for the rest of her life. Purchase of LTCi that is not affordable will inevitably result in a lapse of the insurance and thus compounding the risk with wasted premiums. It would be appropriate to consider alternative choices, such as a lower Daily Maximum Benefit. She could likely afford to co-insure a potential shortfall of benefits with her pension income; for example, trimming a Daily Maximum Benefit from $150 to $100 per day. A shorter Maximum Benefit Period is also a way to reduce the premium, but this may be unacceptable to her because Clara does not like risk and she is very aware of the long-term risk of Alzheimer's disease.

If Clara lives in an LTC Partnership Program state, she could acquire Lifetime coverage at a lower price than a private LTCi policy. She would be able to retain her assets for security and ultimate distribution for her grandchildren. This choice would allow Clara flexibility of selecting care for the first few years of care at a lower premium, but if she needed care beyond a few years, she could thereafter be subject to the care limitations of Medicaid.

# Case Study Two: Bill and Bonnie Blair - The Facts

Bill Blair is an engineer, age 55, and plans to retire in about five to ten years depending on Bill and Bonnie's financial ability to provide sufficient retirement income. Bill's wife Bonnie, also age 55, is a research biologist and would like to retire as soon as their last child graduates from college in three years. They are both in good health.

You have been asked to assist Bill and Bonnie in evaluating their retirement plans. After reviewing their financial and family information, as well as discussing their goals in some detail, you have determined the following:

* If they continue to work for another ten years, increase their retirement savings and invest prudently, their retirement income from all sources should be about $100,000 per year from a combination of pension annuities and withdrawals from investment assets. Their retirement incomes should be able to keep pace with inflation and their residence will be paid for.
* They will be eligible for Medicare at age 65.
* Their total net worth in ten years is projected to total about $1,200,000 (including their home, but not including their annuitized pensions). In ten years, they will have paid off their mortgage. They currently have no other debts.
* Bill and Bonnie live in Boston and plan to retire there since two of their three children have settled close by and they have lived in Massachusetts all of their lives. Their third child is in college and should graduate in three years.
* Bill's parents live in Florida and are in "pretty good" health. Bill's mother is developing severe arthritis. Bonnie's parents live in Arizona. Bonnie's mother has some health problems and needs some professional custodial care at home that her father is unable to provide.
* Bill and Bonnie have recently become concerned about the long-term health care of their parents. They are "getting by" financially, but they have provided modest financial assistance to their parents in the last couple of years. The Blairs wonder if their parents will be financially able to handle their health care needs as they age.
* Bill and Bonnie are beginning to wonder how they can prepare to cover their own health care needs as they age. They would "rather die" than become a burden to their children.
* Bill is a "calculating risk taker." Bonnie likes to keep all matters as predictable as possible.
* The Blairs do not have a "burning desire" to sacrifice their retirement security in order to leave assets to their children, but they would like to give their children a boost by leaving them some funds when they are gone. They emphasize that they want to establish and maintain their financial and personal independence; they do not want to ever find themselves in a position of being financially dependent on others.

Again, let's review this case situation in terms of the seven critical factors that the financial professional must understand prior to assisting the client in the decision-making process. This occurs on the next page.

# Case Study Two: Bill and Bonnie Blair - Analysis

The seven critical factors are discussed below.

|  |  |
| --- | --- |
| **Overview** | **Click each factor to view more information.** |
| **Age** | The Blairs are at an age when many couples are just beginning to think seriously about retirement. The potential risks of old age have just made their way onto their "radar screen" as they watch their parents deal with debilitating health issues and strained finances. LTCi at their age is relatively inexpensive, their health is good, and most carriers provide substantial discounts to married couples. |
| **Family Health History** | Bill and Bonnie have noted some growing health issues by their parents, which could require extended long-term care. |
| **Family Demographics** | It appears the Blair children may remain close by, although the Blairs have adamantly expressed their desire to remain financially independent and not be a burden to their children. |
| **Projected Predictable Lifetime Income (account for inflation)** | The retirement income projections indicate a sufficient projected lifetime income to cover their living expenses. However, the Blairs have not yet anticipated the actual cost of long-term care. They would be interested in reviewing the following projections of long-term care costs in Boston and projected costs in ten years at a 4% inflation rate.   |  |  |  |  | | --- | --- | --- | --- | | **Type of LTC** | **Today's Average Cost** | **Average cost in Ten Years @ 4% Inflation** | **Annual Cost in Ten Years** | | Home Health Aid-not-Medicare certified | $23/hour | $34/hour | $35,360  (Assume 20 hours/week) | | Adult Day Care | $61/day | $90/day | $22,500  (assume 5 days per week x 50 weeks) | | Assisted Living Facility | $4,635/ month | $6,860/ month | $82,331 | | Semi-Private Nursing Home | $304/day | $450/day | $164,248 | |
| **Nature and Value of Assets** | The majority of the Blairs' retirement income will be dependent on their pensions and Social Security. Substantial long-term care costs could rapidly erode their investment assets. |
| **Estate Planning Objectives** | The Blairs' primary objective is to maintain financial independence in retirement; therefore, they do not want to risk depletion of assets. |
| **Risk Tolerance** | Bill is more of a risk-taker than Bonnie is, but he will likely not be comfortable with the potential erosion of his retirement income due to long-term care costs. |

# What would you recommend that the Blairs do? On the next page, we discuss the possible options.

# Case Study Two: Bill and Bonnie Blair - Conclusion

Clearly, the potential costs of long-term care could potentially prove to be a financial disaster for the Blairs if one (or both of them) required professional LTC services. Note that the above projected costs are only at age 65. In thirty years, today's LTC costs would more than triple at a 4% inflation rate.

As a financial professional, you can assist the Blairs with their retirement planning by bringing this financial risk and a solution to their attention. LTC insurance can provide a realistic solution to the potential risk. It would give them peace of mind and give them a much more realistic chance of maintaining their primary objective of maintaining financial independence. Furthermore, Massachusetts has a LTC Partnership Program that may provide a palatable option of less expensive coverage if the premium amount becomes a budget issue.

Normally, it would be appropriate to address the issue of LTCi for the Blairs' parents. However, it appears that their likely age (at least 75-80) would make premiums unaffordable and, with existing health issues, acquisition of coverage is unlikely. They should be encouraged to gather other siblings and/or parents to discuss care options, as well as to consult an elder care attorney to maximize their resources and Medicaid benefit.

# Case Study Three: Hank and Hilde Hopkins - The Facts

Hank Hopkins, M.D., age 40, is an orthopedic surgeon in South Florida. He specializes in hip replacements and earns about $600,000 per year. His wife, Hilde, is a homemaker and runs the Hopkins Foundation that assists children with physical disabilities. The Hopkins have three children, ages 11, 14 and 16. The combined net worth of Hank and Hilde exceeds $10 million, mostly in marketable securities in a managed trust, retirement plans, and personal investments.

Harry and Hilde established the Hopkins Foundation ten years ago. Hank contributes $100,000 per year to the foundation and Hilde contributes a portion of her income from a family trust. They have left some assets to their children in their will (about $1 million each), but most of their estate is payable to the foundation.

Hilde's parents are deceased as a result of an automobile accident several years ago. Hank's parents are both 66 years of age, live in Nashville, Tennessee, and hope to stay there near other children and lifetime friends. They have recently retired and are in good health with a modest income from a pension, Social Security, and modest savings. Hank's siblings are younger and earn modest incomes.

As a physician whose patients are primarily seniors, Hank recognizes the risk of needing long-term care. His grandparents both died after long stays in a nursing home. Hank assumes that if his parents require long-term care assistance, he can, if necessary, afford to bear the costs. He desires for them to have the best care with maximum flexibility of care options. He understands that they want to stay in Tennessee.

Hank has called you because he is wondering if he should purchase LTCi on his parents or if he should self-insure. He also wonders if he should also purchase LTCi on himself and Hilde, or should he just set up a "side fund" for potential long-term care costs. If he self-insures, he possibly would retain some of the assets if not fully utilized. What is your response?

Again, on the next page, let's review this case situation in terms of the seven critical factors.

# Case Study Three: Hank and Hilde Hopkins - Analysis

Each of the seven critical factors is discussed below.

|  |  |
| --- | --- |
| **Overview** | **Click each factor to view more information.** |
| **Age** | Hank's parents are apparently still healthy and relatively young. They should not have problems with underwriting, and discounted premiums for a married couple should keep their premiums reasonable. |
| **Family Health History** | The Hopkins are aware of the potential risk of long-term care costs and have some history of long-term need for care in their family. |
| **Family Demographics** | Hank wants his parents to have the best professional care possible. Hank appears to be the only family member who could potentially pay for his parent's care as well as care for himself or Hilde. Family members could be available for support and care decisions. |
| **Projected Predictable Lifetime Income (account for inflation)** | The Hopkins have more than sufficient income to cover the LTCi premiums or the actual LTC costs. |
| **Nature and Value of Assets** | The Hopkins do not possess any substantial assets that they specifically need to protect, nor do they own substantial assets that are illiquid. |
| **Estate Planning Objectives** | The Hopkins do not want to leave a large portion of their estate to their children. Their estate will be left primarily to their foundation. |
| **Risk Tolerance** | In your conversations with Hank, you determine that Hank and Hilde have moderate risk tolerance. Their financial resources are more than sufficient for their needs; therefore, they see no need to assume unnecessary risk. |

# How would you advise Hank and Hilde to proceed? On the next page, we discuss the pros and cons of purchasing LTCi for a high-net-worth client.

# Case Study Three: Hank and Hilde Hopkins - Conclusion

This is certainly not a situation where the Hopkins "need" LTCi to prevent LTC expenses exceeding their resources. For Hank, and many wealthy people who purchase LTCi, it is a question of economic value and peace of mind.

The tables below illustrate a hypothetical example of the "economic value" or calculated perspective of self-insuring vs. purchasing LTCi. The possibilities of varied coverage and actual claims are endless. In these two tables, we have assumed a moderate and substantial claim scenario.

The first scenario involves the decision of self-insuring or insuring the potential cost of LTC for Hank's parents. We assume that the annual premium for comprehensive, lifetime LTCi coverage in Tennessee for Hank's parents would be about $9,500 per year.

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| --- | --- | --- |
| |  |  | | --- | --- | | DocumentationIcon_32px | **Click the icon to review a table that compares the cumulative cost of premiums at an after-tax opportunity cost of 5% per year with two potential scenarios of long-term care costs for Hank's parents.** | |
| |  |  |  |  | | --- | --- | --- | --- | | **Projection of LTCi Premium Cost vs. Hypothetical LTC Claims for Hank’s Parents** | | | | | **Policy**  **Year** | **$9,500 Annual Premiums invested**  **@ 5% \*** | **Claim beginning @ Policy Year in 1st column;**  **5-year cost of care @ 4% inflation; assume cost is $3,500 per month in today's dollars:** | **Claim beginning @ Policy Year in 1st column;**  **Average 7-year cost of care for two @ 4% inflation; assume cost is $8,000 per month in today's dollars:** | | **5** | **$ 52,493** | **$ 286,593** | **$ 952,310** | | **10** | **$ 119,490** | **$ 347,759** | **$ 1,156,338** | | **15** | **$ 204,996** | **$ 422,176** | **$ 1,404,570** | | **20** | **$ 314,127** | **$ 512,716** | **$ 1,706,582** | | **25** | **$ 453,407** | **$ 622,871** | **$ 2,074,026** |   *\* This projection assumes there are no LTCi rate increases.* |

The actual LTC costs could be substantially higher, lower, or none at all. Hank will make this decision based on how significant he believes the risk to be and to what degree he will tolerate self-insuring the risk versus delegating it to an insurance company.

The same holds true for Hank's decision regarding LTCi for himself and Hilde. We assume that the premium for comprehensive lifetime coverage for Hank and Hilde would be about $4,400 per year.

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| |  |  | | --- | --- | | DocumentationIcon_32px | **Click the icon to review a table that compares the cumulative cost of premiums at an after-tax opportunity cost of 5% per year with two potential scenarios of long-term care costs for Hank and Hilde over a 50-year period.** | |
| |  |  |  |  | | --- | --- | --- | --- | | **Projection of LTCi Premium Cost vs. Hypothetical LTC Claims for Hank & Hilde** | | | | | **Policy**  **Year** | **Annual Premiums invested**  **@ 5% \*** | **Claim beginning @ Policy Year in 1st column;**  **5-year cost of care @ 4% inflation; assume cost is $3,500 per month in today's dollars:** | **Claim beginning @ Policy Year in 1st column;**  **Average 7-year cost of care for two @ 4% inflation; assume cost is $8,000 per month in today's dollars:** | | **10** | **$ 55,343** | **$ 347,759** | **$ 1,156,338** | | **20** | **$ 145,490** | **$ 512,716** | **$ 1,706,582** | | **30** | **$ 292,331** | **$ 756,892** | **$ 2,521,078** | | **40** | **$ 531,519** | **$1,118,333** | **$ 3,726,730** | | **50** | **$ 921,131** | **$1,653,354** | **$ 5,511,389** |   *\* This projection assumes there are no LTCi rate increases.* |

The actual LTC costs could be substantially higher, lower, or none at all. Note that the hypothetical claims illustrated significantly exceed the opportunity cost of premiums paid, even with a long life expectancy.

If Hank chooses to establish a "side fund" to cover the long-term care risk for himself and Hilde and/or Hank's parents, the funds must be accessible to Hank and Hilde, thus subject to estate taxation.

In both situations, Hank could opt for a lower level of benefits as a compromise between "full" coverage versus partial coverage and partial self-insurance.

# Case Study Four: Ralph and Rhonda Beard - The Facts

Ralph and Rhonda Beard, both age 50, run a plumbing supply business in Kansas City. Their only child, Rick, age 28, also works in the business as a salesperson. It appears likely that in about ten years, Rick will take over the management of the business when Ralph and Rhonda retire.

Ralph and Rhonda own all of the business except for about 5% of the company stock that they have gifted to Rick. Ralph and Rhonda earn about $250,000 per year from the business. Their accountant says the business is currently worth about $3,000,000.

You are assisting the Beards with their retirement planning and have determined that they will have about $2,500,000 of retirement capital in ten years, in addition to their $600,000 home, which should have a paid-off mortgage in fifteen years. The current value of their retirement portfolio is $750,000. Their home is currently worth $450,000. You have estimated that their inflation-hedged retirement income will initially be about $112,000 per year at age 60, plus Social Security when they decide to begin withdrawals. This income they believe to be adequate. They may supplement their retirement income with some income from the business.

They hope to be able to gift up to 49% of the business to Rick over time and leave 51% of the business to Rick when they are both deceased. They are willing for Rick to receive any other assets they might own at their death, but they are more concerned about maintaining their financial independence after retirement. They do not want to draw any funds from the business after retirement since they know Rick will need to hire new personnel and maintain capital in the business to maintain inventory and good credit.

The Beards’ risk tolerance is relatively low. After working so hard to build their business, they are cautious about financial decisions that could threaten their relative stability.

Ralph and Rhonda are in good health, although they have worked hard for close to thirty years and they will welcome retirement. Rhonda's parents are in poor health and her father requires custodial care. Ralph's parents are deceased. His mother was in a nursing home for 3½ years prior to her death.

While reviewing their retirement plans with you, the Beards want to know how they will cover possible health care costs. Their parents all had problems covering the expenses. Ralph's mother ended up on Medicaid.

Again, let's review this case situation on the next page in terms of the seven critical factors.

# Case Study Four: Ralph and Rhonda Beard - Analysis

Each of the seven critical factors is discussed below.

|  |  |
| --- | --- |
| **Overview** | **Click each factor to view more information.** |
| **Age** | The Beards are at an affordable age to purchase coverage and in good health. It would be a good idea to communicate that the need for LTC can happen at any age, although the odds are greater as we age. If they wait to purchase LTCi later, the premiums will be higher and they may develop health issues that limit coverage or cause them to be declined. |
| **Family Health History** | The parents of the Beards have incurred substantial long-term care expenses. Ralph and Rhonda will likely want to purchase LTCi if they can. |
| **Family Demographics** | Rick is close by, but the Beards do not want to burden him with any potential long-term care needs. They will want Rick to focus on running the business without the burden of non-productive expenses. |
| **Projected Predictable Lifetime Income (account for inflation)** | The Beards could actually incur long-term care costs that exceed their income. If they were to make withdrawals from their $2.5 million that exceed a "safe-rate," they would sacrifice future income security. |
| **Nature and Value of Assets** | More than half of the value of the Beards’ estate is composed of the business, which they hope to preserve and transfer to Rick. |
| **Estate Planning Objectives** | The Beards are projected to have a $7 million estate in ten years. They could be subject to substantial income and estate tax liabilities. They should be encouraged to address this issue with qualified counsel. They may want to accelerate their gifting of stock in order to decelerate the growth in their estate of an illiquid asset. LTCi could pay potentially substantial LTC costs, preventing depletion of retirement income capital. The LTCi "asset" would not affect the size of the Beard's estate. |
| **Risk Tolerance** | The Beards have stated that after working so hard to build their business, they are cautious about financial decisions that could threaten their relative stability. |

What advice would you give the Beards? On the next page, we discuss the possible options.

# Case Study Four: Ralph and Rhonda Beard - Conclusion

The Beards are in a common position regarding potential LTC costs. They probably could handle relatively minor costs, but long-term costs involving more intensive care would rapidly erode their retirement capital.

If the business operates as a C Corp, their decision of whether or not to insure the risk gets easier. If they establish a classification of employees to be eligible for LTCi paid for by the business, the premium payments would be 100% tax-deductible to the business and not reportable as income to the insured employees, including the Beards. The tax savings to the company will pay all or a substantial portion of the employees’ premium (assuming not too many employees are eligible and they are relatively young). In addition, the Beards could elect to purchase a "Limited Pay" policy premium, which would increase the premiums payable for ten years, or to age 65, but the policy would be paid-up for life, thus they would pay no LTCi premiums during their retirement.

# Best Prospects and Best Reasons to Purchase Long-Term Care Insurance

No doubt, as you went through these cases, you began to recognize some patterns regarding who might be a good prospect for LTCi and reasons why someone might purchase an LTCi policy. A focused understanding of these profiles and reasons can be helpful in assisting clients. These are summarized below.

The complexity of potential long-term care services and costs can make establishing suitability of LTCi difficult to ascertain. We have summarized below the attributes of good prospects for LTCi. In addition, we have summarized the advantages of purchasing LTCi for the affluent and high net worth clients who are typically your most natural market for financial services. Click on each heading to review the summary lists.

|  |
| --- |
| **Best Prospects for LTCi** |
| * People who can afford to pay LTCi premiums, but do not have enough income-producing capital to ensure a comfortable retirement in the event of substantial LTC costs. * The prospect *must* have the ability to sustain payment of potentially increasing LTCi premiums for life, or until the end of the limited-pay period. * People who can pay LTCi premiums with C Corp deductible dollars have more tolerance for paying premiums. * People who have low risk tolerance. This may be particularly true of high net worth clients who do not want to risk depletion of their assets in order to provide premium care. * People with substantial assets to protect, such as business interests, real estate, collectibles, etc. * People with substantial charitable inclinations may find sufficient income via asset gifts to charitable income trusts that can pay LTCi premiums that otherwise may not be affordable. * People who believe they are responsible for the long-term care of their parents will often purchase LTCi on their parents. * People under age 70 and in good health have a much greater chance of finding the LTCi premiums affordable. Couples receive substantial discounts. |
| **Best Reasons to Purchase LTCi** |
| * To maintain a stable retirement income * To help maintain your spouse’s or other dependents' standard of living, financial security, and peace of mind * To help relieve family and friends from the stress and costs of providing long-term care * To ensure more choices and control over the selection of long-term care services * To help protect estate assets from depletion |

# Engaging the Client on LTC Issues

We have spent considerable time reviewing the components of LTC policies and coverage alternatives. We now turn to the strategies you should use to engage clients in discussions about their LTC planning.

Opening the dialogue on any topic of significance with any client yields optimal results when done in a genuine and personal manner. While everyone might verbalize in a slightly different way, the following questions are designed to help you be as effective as possible in getting the client to think and discuss their risk management issues. When you get the client truly engaged in thinking about and discussing the risks of long-term care, one of two things will occur:

* First, you might discover that the client already has a well-structured and rational plan.  If this is the case, you have done your job as an objective advisor, seeking to clarify and understand the plans that are already in place.
* Secondly, many clients may have overlooked this risk. To the degree that a client is uncomfortable with his or her plans, or has no plan in place on this topic at all, you have identified an area of potential need.  Moreover, because of the structure of the questions you ask, the client becomes engaged on the topic and realizes the depth of his or her need as well.

With this in mind, here are some high impact, open-ended questions and positioning statements you can use with clients. No doubt, you will want to come up with some of your own.

**Click the icon to view the answer.**

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| --- | --- | --- |
| |  |  | | --- | --- | | DocumentationIcon_32px | Given the statistical possibilities showing the probable need for long-term care, how are you planning to cover the expenses related to possible long-term care you might need in the future? | |
| **Positioning the Relevance to Clients**  The cost of healthcare services in this country continues to escalate at an alarming rate. Depending on where a client resides, it‘s likely they might have to spend over $67,000 a year for nursing home coverage. Having to pay for the long-term care needs of a loved one for just 10 years or less could easily drain a bank account by $800,000 dollars or more.\*  *\* Genworth Financial 2010 Cost of Care Survey* |

|  |  |  |
| --- | --- | --- |
| |  |  | | --- | --- | | DocumentationIcon_32px | How have you planned to make sure your family is prepared and comfortable making important decisions regarding any long-term health care support you might need? | |
| **Positioning the Relevance to Clients**  You could be putting your loved ones in an awkward situation. They may be forced to make some difficult choices at a time when they are already under severe stress. For example, they may have to choose whether or not to place you in a nursing home. By purchasing long-term care insurance, you can let your loved ones make this decision without worrying about financial considerations. |

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| --- | --- | --- |
| |  |  | | --- | --- | | DocumentationIcon_32px | How are you planning for potential health care costs that could erode the wealth you are planning to transfer to your heirs? | |
| **Positioning the Relevance to Clients**  Whether they realize it or not, these statistics are clear: many clients will face significant long-term care costs in their older years. The issues these clients must address relates to whom they would rather pass a significant part of their accumulated wealth - a nursing home or their family. |

# Review Exercise

1. All of the following are characteristics of individuals who will be more likely to be suitable purchasers of long-term care insurance EXCEPT:
   * Low risk tolerance

Incorrect. Likely purchasers of LTCi have low risk tolerance.

* + Good health between age 50 and 60

Incorrect. Prospects for LTCi in their fifties and in good health can generally acquire LTCi at relatively low rates. People in this age range are generally becoming concerned about the security of their retirement years.

* + History of need for long-term custodial care in the family

Incorrect. People with a family history of long-term care needs tend to be more concerned about the risk.

* + - Modest income and net worth

Correct! People with modest resources will often find premiums for LTCi difficult to maintain, especially after retirement.

# Conclusion

This concludes this section on Long-Term Care Insurance. To provide focus for your learning and retention of this information, the following topics should not only be familiar to you, but you should also be able to define, explain and articulate the concepts with a client. This will ensure you are prepared and confident in discussing long-term care insurance with your clients.

|  |
| --- |
| **Long-Term Care Insurance Course Summary**   * Define the risks of long-term care * Types of Long-Term Care   + Skilled Nursing Care   + Assisted Living Care   + Alzheimer's Facilities   + Adult Day Care   + Daily Money Managers   + Home Health Care * Potential Resources to pay for long-term care   + Public     - Medicare     - Medicaid     - Veterans Administration Health Care   + Private * "Medigap" insurance * Extended group medical post-retirement * Family support/care * Community support * Long-Term Care Insurance * Self-insure * Important LTCi policy provisions and structures * Tax Qualified (TQ) or Non-Tax Qualified (NTQ) * Benefit Trigger/Eligibility for Benefits * Types of Care Covered * Benefit Amounts * Reimbursement Policies vs. Cash Payment or Indemnity Policies * Elimination Period * Maximum Benefit Period or Lifetime Maximum * Inflation Protection * Renewability Provisions/Nonforfeiture Provisions * Nonforfeiture Benefit * Exclusions and Limitations * Premium cost factors * A note about Group LTC Insurance * Federal Income Tax Provisions of LTCi * Seven critical factors to assist the client in the decision-making process. * Best Prospects for LTCi * Best reasons to purchase LTCi * How to engage clients in a discussion of LTCi |