Wilson Financial Group

Long-Term
Care Coverage

Philip S. Wilson, CEA, CLTC, CSSCS, CCPS

Wilson Fionancial Group is an Alabama fee only Registered Investment Advisor.

If you have not purchased Long-Term Care Coverage, it is probably because of these reasons:

• It won't happen to me

Nobody wants to consider the possibility of needing long-term care in the future. It is not the way we want or expect things to be. You may know someone who is receiving care and did not anticipate needing it either. Americans are living longer increasing the possibility of becoming dependent upon someone else for assistance.

The reality is, according to a Medicare study by the Health and Human Services in 2014, 70% of Americans age 65 and older will need some form of long term care. In Alabama, the average cost of care for an assisted living facility starts at $36,900 per year and increases to $76,267 per year for a nursing home. The average length of stay is over 800 days while the costs are currently growing each year. Can you afford to take the chance it will not happen to you?

• It is too expensive

Many retirees have trouble finding affordable coverage. Protection is expensive because there is such a high probability we might need it. Even worse, with traditional long term care insurance, there is a chance the premiums could increase and become even more unaffordable as you get older and need the benefits most.

• The policies are too confusing to understand

Policies are difficult to understand and even more difficult to compare between companies. What benefits should I chose? How much of a benefit should I choose? What companies offers the best price?

If I don't ever need the coverage, money for premiums is wasted. I don't want to spend money on insurance I may never need.

You are right; you may not ever need insurance. If you pay premiums but do not need a benefit, with most policies your premium dollars are lost. There are some insurance alternatives that provide benefits if you do not use the long term care coverage. With some of the alternatives, the money you use for coverage actually grows by a reasonable interest rate and is available to you for other purposes

• I won't be able to qualify for any coverage

Traditional long term care insurance is difficult to qualify for and you may have been turned down before. There are alternatives today that require no medical exams and just a short telephone interview. Generally to be approved you need to answer "no" to all of the following questions:

Have you ever been diagnosed with:

- Alzheimers disease or dementia, or taking any medication for memory loss?
- Emphysema, chronic obstructive pulmonary disease (COPD) or congestive heart failure?
- Parkinsons disease, Multiple Sclerosis or Muscular Dystrophy?
- Rheumatoid Arthritis or taking methotrexate, prednisone, embrel or remicade for joint pain?
- Osteoporosis that is untreated or with a history of compression fractures or height loss of two inches or more?
- A stroke or Transent Ischemic attack (TIA) within the last 24 months or heart attack, heart or carotid artery surgery within the last 6 months?
- Cancer (other than non-melanoma skin cancer) within the last 6 months?
- Type 1 diabetes?
- On dialysis?
- Using Oxygen for any reason?
- The recipient of an organ transplant?
- Use a cane of any variety, walker or wheelchair on a regular or intermittent basis?
- Take any narcotic drug or prescription pain medication on a regular basis?
- Have an implantable defibrillator?
- Currently collect disability benefits?
- Have a handicap parking permit? (might still be OK)

Understanding the reasons why you should have a Plan for Care, and its cost

Reason #1: Limited Government Options for help

I am still amazed when I hear people say the Government will pay for their care. Medicare is health insurance and only covers short term nursing care. Medicaid covers long term care, but has very strict income and asset requirements. Neither programs truly protect you, and you should expect even less help in the future due to the overwhelming debt our nation faces. We should all expect less Government assistance not more in the future.

Reason #2: Remember who you are protecting?

A plan needs to be in place to protect your assets. Insurance is about risk. First and foremost, the decision to purchase long term care insurance is a lifestyle decision. It is the choice to protect your lifestyle in your later years. Most retirees want independence in their golden years and they need insurance to be there for this to happen. The question becomes: Do you feel you will live a long life? If you do, you may become frail and need care at some point. Who will provide the care and how will you pay for it? The hope of most seniors is to supervise how and where and from whom their care comes from. Their care provided could be provided by family or a spouse but at what expense?

If you answered yes to possibly becoming frail at some point in your life, the issue is not the person receiving care, but the person giving care and how it is paid for. The decision to buy coverage is a decision to NOT obligate a spouse or family to provide the needed care.

Reason# 3: There are alternatives to use it or lose it coverage. You could pay LTC insurance premiums for years and never need the policy.

Often, advisors will suggest someone self- insure. Meaning that their assets are sufficient to provide care if needed. Therefore they are not at as great of risk. Most retirees are at great risk and will not have sufficient assets to provide for expensive care for a lengthy period. Insurance is needed to cover that risk. I understand the desire to not waste money on insurance you may not need. Today there is a new generation of alternatives to traditional insurance that provide protection if you need it and the ability to use the money set aside for the coverage for other purposes and even receive interest while you wait to see if you need it. A lot of retirees are not aware of asset-based insurance alternatives to traditional insurance. While this type of solution has some limitations, people often chose it because they are able to use their assets for purposes other than long term care. So if someone does not get sick, they see their assets growing. If they do get sick, the assets provide dollars needed for long term care costs.

This is easier to illustrate in an example. Here is an example of how it might work. Jim and Sue are planning to retire. The couple is looking at some different strategies to prepare for retirement and want to protect themselves against a potential long term care event. They each have a $100,000 CD and would like to receive interest income and have principal available to provide for long term care needs if the need arises.

	Jim	**Sue**
Asset Value	**$100,000**	**$100,000**
Leverage Factor for Care	**2x**	**2x**
Long Term Care Benefit Period	**6 years**	**6 years**
Initial LTC Coverage Maximum		
(Single Premium x Leverage Factor)	**$200,000**	**$200,000**
Total LTC Coverage at 20*	**$530,660**	**$530,660**

*note the benefit increases as the account value increases

So, over their expected retirement years, they will have between $200,000 and $500,000 to spend for long-term care while their $100,000 grows each year. This example is called an asset based long-term care insurance annuity. It is an asset which receives a rate of return and provides dollars for long-term care. It is often used by retirees who want to use a portion of the IRA or another asset like a CD to provide coverage.

For individuals who need access to all their money for needs other than for a long-term care event and cannot afford to tie their money up; a long-term care annuity is generally not a good idea because your money will be tied up for at least the surrender period. But it does provide limited access to principal during this period just not total access.

A long-term care annuity is not for everyone but it does have advantages over traditional insurance namely, if you do not get sick, you still have the money.

Can I cover myself with an existing IRA, Life Insurance or Annuity?

Yes. You can transfer annuities, cash value life insurance and IRAs without taxes to another Long Term Care product that provides protection. If the product conforms to the Pension Protection Act, you can even take money out to cover long term care expenses tax free. This provides an excellent opportunity to avoid taxation on the growth of the asset which would normally be taxed upon withdrawal. A typical life insurance policy or annuity will not allow withdrawals tax free for care unless it conforms to Pension Protection Act. The reason why we like these alternatives to traditional long term care insurance is because you are transferring an existing asset to be used for care if needed: if not needed, then the asset earns a rate of return. Most retirees know they need to protect themselves and the Government is not the answer but they are unwilling to pay large premiums for coverage they may not ever need. Using asset based coverage allows them to provide protection but also provide asset growth if care is not needed. The beauty of the idea is that all you have to do is transfer the asset.