Avoid Mistakes in Buying Long−Term Care Insurance

Provided to you by

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CERTIFIED FINANCIAL PLANNER ™

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Written by Javelin Marketing, Inc.

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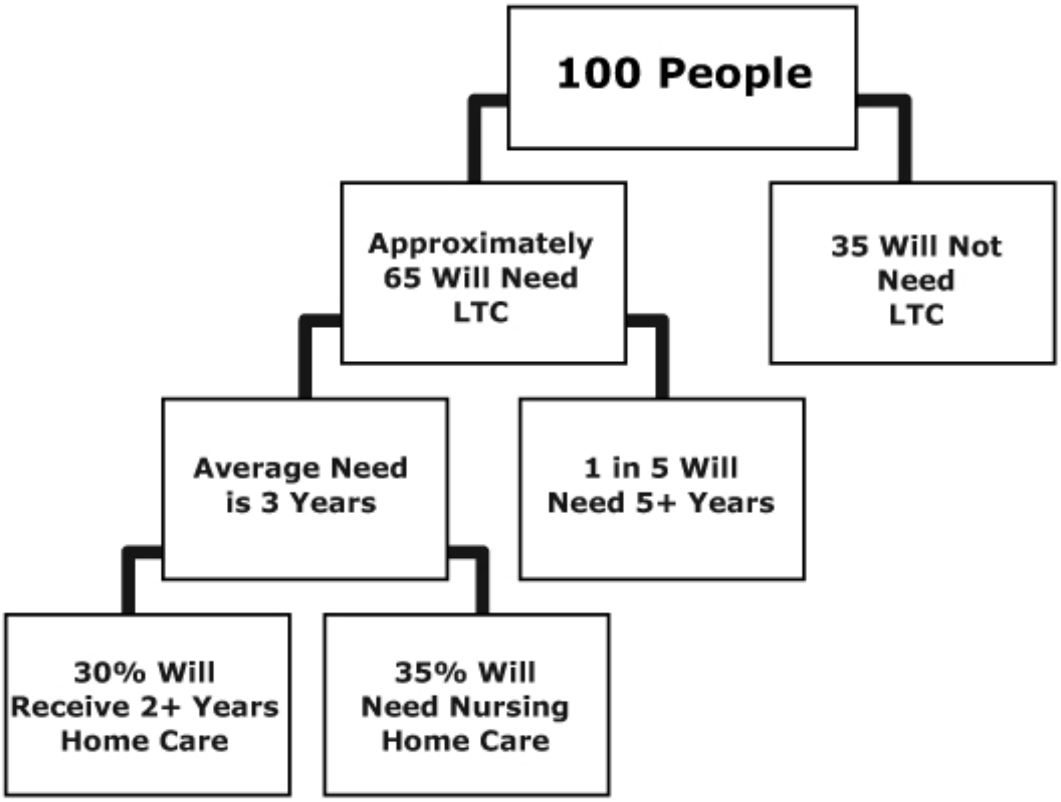
Do You Need Long−Term Care Insurance?

Maybe−Maybe not.

Statistics indicate that over half of all senior citizens (people over age 65) will require long−term care. In fact, the most current research statistics are below[1].



With such a great risk, doesn't everyone need insurance? After all, the cost of long−term care can run $6,400 or more monthly in some locations.[2] The truth is, you may or may not need to buy insurance.

[1] Penn State University Policy Research Institute 3/2/06.
[2] Average daily rate for a private room is $77,745 annually or $6,478 monthly. Average daily rate survey of all 50 states and the District of Columbia. MetLife Market Survey of Nursing Home and Home Care Costs, October 2007.

It comes down to the various income and asset resources you have available to you. To illustrate this, let's take a look at the varying needs of three general groups:

- **Low Resources**
- **High Resources**
- **Medium Resources**

These groups are organized according to their income and asset resources. When reviewing this information, please keep in mind that nursing home costs and Medicaid qualification rules can vary widely from location to location. As everyone's situation is different, the need for insurance can also vary among people within the same resource group.

Low Resources: This group has countable assets that are at or below the spend down limits imposed by their state Medicaid rules. Additionally, this group typically has monthly income below the average nursing home costs for the state where they live. In many cases, people that fall within this group will qualify for Medicaid without having to spend down their assets.

Countable assets include such things as cash, stocks, bonds, mutual funds, cash value insurance policies, CDs, boats, jewelry, and real estate investments.[3] In most states, you will only qualify for Medicaid if you have no more than $2,000 in countable assets.[4] Spouses of a nursing home resident who still live in the family home are allowed to retain countable assets up to $104,400, depending on the Medicaid rules in their state.[5] The Medicaid rules will allow the live−at−home spouse (also referred to as the "community spouse") to retain the family residence, a vehicle, and a modest amount of other assets for their support. The Medicaid rules also establish a monthly support allowance to help community spouses meet their living needs, and this allowance is up to $2,610 per month depending on state law.[6] This means that if the community spouse's income falls below the allowance, the state will then allow the community spouse to keep an amount equal to the difference from the resident spouse's income. On the other hand, a community spouse is usually not allowed to retain any income from the resident spouse if their income exceeds the allowance.

In some cases, even this group might want to consider the insurance if the monthly allowance is below the community spouse's living needs.

AARP offers this advice:

> "Long−term care insurance makes sense for those who earn good salaries, have accumulated assets they want to protect and have planned for a comfortable retirement. TheStreet.com Ratings says households with annual income of at least $50,000 to $75,000 and assets of $150,000, not including a car or house, might want to consider a policy. Financial planners typically recommend it for their clients, who tend to earn more."[7]

[3] U.S. Federal Medicaid limits 2008. www.cms.hhs.gov.
[4] ibid. [5] ibid. [6] ibid.
[7] AARP Bulletin 12/06 "Pursuing Peace of Mind."

High Resources: This group has sufficient monthly income to support the community spouse's living needs and to cover the monthly nursing home costs in their area (which will vary from location to location). Alternatively, this group may have enough countable assets set aside to meet a three to five year nursing home stay ($200,000 to $350,000 per spouse, depending on nursing home costs in their community).[8] Many of these people, still do, however, obtain insurance because it can help them protect their estate from being reduced by a long−term care need. Most importantly, it can give them some added assurance by providing a separate source of funds to be used for long−term care needs.

Medium Resources: This is the group that often needs the insurance. This group of people has countable assets that exceed the Medicaid limits, but they don't make enough money to cover the monthly costs of nursing home care in their area. Another thing that separates this group from those with high resources is that they lack a separate source of assets to cover an extended stay in a nursing home. For this group, having to come up with $6,400 per month over a long−term period could potentially deplete their estate or create an economic hardship for the community spouse.[9] If you are in this group, you should consider long−term care insurance. This insurance could help secure your financial independence. It can also help to preserve cherished assets for spouses and younger family members.

[8] MetLife Market Survey of Nursing Home and Home Care Costs (October 2007) (average cost for private room is $77,745 annually).
[9] On average, a senior citizen nursing home resident has lived there for 2½ years. Assuming that the $77,745 nursing home costs apply, the typical nursing home stay for a senior citizen could deplete an estate by $150,000 or more over such a timeframe. MetLife Market Survey of Nursing Home and Home Care Costs (October 2007).

When Should You Get Insurance?

Assuming that long−term care protection is needed, you may want to buy this coverage as soon as possible. The longer you wait, the more expensive it gets.[10]

Some people ask me if they would be better off saving money to prepare for a long−term care need rather than investing in insurance. However, you might not be able to save enough to cover your long−term care needs. Let's say that at age 60, instead of paying a premium of $1,118, you started saving $1,118 per year for your future long−term care needs. You started your program in 2006 planning for 2030.

If we assume for illustration purposes that your savings produced a net return of 5% per year, your accumulated savings would be $49,573 at the end of 24 years. However, in the year 2030 the cost of the average stay in a nursing home could be over $180,000.[11] But the same amount paid in long−term care insurance would provide a policy with benefits of $336,000 for long−term care.[12] The assumed rate above does not represent any particular investment. This illustration also assumes that the insured is healthy and qualifies for preferred insurance rates. Your actual results will vary from this example.

It is best to start a policy early because the premiums are typically lower. Most importantly, the reason to start with insurance early is so that you can qualify for coverage. As you age and the risk of adverse medical conditions becomes greater, you run the risk that you will not qualify for insurance. As you age, you may develop medical conditions and notations in your medical records that can make you uninsurable. Please note that these policy benefits are subject to the claims−paying ability of the issuing company.

Does this mean if you're already age 78, you cannot get insurance? Not at all. Insurance companies do accept many pre−existing medical conditions and there is no cost to apply. So certainly apply if you want this protection, but do it now, rather than later.

[10] As an example, married, preferred comprehensive plan, 3 year coverage, 5% compounded inflation, 90−day elimination for nursing home. Monthly costs rise as follows: Age 60: $93.20, Age 65: $118.40, Age 70: $154.40, Age 75: $245 Source: Federal LTC Insurance Program, www.ltcfeds.com/, last visited 2/04/08.

[11] Federal long−term care insurance program annual cost in Los Angeles in 2008 of $61,685 inflated by 5% annually.

[12] Federal long−term care quote engine 2/04/08 www.ltcfeds.com, male, age 60, $100/day benefit, comprehensive coverage, 3 yr term, 90 day elimination, inflation compounded at 5% provides total policy benefits in 2030 of $203,888.

Two Important Reasons to Get Long−Term Care Insurance

If you get sick and need help, who do you think will bear the burden? If you're married, you could turn your spouse's life upside down. You could also jeopardize a comfortable retirement.

If you're single, your kids may get the burden. They may either feel obligated to help you and try to fit assisting you into their already over−worked schedule.

Or, you could deplete your assets−money that would otherwise have gone to your heirs.

Therefore, it's important to realize that a major reason to get long−term care insurance is to protect your family.

The other reason is to preserve your independence. Do you want your children helping you brush your teeth? Do you want family members deciding how to spend your assets for your care? Insurance provides a separate asset that can be used only for your quality care. Whether inside or outside your home, insurance could help you to preserve your independence.

What Does It Cost?

The cost can vary widely depending on the company you choose and the coverage you choose. For example, one company may charge more for inflation protection, while another may have a lower charge for inflation, or they may charge more for home care. The author of this booklet has analyzed coverage for hundreds of seniors and there is no single company that has the lowest cost in all cases.

Therefore, the first step is to decide on the coverage you want, then quotes can be obtained from several companies to find the best quotation for the coverage you desire. There are five important items in choosing coverage:

1. **Inflation Protection:** This protection will increase your insurance benefit over time to hopefully keep pace with the actual cost of long−term care. If you are under age 75, you may want to get inflation coverage because it will hopefully be many years until you need benefits. But in many years, the cost will be a lot higher and you'll be glad you have the inflation−adjusted benefit.

2. **Benefit Period:** You select the term of coverage. In many cases, it is good to apply for at least four years of coverage. The coverage period determines how many years the insurance company will pay you benefits once you need them. Statistics indicate that a four year policy has historically covered 88% of all long−term care cases.[13] Of course, there is no guarantee that this pattern will continue into the future.

3. **Daily Benefit:** This is how much the insurance company will pay per day for your care. The amount of needed coverage depends upon your income and ability to cover these costs. For example, if you determine that an additional $4,500 of monthly cash flow is needed to cover the costs of long−term care, then you might consider a policy with a $150 day benefit ($4,500 divided by 30 days). You should consider your various sources of income and cash flow when making this determination (e.g., social security, pensions and retirement distributions, annuities, etc.). The previous discussion regarding inflation should also be considered.

4. **Coverage for In Home and Outside the Home Care:** You can select where you want to be covered. While many people like the idea of remaining in their own home and desire insurance for in−home care, the more important insurance for many is for outside the home (e.g., nursing home or assisted living facility).

There are two reasons for this:

(a) In your own home, the care you need is usually more moderate (homemaker duties such as shopping, cooking, cleaning, bill paying) and the cost may be less for such non−medical help. Often friends and neighbors and family can lend a hand making it much easier, financially, to cover in−home care. If you do need to go outside the home, the cost could be substantial and that's when you really need the insurance.[14]

(b) Your home may be poorly designed for you if you're ill. Stairs, long distances to the car and narrow doorways can all present problems for people with walkers or wheelchairs. Often, it's easier and more sensible to obtain care outside the home in facilities designed appropriately.

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[13] MetLife Market Survey, 2007.
[14] Average daily rate for a private room is $77,745 annually or $6,478 monthly. Average daily rate survey of all 50 states and the District of Columbia. MetLife Market Survey of Nursing Home and Home Care Costs, 2007.

Of course, many seniors value their independence, and the ability to live at home certainly supports this value. With this in mind, it is also important to consider what coverage is available for home−based nursing care (also referred to as "community care"). If home−based coverage is an important priority, you will want to consider your sources of income to determine your coverage needs.

5. **Elimination Period:** Just as with your car insurance, the more you are willing to pay for a loss (the deductible) the lower your premium. Similarly, you select an "elimination period"−the number of days you will pay for care before the insurance starts to pay. Most policies allow you to select periods ranging from zero days to 180 days with shorter elimination periods generally corresponding to higher premiums.[15]

Get coverage for in−home and out−of−home care if your budget allows; otherwise, at minimum, get insurance for care outside the home.

[15] Source: Federal LTC Insurance Program, www.ltcfeds.com, last visited 2/04/08.

Five Ways to Potentially Reduce the Cost of Long−Term Care Insurance

While it would be ideal to have complete coverage (inflation protection, lifetime coverage, at least $160/day benefit), it is better to have at least a basic policy than to have none at all. In other words, a minimum policy is better than being uncovered for the high cost of long−term care. In order to help you minimize the cost of insurance, this booklet provides five ways to help you reduce costs and yet provide basic coverage. No one knows when a health catastrophe can strike. An onset of a heart attack, stroke, cancer, Parkinson's and Alzheimer's are debilitating illnesses, which give no advance warning. Protect yourself and your family financially.

Here are five ways to get covered at a lower cost:

1. ***Reduce the coverage period.*** For example, reduce the term of the policy from five years to four years. Statistics indicate that a four−year policy has historically covered 88% of the long−term care cases. Of course, there is no guarantee that this pattern will continue on in the future.[16]

2. ***Reduce the daily benefit.*** The actual cost of nursing care averages $208/day.[17] If you cover just $130 or $160 per day with insurance, some people can make up the difference with other income sources, such as Social Security or interest income.[18]

3. ***If you are age 75 or over***, consider omitting the inflation protection. Although you will hopefully never need long−term care, if you do, you could need it within 10 years−by age 85. Therefore, you do not need to protect for inflation over as long a period of time as, for example, a 65−year old would need to prepare.

4. ***Consider partial home care coverage.*** Many companies offer, as an example, $100/day benefit for nursing home payments and $50/day for home care payments (home care costs can be less expensive if you have family or friends who can help with care). By reducing the benefits for home care, you can lower your premium.

5. ***Many people have a spouse or friends or relatives who can assist them in the home.*** Depending on the hours of needed care, the costs of a home health aid ($19 per hour on average) can be less than the costs of round−the−clock nursing home care.[19] With this in mind, the most important coverage area for many is the care provided outside the home.

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[16] Met Life Market survey of nursing homes, 2007.
[17] Average daily rate for a private room is $77,745 annually or $6,478 monthly. Average daily rate survey of all 50 states and the District of Columbia. MetLife Market Survey of Nursing Home and Home Care Costs, 2007.
[18] If you have sufficient interest income or Social Security income, it may be better for you to insure for a majority of the cost of long−term care and self−insure for the remainder. This has the effect of lowering the current cost of the insurance premiums without subjecting you to being unable to cover the costs of long−term care, if and when they arise.
[19] Average hourly rate, MetLife Market Survey of Adult−Day Services and Home Care Costs, September 2007.

Other Options and Ideas

Some people resist the idea of insurance. They argue that the money invested is wasted if they never use the insurance. Some companies have decided to address this concern with a type of policy that provides coverage for life insurance and long−term care. It is a single premium fixed universal life policy containing a rider for long−term care benefits. These policies are sometimes referred to as "combo" policies because of the two benefits provided.

There are no annual premiums. The policyholder makes one premium payment. That amount earns interest comparable to rates at the bank. Here is a hypothetical example for a 65−year old male:[20]

Single Premium Payment	$50,000
Long−Term Care Insurance Benefit	$143,436
Life Insurance Benefit	$74,718

The policy provides the following features:

1. He can surrender the policy at any time and receive back at least his original premium (less loans, withdrawals, fees, and expenses). While he has the policy, he earns interest and has both long−term care insurance and a death benefit.

2. The policyholder dies. The heirs will receive the $74,718 life insurance benefit (less loans, withdrawals, fees, and expenses).

3. The policyholder enters a nursing home or needs home health care. He can receive from the policy up to $143,436 in LTC benefits (payments reduce the death benefit and payments are reduced by prior loans, withdrawals, fees, and expenses).

The policyholder or his heirs collect the original premium or the long−term care insurance benefit or the death benefit, depending on which situation applies, provided there have been no previous loans or withdrawals (surrender charges may apply). Who is suitable for this type of policy? People who want to preserve countable assets such as stocks, bonds, CDs, bank accounts, cash value life insurance policies, or real estate without having to incur a yearly insurance premium.

In this example a minimum required single premium of $10,000 is typically required. This policy is a modified endowment contract, and loans or withdrawals of account value in excess of premiums paid are taxed as ordinary income. The purchase of life insurance and long−term care insurance requires a health review and not everyone is insurable. The purchase of insurance incurs fees, expenses, and commissions and possible surrender charges.

[20] A 65−year old, nonsmoking male in good health. Lincoln National Policy Form LL−2020 series, 11/28/06, single premium fixed UL policy includes a long−term care benefit rider and a return of principal feature provided no loans or withdrawals are taken. Three percent minimum interest rate, death benefit guaranteed to age 100. Benefits and guarantee based on the claims−paying ability of the insurer. There are no minimum interest rates required to keep the death benefit or long−term care benefit in force for the policyholder's life, provided there are no loans or withdrawals.

Which Insurance Company is Best?

Many companies have policies with competitive features and rates. If you are age 70, company A may have better rates than company B. But if you are age 50, the opposite may be true. No single company has the best rates for all situations. Other companies offer options you may find important. As recommended earlier, the first step is deciding on the coverage items most important to you. It then becomes easier to find the insurance company that best fits your needs.

The way to find the right coverage is to supply your medical information so that we can submit it for an actual quote. The quote supplied from an insurance company rate book applies for people who meet a specific health standard. To determine the actual cost for you, the insurance company will first review your medical history based on the information you supply, as well as obtain records from your physician. The company will then make you an offer of coverage.

If you are interested in getting this important coverage to protect your family, call to make a free appointment. When you call, we will ask for relevant details in order to have information ready for you when we meet.

By the way−the biggest mistake in getting protected is waiting. If you get insurance, you can always cancel it. But if your health fails or you have a need for long−term care, you can become uninsurable. Waiting could be a mistake you cannot undo.

About
David E Parker, CPA

Dave Parker has over 30 years experience helping clients with their financial concerns. Dave is over 50 and is a life long Michigan resident.

Since 2003, Dave is working with Washtenaw Intermediate School District helping employees with their 403(b) and 457 retirement plans.

Dave as a member of Financial Educators Network started giving Retirement Planning Today seminars at Concordia College in 2008. He became a CERTIFIED FINANCIAL PLANNER in 2000. CPA in 1980. Dave enjoys movies, reading and tennis.

Dave offers:

One Stop Shopping: You would enjoy the convenience of having all of your business finances handled under one roof, including personal financial planning, asset management, tax preparation and reduction strategies.

Time Is Money: As a business owner since 1980, Dave understands that time is money. He is direct and to the point, providing you with management reports that highlight the pros and cons of any financial situation, so you can make an informed decision quickly. He is adept at budgeting and increasing retirement cash flow without your having to go out−of−pocket.

Expertise: As a 30−year veteran of the financial services industry, David is both a CPA and Certified Financial Planner™, passing rigorous tests and continuing education to ensure clients receive the most professional advice possible.

Technology: Dave brings you the latest in technology for managing your finances. If you wish, you can now go online to monitor the performance of your investments as well as your financial plan, making adjustments and saving time.

References on Request

About
Retire on Time

Retire On Time is a d/b/a of Parker Financial Services. Presently there are 2 employees. There are various associates affiliated with the company, including an attorney and various financial planners. Retire On Time has over $32 million in client's assets under management.

- **Financial Planning** − Includes Future Net Worth Projections, Coordination of Tax &Investment Planning, Determine the Probability of Never Out−Growing Your Income, Cash Flow Projections, Charitable Giving Alternatives

- **Retirement Planning** − Includes Cash Flow Projections to make sure you can retire on time and not outlive the money.

- **Investment Planning** − Includes Allocating &Rebalancing Assets, Verify Suitability of Investments, Existing Annuity Analysis, Oversee Third Party Professional Money Managers, Determine Appropriate Degree of Aggressiveness vs. Safety

- **Tax Reduction Strategies &Services** − Individual, Business and Estate Tax Planning, Preparation &Tax Reduction. Audit representation.

- **Estate Planning** − Includes assistance with living trusts and elimination of estate taxes. Attorney on site by appointment.

Phone today with questions or to see if we can help you.
There is no charge for an initial meeting.

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Published by Javelin Marketing, Inc.