

# Special Report – June 2013

## Planning for the Costs of Long Term Care

Prepared by Stephen Geist

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Hello! My name is Steve Geist, I’m a Financial Strategist and I specialize in Safe Retirement Plan Solutions that are tailored with care. More specifically, I help my clients tackle complicated retirement issues and guide them towards easy-to-understand solutions designed to safely preserve and grow their retirement wealth. Now, more than ever, people over the age of 50 are clamoring for education and advice regarding their retirement.

One way I like to teach my clients and my seminar students about Retirement is to present it as a Puzzle. And, I like to present the puzzle as containing five primary pieces. And they are:

- ✓ Puzzle Piece #1: Safeguarding Your Accumulated Assets
- ✓ Puzzle Piece #2: Setting up a Lifetime of Guaranteed Income
- ✓ Puzzle Piece #3: Addressing Taxes in Retirement and Beyond
- ✓ Puzzle Piece #4: Proper Coverage for Health Care and Long-Term Care (LTC)
- ✓ Puzzle Piece #5: Leaving a Legacy for your Loved Ones (Estate Planning)

So in this Special Report let’s address some very important points of Puzzle Piece #4: Proper Strategies for LTC in Retirement:

Most people see themselves living a long life and investing and planning through their working years in order to create a financially secure retirement. As part of this financial planning process, it’s important to understand the potential damage that needing long-term care may have on your assets, your family, and your future.

Unfortunately far too many Americans today have made no plans for long term care in their retirement. And it is a topic most people prefer not to consider. When I talk about long term care (LTC), I’m referring to the long term custodial care necessary if you become disabled either because of a severe cognitive impairment, or a loss of your ability to perform activities of daily living without assistance.

I’m talking about routine activities you can no longer perform on a daily basis like when you're unable or too frail to prepare food, bathe or use the bathroom on your own; get dressed; or follow medical directives. Many people find it hard to envision themselves needing hands-on assistance with basic living activities like bathing, getting dressed, and eating. The fact is that 70% of people who reach age 65 will require long-term care services at some point in their lives.

But perhaps the bigger unknown – and biggest risk – relates to the length of time for which you may need to receive care. It’s impossible to predict. Some may only need a few months of care. Others might need a few years. Others, such as those with Alzheimer’s disease, might require 24-hour care for as long as 10 years.

The costs associated with needing long-term care can be catastrophic. An Urban Institute Study asserts that long-term care is the leading source of catastrophic out-of-pocket medical costs, which can lead to severe financial problems, if not complete impoverishment. While it can take decades to accumulate the assets you’ll need to retire comfortably, just a few years of paying for long-term care may threaten an entire lifetime of savings. Too many people in America today completely underestimate the amount of money they may need to cover their health care costs in retirement because they do not think they will ever need long-term care.

## **SPECIAL REPORT TIMEOUT**

In case you belong to a group, club, church, association or any type of organization that invites outside speakers to give interesting talks – please know that as a community service, I would be delighted to speak at your next group meeting. And I would speak on a topic that would be both informative and relevant to Retirement. Just call my office and let me know how I might be of service.

A recent study by the National Association of Health Underwriters found that 24% of Americans incorrectly believe Medicare will pay for LTC costs. In truth, Medicare does not cover long term care bills. This study found that only 25% of respondents correctly identified the national average cost of annual long term care. According to the 2013 Cost of Care Survey by Genworth Financial:

The cost of Non-Skilled Home Health Care (5 hours/day, 5 days/week):

- National median yearly rate = \$24,700 per year

The cost of Assisted Living – One Bedroom Unit - Single Occupancy:

- National median yearly rate = \$41,400 per year

The cost of a Nursing Home (semiprivate room):

- National median yearly rate = \$75,500 per year
- Cost for Nursing home Care in 18 years at 4.0% inflation: \$151,000 per year

I will say it again because it bears repeating: **Medicare does not cover the costs of LTC**. So, in lieu of Medicare, let me address four choices you do have for covering the costs of LTC:

### **Choice #1: Medicaid (which is the safety net for American Society)**

Medicaid is the government program for the poor. Among other rules, it requires that you be impoverished to qualify for the program; that is --\$2,000.00 or less in assets.

Medicaid reform is here to stay, especially in the New Normal following the recent recession. The message from both federal and state governments is very clear — if you have assets to protect, dependence on government welfare programs such as Medicaid will not be a viable option.

So, be honest with yourself here. If Medicaid offers minimal services and, all too often delivers poor quality of care. And, in most states, only covers nursing homes. And may only offer a space-available facility that is a great distance from your family....How excited do you get about this choice for your LTC needs?

### **Choice #2: Relying on Family Assistance**

According to a study by Genworth Financial: The majority of Americans completely underestimate the potential impact that a family member's LTC needs could have on their own lives,

If you've ever been in a care-giving situation, you understand the physical and emotional toll it can take.

If you haven't been in this position, then ask your friends who are in their 50's or 60's if they've had to deal with long-term care for their parents. Chances are you'll find at least one friend who's either had to provide care themselves or arrange for care and/or had to pay for it.

Ask your friends about the financial burden and the strain it puts on their lives. I bet you'll get an earful about careers put on hold, the time lost for family and outside interests, arguments with siblings and spouses, and sleepless nights filled with anxiety about making the money last. While providing care to loved ones is an act of compassion, placing the burden of care on spouses, children and other family members can create a significant emotional and physical strain on the ones you love most.

### **Choice #3: Self Funding (spending down your assets)**

With this choice you must set aside significant liquid assets. That's money you can get at immediately should LTC suddenly become necessary. And, you must be careful or you may deplete your assets too quickly.

Keep in mind that as you self fund, LTC is the single most catastrophic financial risk you will face. Studies show that 90% of seniors who lose their assets, lose them to the devastating cost of LTC.

While wealthy individuals may have the financial means to cover their costs for care, self-funding is not a viable strategy for the majority of people. Whether people overestimate their ability to pay for care over an extended period or convince themselves that they'll never need care, the risk of needing and paying for care still remains. Whether you are wealthy or not, paying a reasonable insurance premium to transfer one of the biggest financial threats you may face can be a smart move towards protecting assets and loved ones.

### **Choice #4: Traditional LTC Insurance**

I consider this choice far superior to the first three. Let me explain why. Incorporating LTC Insurance into your financial plan can help protect your assets, reduce the burden of care that would otherwise fall on family members and enable you to receive care in the setting you most prefer, including your home.

Let me make three important points about this choice.

1. LTC Insurance supports the family by providing the dollars so your family can get qualified help for you.
2. LTC Insurance does not replace what families do. Instead, it builds on the family support and allows them to provide better care longer through comfort and companionship.
3. LTC Insurance is a gift to your children. These funds enable your children to care for you as you age without overwhelming their own lives.

The real question is not who will take care of you, but rather what impact providing that care will have on your family and finances. Perhaps the greatest benefit of LTC Insurance is that it can allow loved ones to care ABOUT YOU instead of having to care FOR YOU.

Much like the questions surrounding when to begin collecting Social Security benefits, timing a LTC Insurance purchase is more art than science and involves guessing about your own health and future.

Insurance professionals, like myself, highly recommend LTC coverage at an early age.

The benefit to you is that the premiums will certainly be lower than if you waited. And being younger reduces the likelihood that you would have already encountered a serious health problem that could raise your premiums or disqualify you for coverage.

A *Consumer Reports* study found that 23% of people who applied for LTC Insurance while in their 60's were denied, while 45% of those in their 70's didn't pass the physical. So clearly, waiting too long to purchase an LTC policy can backfire. And if you have a serious medical condition that runs in your family, that's an extra incentive to consider purchasing LTC insurance as a pre-emptive strategy, while you're in good health. For most people, I find that initiating LTC Insurance in their late 50s or early 60s strikes the right balance.

### **What is Traditional LTC Insurance?**

Traditional LTC Insurance is an insurance policy that covers you in a nursing home, assisted living facility, in your own home, adult day care or in many types of community care centers. This insurance primarily pays for the care needed if and when you become disabled and are in need of long-term custodial care.

Five Things you should understand when purchasing LTC Insurance:

## **1. What Triggers a Claim?**

With most Long Term Care Policies, a claim can be triggered in one of two ways: A severe cognitive impairment or the loss of two of your six activities of daily living.

## **2. What is the Benefit Amount?**

This is how much the policy will pay out in benefits at the time of claim. The Benefit Amount will be available either as a daily benefit or monthly benefit.

## **3. What is the Benefit Period?**

This is the amount of time the policy will pay out from the point of claim. These benefit periods will range from two years up to unlimited or lifetime policies.

## **4. What is the Elimination Period?**

This is the deductible or waiting period from the point of claim to when the policy actually starts to pay out benefits. The choices for elimination period range from 0-day all the way up to 365-day elimination.

## **5. Is there Protection for Inflation?**

When it comes to inflation, there are basically four choices.

- a) No inflation protection. You would just purchase as much daily or monthly benefit as you could afford.
- b) Guarantee Purchase Option (GPO). The insurance company will make you an offer every two to three years to increase the daily or monthly benefit with no additional underwriting.
- c) Simple inflation protection. This choice will add 40%-60% to the cost of the premium. But it will also increase the original daily or monthly benefit by 5% every year automatically.
- d) Compound inflation protection. This can double the cost of your premium but will add 5% to the daily or monthly benefit compounded annually.

## **Is LTC Insurance a Waste of Money?**

One question that has been on consumers' minds ever since the first LTC Insurance Policy was introduced in 1965 is: Should you purchase this type of policy or is it just a waste of money? The answer is emphatically: Every person who can medically qualify for this type of coverage should do so.

And here are nine powerful reasons why:

1. The Odds of requiring LTC in your lifetime has risen to 70%. That's a far greater risk than an auto accident or a house fire. But while most people won't be without homeowners insurance and auto insurance, there are far too many people in America today who are uninsured for LTC.
2. Without coverage, you run the risk of having to spend down your entire life savings for LTC needs before you die, leaving nothing to your heirs. Or worse yet, leaving nothing to your surviving spouse.
3. No parent wants to be a burden to their children, especially if their kids are also raising their own children.
4. As a society, we are living longer. There are more people over the age of 100 today than any other time in history. Yet, we still have no cure for Alzheimer's, Parkinson's disease or many of the other illnesses that cause a need for long-term custodial care.
5. In order to qualify for LTC Insurance you must be reasonably healthy. If your health isn't so great, you will pay more in premium or you will be unable to qualify entirely. A 2010 Industry Study found: 14% of LTC Insurance applicants between the ages of 50 and 59 were declined for health reasons. By contrast, a whopping 66% of LTC Insurance applicants age 80 and over were declined. This data underscores the fact that the younger you are when you apply for LTC Insurance, the better off you'll be.

6. For several years, Federal and state governments have been pushing people to purchase their own LTC policies. The reason: If more people purchase LTC Insurance, then fewer people will tap into Medicaid. So the government's strategy to make this happen is three-fold:

First, the government has made it tougher than ever to qualify for Medicaid. Strategies, that attorneys recommended in the past to hide assets, are now against the law.

Second, some states, like Colorado, have developed co-op programs to encourage their residents to purchase LTC policies. In Colorado, whatever benefits the LTC policy will pay, that value will be matched by the state in the form of free LTC Medicare benefits.

And the government's third strategy: A tax qualified LTC policy that you purchase will be partially tax deductible and the benefits paid out are income-tax free.

7. As just mentioned, the federal government and some states have changed the rules on what Medicaid applicants can do to qualify for benefits. As one example, in 2006, the Medicaid Qualification rule on look-back period for gifting changed from three years to five years. Also, if a gift was made, the penalty calculation will now be figured from the date of application for Medicaid instead of from the date of the gift.

8. If you have to rely on Medicaid for your long term care needs, the state you live in will attach a lien against the equity in your home. So when you, as the Medicaid patient, and your spouse pass away, Medicaid will require repayment for the money they contributed toward your health care and they will take it from your home equity if necessary

9. One of the most popular locations to receive LTC is your own home. When possible, patients want to stay in the comfort of their own home versus a nursing home or other care facility. And since home health care benefits are available in most LTC policies, this choice now becomes a reality.

### **Does LTC Insurance Cost Too Much?**

Although several studies have shown that the majority of people between the ages 40 and 70 can afford LTC Insurance, the complaint "It costs too much" is still the most common objection when it comes to purchasing LTC Insurance.

Generally speaking, regardless of the age of the person or the plan design, it will only take somewhere between 3 to 18 months of receiving benefits from a LTC insurance policy to recoup an entire lifetime of premiums.

Example: Paul is a 65-year old single, healthy male.

Paul's LTC plan: Will pay a benefit of \$6,000/month for 5 years with a 5% simple inflation protection rider.

Paul's Premium: Approximately \$4,000 per year

Assume 20 years pass until Paul files a LTC claim at age 85.

$\$4,000/\text{year} \times 20 \text{ years} = \underline{\$80,000 \text{ total paid premiums}} at time of claim.$

Using the 5% simple inflation protection rider built into the plan, the original \$6,000 monthly benefit in the policy doubles to \$12,000 at age 85. This means the policy will pay \$12,000 /month at time of claim. So, in this example, the benefits paid out will exceed the total premiums paid in after just 7 months of LTC coverage

## **SPECIAL REPORT TIMEOUT**

I'd like to point out that in addition to hosting the Retirement Guy radio show, which I have done now for well over three years, I also conduct public educational events. I hold these workshops throughout the Denver area throughout the year. If you would like to meet me in person and learn about retirement, in a public setting, then please call or email me with a request for the date, time and location of my next event.

### **Some Other Considerations Regarding LTC Insurance**

So far in this report, my main points have been that people who purchase LTC Insurance at the earliest age possible will enjoy better benefits at lower premiums, and pay the least in the long run. Here are some other points to consider:

First, keep in mind that starting in January of 2010, 78 million baby boomers began to turn age 65, at the rate of 10,000 people per day. This is a trend that will continue for the next 20 years. And, it's also important to note that Boomers typically have had fewer children than their parents, they live longer and many are single.

Studies show that for people over the age of 65 -- 43% of them have spent time in a nursing home before dying. About 95% of nursing home residents only require custodial care, not 24-hour medically necessary care. And, as I mentioned earlier, custodial care in a nursing home can cost \$75,000 or more a year. This cost is likely to continue to increase at least 5% per year.

My next point is that in the case of a married couple, not only would there be the care cost for the sick spouse, there would also be a continuation of all the normal living expenses for the still-healthy spouse. That could easily deplete a retirement portfolio in a very short period of time.

On the other hand; much, if not all, of your retirement income would continue if you need LTC. I'm talking about your pension, Social Security and income off investments.

Consequently, prospective buyers of LTC Insurance often don't need to insure the full cost of LTC. They can focus instead on covering the potential expenses that would exceed their cash flow.

Framing the need for LTC Insurance in this way -- meeting the gap, not the full potential cost -- means you don't necessarily have to cover the entire LTC expense.

Also, couples respond differently as far as where they will spend money if one spouse is disabled. For example, the healthy spouse maybe stops going to Europe on vacations when the sick spouse is receiving LTC.

As a result, some of a couple's variable expenses may change because one of the spouses is ill. Some of what is being spent now may be freed up to go toward the cost of LTC. Therefore, couples should think "What's the gap and then let's buy that much coverage."

Someone who specializes in LTC insurance can help you determine how to make this protection appropriate and affordable without changing your lifestyle now or in retirement.

### **No Magic Bullet**

There's no one magic bullet that will easily or cheaply address the threat of long-term-care expenses. If you want to protect yourself, consider one or more of the following strategies:

1. Be serious about taking care of your health to minimize the odds that you'll eventually need LTC.
2. Buy LTC insurance. If the premiums are too high for your budget, consider buying a scaled down insurance policy that will at least pay for some of the potential expenses. Some insurance is better than none.

3. Stay on good terms with your kids! Even if you have some LTC protection in place, most likely they'll care about your well-being and will be involved with planning and arranging for your care. On next week's show I will present some other innovative strategies that when used in combination can offer an effective deterrent against the high costs of long term care.

### **Innovative Alternative Strategies for LTC Coverage**

Now, after all these justifications for buying LTC Insurance, if you are still one who objects, here are five creative ideas to help sway your thinking:

#### **Idea #1: Purchase An immediate annuity to fund LTC Insurance Premiums**

Here's the concept: Take an unproductive asset that's not producing, (such as a low yielding CD) and use the money instead to set up a single premium immediate annuity (what we call a SPIA). The income stream from the SPIA would then be used to pay the LTC Insurance Premiums.

So, for example, a 65-year-old man who wants to buy LTC Insurance with an annual premium of \$4,000 would set up a SPIA with \$100,000. His lifetime annual income off this annuity would be approximately \$7,200. Every year he would take a portion of this income and completely pay the LTC Insurance premium of \$4,000 and still have \$3,200 in extra funds left over each year for other living needs.

And, as an added benefit: when someone goes on claim with the typical LTC Insurance policy, the premium is waived. That means the SPIA income that was used to pay the insurance premium could instead supplement the benefits occurring under the LTC insurance contract

#### **Idea #2: Have Children pay the premiums on the LTC Insurance**

Often, parents who are in the prime age bracket for purchasing LTC insurance, have affluent children who can take advantage of the annual gift tax exclusion and the ability to pay health insurance for others.

Currently, an annual gift from an individual of more than \$13,000 is taxable under federal gift laws. But LTC Insurance premiums are an exception to these rules. Anyone may pay eligible LTC insurance premiums for someone else without it being treated as a gift and taxed. Covering the premiums of LTC Insurance, therefore, is a wonderful gift for children to give their parents.

#### **Idea #3: A Solution Where You Might Not Need Any Cash at All**

Do you have an older life insurance policy with a substantial cash value and no LTC coverage attached? Well, under Section 1035 of the tax code, you could do a tax-free exchange of the surrender value of the old life policy and transfer that money into a new Combination Life and LTC Insurance Policy without spending any money out-of-pocket. I'll talk more about these new Life/LTC combo products in a minute

#### **Idea #4: Take Advantage of a Reverse Mortgage**

In this scenario, if you are 62 years or older and you qualify, then the proceeds of the reverse mortgage could be distributed to you (the homeowner) as a fixed monthly payment, from which, a portion could then be used to pay your LTC Insurance premiums.

With a reverse mortgage there is no monthly repayment required, funds received are not taxable, credit worthiness is not an issue and the title remains in the name of the homeowner. As the homeowner, you can stay in the home as long as you and your spouse live with no payment requirement.

One concern I sometimes hear is that children are expecting to inherit the home. However, when the kids discover that this is a way to help pay LTC Insurance premiums for their parents, they often become huge fans of reverse mortgages.

And, keep in mind that without LTC Insurance, Medicaid might be your only option. And that could result in the state government placing a lien on the property to recover costs after you and your spouse pass away, thereby robbing your children of the home anyway.

To learn more about how Reverse Mortgages can help you tap the dormant equity in your home, see my Special Report: A Primer on Reverse Mortgages.

#### Idea #5: Purchase a LTC Insurance Combination Plan

In the market today, we have some very innovative Combination products, also known as asset-based LTCI which use life insurance or annuities as the foundation for LTC protection. These combination products appeal to people who understand the win-win approach: Win if you need LTC benefits and win if you don't.

The concept is that in the event you don't need the LTC benefits, your unused premiums won't be wasted. Instead, those premiums are distributed to your beneficiaries as a death benefit (sometimes income tax-free).

So, let's first take a look at an example of an innovative annuity product in the market today with LTC insurance built in. This product will automatically triple the value of the annuity for any LTC needs. For example, let's say you set up this type annuity with \$100,000. The annuity gives you all the safe, guaranteed benefits of a typical Fixed Annuity. And, in addition, this annuity will provide a LTC daily benefit that will last for up to six years by drawing from a LTC fund which will be equal to three times the value of the annuity.

In this example the starting value of the LTC fund would be \$300,000 from which you can take income-tax-free withdrawals in order to pay for your long-term care needs. Then, at your death, any value left in the annuity will pass to your heirs.

Next, let's look at a Life Insurance Product with long-term care insurance built in that will let you take tax-free withdrawals from the death benefit to pay for your LTC.

For example, let's say you purchase this type of life insurance policy and it will pay an income-tax-free death benefit of \$300,000 to your beneficiaries at your death. With this life insurance product, as an alternative, and while you are still living, you can access up to 96% of the death benefit over a 4-year period in order to cover your own LTC expenses. In this example, that works out to \$72,000 of LTC coverage that you can withdraw from the policy, income-tax-free, each year for four years. Any portion of the death benefit that is not used for LTC would be left to your beneficiaries income-tax free.

#### One Last Point of Interest

In 2010, the National Conference of Insurance Legislators (NCOIL) passed a national consumer protection model law. The law requires that life insurance companies inform policy holders above the age of 60, or with a terminal or chronic condition, that there are eight approved alternatives to the lapse or surrender of a life insurance policy.

One of the approved alternatives is that any owner of a life insurance policy has the legal right to convert it into a Long Term Care Benefit Plan. The law's intent is to make sure that insurance carriers disclose to their policy owners that they have multiple options to consider beyond lapse or surrender.

Violation of the law is considered an unfair trade practice and subject to penalties established by state law..

Since passage of the NCOIL national model law in 2010 and as of May 2013, the states of FL, TX, KY, LA, and ME have introduced this legislation and numerous other states are preparing to introduce the same bill for enactment.



**In Summary:**

Long Term Care is expensive. It is the greatest uninsured risk that Americans face today. Paying for it on your own out of income or assets poses a serious threat to your retirement plans.

Get over your denial that LTC will never happen to you. Please talk to your families and have a plan. The chance of needing LTC is very high. Without proper protection, you risk the emotional and financial well-being of your entire family.

It's far better to create a plan 10 years too soon than one day too late. And even more significant, the younger you are when you purchase a policy, the less you will pay over the life of the policy.

Also remember, LTC costs are high both now and in the future. If it's expensive now, think about what the cost of care will in 20 to 30 years. At 4% interest, money doubles every 18 years. That means the purchase of a LTC policy today solves a million-dollar LTC problem in the future.

Today we have Traditional LTC Insurance and the new innovative Combo Products that use life insurance or annuities. Both are excellent solutions to protect against LTC expenses.

So, one reason why you might want to contact me for help after reading this report is that you have finally decided to stop procrastinating and you now want help from a LTC Insurance Specialist in developing a plan to protect both you and your spouse from catastrophic LTC expenses.

I wish you a long, happy and financially secure retirement. And if I can be of any assistance, please do not hesitate to contact me.

Sincerely;

Stephen Geist

Financial Strategist and Safe Retirement Plan Specialist

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[www.RetirementWize.com](http://www.RetirementWize.com)