



Protect Your Retirement and Legacy with Long-term Care Insurance

Someone with a prolonged physical illness, a disability, or a cognitive impairment (such as Alzheimer's disease) will often need long-term care services. Many people think of long-term care as strictly nursing home care; however, care can be provided in a variety of settings including the home, in the community, in assisted-living facilities, or in a nursing home.

Most long-term care is not medical care, but rather assistance with the basic personal tasks of everyday life, sometimes called "Activities of Daily Living," such as:

- Bathing
- Dressing
- Using the toilet
- Transferring (to or from bed or chair)
- Caring for incontinence
- Eating

Other common long-term care services include assistance to complete what is called Instrumental Activities of Daily Living. These are household and other tasks that you may do every day, such as:

- Housework
- Preparing and cleaning up after meals
- Taking medication
- Shopping for groceries or clothes

The Need for Planning

There is a growing need for long-term care planning for retirees and pre-retirees. With people living

longer, keeping assets protected and available to pay for long term care services in retirement has become more important than ever. Consider the following statistics regarding long-term care needs:

- The national average for 24-hour home care or for one year in a nursing home can cost more than \$100,000¹
- At least 70% of people over the age of 65 will require long-term care at some point in their lives with 20% requiring care for longer than 5 years²
- Women need care longer (on average 3.7 years) than men (on average 2.2 years)

As these numbers indicate, the potential cost of not planning can be far more expensive and worrisome than putting a long-term care plan in place. Once paid care is required, the cost can be high, and over time can threaten a lifetime of savings preventing individuals from reaching their retirement and legacy goals.



Insurance

Medicaid and Medicare

Many people believe they can rely on Medicare to pay for their long-term care services. However, Medicare provides very limited care for individuals age 65 or older. Under specific circumstances, Medicare could provide a short-term benefit that only covers up to 100 days in a skilled-nursing facility following a hospitalization.

Medicaid is the government-funded program, intended for people with low income and resources, that pays for nursing home care only in a Medicaid approved facility. While the rules vary by state, those seeking Medicaid coverage are required to spend down their assets before they can qualify for Medicaid assistance. In addition, federal law requires your state to recover from your estate the costs of the Medicaid-paid benefits you receive.³ Therefore, for individuals who are not impoverished (or do not want to become so), the high cost of long-term care must be paid from savings, or through a long-term care policy designed to leverage their savings or income.

Traditional Long-term Care (LTC) Insurance

Traditional long-term care insurance policies allow you to customize benefits and features based on your specific situation and cost-of-care in your area. Typically, for most policies, you can select a range of care options and benefits that allow you to cover services if needed in a facility, or in the home. The annual premium of your long-term care policy is based on the type and amount of services you choose to cover, how old you are when you buy the policy, your health status, and any optional benefits you choose, such as benefits that increase with inflation. If care is needed, after the waiting period is satisfied,

the policy will pay out an income-tax-free benefit up to the benefit maximum for care received. Typically, these policy types have no cash value, and upon death no death benefit is paid to beneficiaries.

Traditional LTC Trends

Qualified traditional LTC insurance can provide tremendous leverage and income-tax-free benefits when a long-term care event does occur, however there is a downside. These policies are “use-it-or-lose-it” type contracts, which means, if long-term care is not needed prior to death, typically no death benefit is paid to the beneficiaries, and the premiums paid are lost. In addition, insurers have found it difficult to price these policies, and have raised rates dramatically in recent years on both new issues and in-force policies. The “use-it-or-lose-it” aspect and increased pricing have caused many individuals to consider alternatives to traditional long-term care insurance.

Self-Insurance

Often individuals with significant assets choose to “self-insure” by using their personal funds to cover potential long-term care costs. Some people like the idea of self-insuring the long-term care risk because they want to maintain control over the assets, and they do not want restrictions on how they can use them. Also, if long-term care is not needed prior to death, they can leave these assets to their heirs. Suppose long-term care expenses exceed what was set aside to cover long-term care costs? Even those with significant assets could erode their wealth very quickly, due to the high cost of care. In addition, self-insuring with tax-deferred retirement accounts could compound the problem even more. As care is needed additional withdrawals may be required from these accounts to pay the income tax, or even push them into a higher tax bracket.



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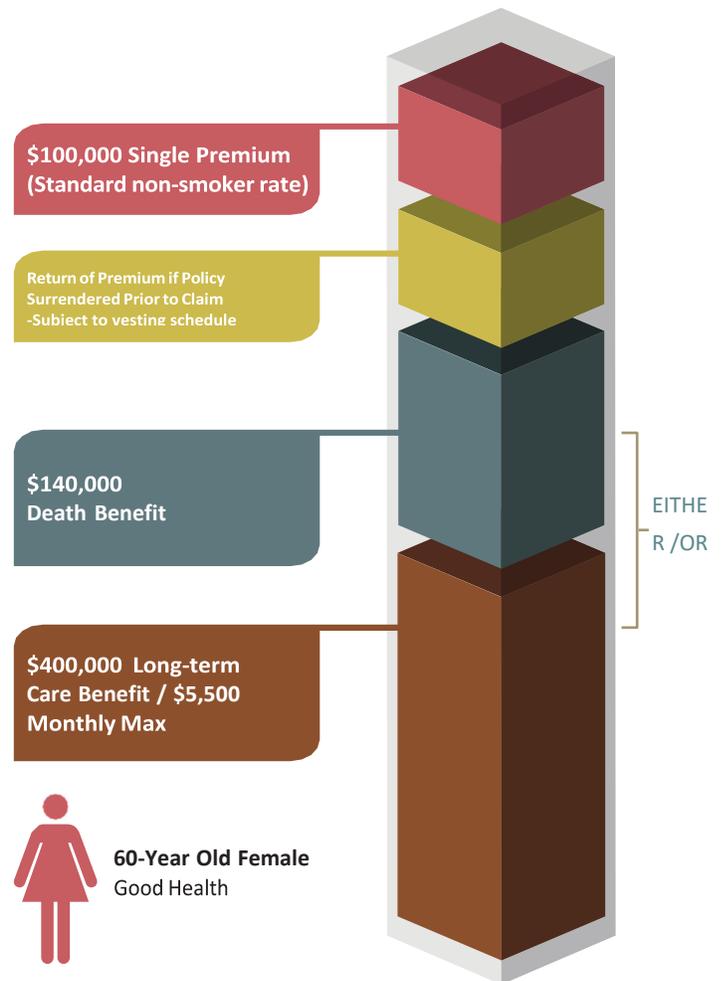
Life Insurance with Long-term Care Riders

In recent years many insurers have stopped offering traditional LTC. As companies have exited the traditional LTC business, additional insurers began offering policies that combine life insurance death benefits with long-term care benefits as an alternative to traditional LTC insurance and self-insurance. Avoiding the “use-it-or-lose-it” aspect of traditional LTC, this product type enables individuals to maintain control of assets as they protect themselves and their savings from financial exposure to the long-term care expense risk.

Single Premium Life (SPL) – Streamlined Underwriting

A Single Premium Life policy with LTC benefits could be a suitable alternative for those individuals who have set aside assets to pay for LTC expenses in retirement. If insurable, a person could take a portion of those “self-insuring” assets and purchase a policy that provides both a long-term care benefit, and death benefit. If the insured person needs long-term care services prior to death, an income-tax-free benefit can be used to pay for those expenses. If the insured never needs long-term care, those assets will pass on to his or her beneficiary income-tax-free when he or she dies. If the policy owner ever changes his or her mind about the policy, and no claims have been made, the return-of-premium feature allows the full original single premium to be returned to the policy owner upon surrender (may be subject to income tax). Unlike traditional long-term care insurance, which may be expensive and may have premium increases over time, these premiums are set at the policy’s inception and will never change. In addition, typically this product type offers streamlined underwriting in which no medical exam would be required to purchase coverage.

Hybrid Life/LTC Example



The above chart illustrates the leverage a 60-year old female in good health could purchase a policy with a \$100,000 single premium. The policy could be issued with a death benefit of \$140,000 and a long-term care benefit of up to \$400,000. If long-term care is needed prior to death, up to \$5,500 per month (income-tax free) could be used to pay for care in a facility or in the home. Any long-term care claim would reduce the death benefit dollar-for-dollar, however if care was not needed prior to death,



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\$140,000 would be paid to her beneficiaries' income-tax-free.

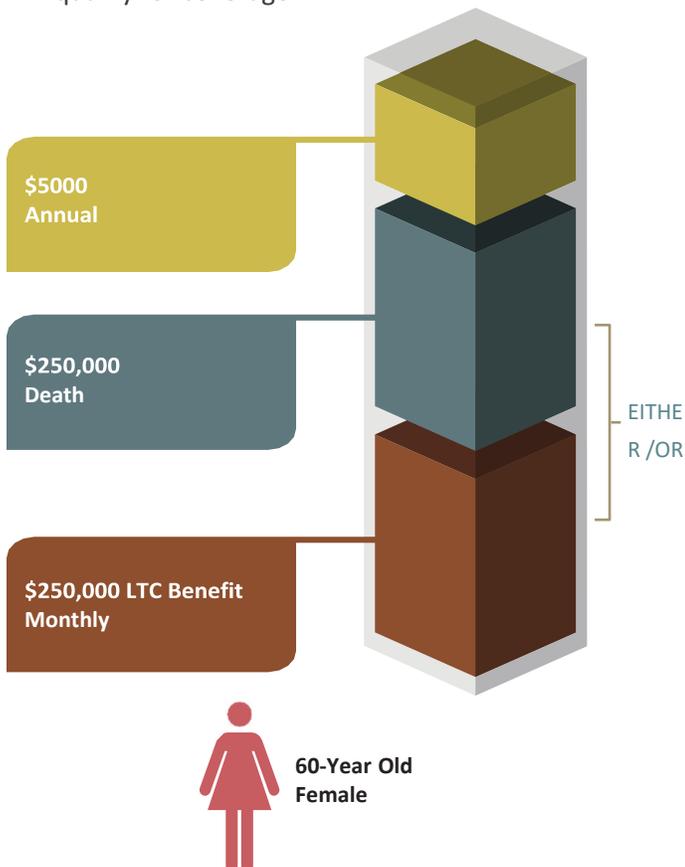
Annual Premium Life – Full Underwriting

Several insurance companies offer LTC riders on life insurance products that are paid with annual premiums. These riders allow the policy owner access to the death benefit should long-term care be needed prior to death. Any part of the death benefit not used for these expenses is paid to the beneficiaries at the time of death. Unlike the single premium product type, typically a medical exam (paid by the insurance company) is required in order to qualify for coverage.

Life Insurance with LTC Rider Example: The above chart illustrates the leverage a 60-year old female in good health could purchase a policy with a \$5,000 annual premium. The policy could be issued with a death benefit of \$250,000 and a long-term care benefit of up to \$250,000. If long-term care is needed prior to death, up to \$10,000 per month (income-tax free) could be used to pay for care in a facility or in the home. Any long-term care claim would reduce the death benefit dollar-for-dollar, however if care was not needed prior to death, \$250,000 would be paid to her beneficiary's income tax free.

Talk to Your Financial Advisor

At Benjamin F. Edwards, we want to develop and sustain client relationships built on trust, integrity, and mutual respect. Before you make an investment or insurance decision, it is important to review your financial situation, investment objectives, risk tolerance, time horizon, diversification needs and liquidity objectives with your financial advisor. Your financial advisor can run illustrations to show the potential effect a long-term care event would have on your portfolio. To learn more about long-term care planning options talk to your financial advisor today. ■





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Notes:

¹ Genworth cost of Care Survey, 2018

² U.S. Department of Health and Human Services, National Clearinghouse for Long-Term Care Information, www.longtermcare.gov,

³ Omnibus Budget Reconciliation Act of 1993 (OBRA). OBRA requires each state to have an "Estate Recovery Program," which is designed to recover the costs of Medicaid-paid benefits from that person's estate or the estate of his or her spouse. If you are age 55 or over and receive Medicaid benefits for nursing home care and related services, OBRA requires that states recover the paid benefits in an amount equal to the total of the assistance provided from your estate. This could include your home and any other property that otherwise would be passed to your heirs.

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