

LONG-TERM CARE INSURANCE

With Our Complements



- WEALTH MANAGEMENT INTERNATIONAL INC -
Independent Wealth Protection Consultants
1901 AVENUE OF THE STARS, 19TH FLOOR - CENTURY CITY, CA 90067 - Telephone 310.305.1903 Fax 310.305.8698
www.wmi-consultancy.com

LONG-TERM CARE INSURANCE

Overview & Analyses

PURPOSE

■ **Long-term Care Insurance** can serve as a valuable tool to shoulder the cost of extended and expensive nursing home and in-home assistance required by a portion of the aging population, and help preserve small to moderate sized estates by absorbing the additional care expenses that might otherwise deplete a life-time of savings

That said... Do you need LTC insurance?

According to a national study:

- 49% of all people, reaching age 65 will spend some time in a nursing facility.
- 50% of those entering nursing homes will stay less than three months.
- The average stay for the other half entering nursing homes is more than two and one half years.
- About ten percent will stay for five-years or longer.
- As people age the probability increases that some form of long term care will be required:
- At age fifty, one in five people need long-term care;
- At age sixty, one in four need long-term care; and
- At age seventy, seven in ten people need long-term care.

If you are comfortable in assuming the risk and investing the premiums to self-insure the possible expense, and where the cost of care would not undermine your financial objective, opting to pass on such coverage is an option. *investing and buying additional life insurance either through an irrevocable trust or in another tax efficient manner may prove as a better use of funds for overall planning as there is a certainty that you will die. There is no certainty that you will ever qualify for benefits under a long-term care policy.

TYPES OF POLICIES

■ **Tax-Qualified** - Premiums may be deducted (see right pane bottom for details), benefits paid are not taxed as income, there is a more restricted eligibility requirement for benefits, "medical necessity" cannot be used as a benefit trigger, and the need for care must be expected to last for at least 90 days.

■ **Non-Qualified** - Cannot deduct any part of annual premiums Benefits paid may or may not be taxed as income, eligibility for benefits is not as restricted, "medical necessity" can be used as a benefit trigger, and the need for care does not have to last for at least 90 days.

■ **Financed** - This is most common, premiums are payable similarly to other forms of term insurance (life, disability) as policies are generally guaranteed renewable, yet premiums may increase in future years as set by the insurer.

■ **Single Pay** - A paid up policy with no expected future premiums required. The insurer reserves the right to at a later date, require additional premiums upon convincing your state dept. of insurance that claims experience and/or other insurer financial performance factors warrant additional premiums to meet future claims.

■ **Single Pay & Guaranteed** - The insurer guarantees annual level or a single premium and that no future premiums will be required. While this option has its allure, if the claims experience is greater than anticipated by the insurer, claims could force the insurer to fail.

■ **General policy nuances** - include definitions of benefit triggers, if benefits are "pooled" also known as a "bucket" allowing for carry over of unused amounts or defined as a daily benefit "use it or lose it".

ASSET PROTECTION

■ **Protection** - Varies from state to state based on exemption laws. Policy cash values may be seized to satisfy creditor claims.

ECONOMICS

■ **Statistics** - show that about 1/2 of the elderly are expected to require extended long-term care. The average stay is approximately 2 1/2 years. Annual costs for quality nursing home care can easily exceed \$60,000 (in 2004 dollars). At 5% inflation, this figure would double every 14.4 years. So if you forecast the premiums you would pay plus interest to an age when one would likely require care, you can determine how many months or years you would need to be on claim just to break even. (For example: \$5,000 premium X 20 yrs = \$100,000. Now add interest @ 7% (net), another \$104,977. Total \$204,977. If future care costs of \$120,000 a year, you would need to have a "qualifying" claim lasting 14 months to break even. Bottom Line - 1/2 x 2 1/2 yrs. = 1 1/4 yrs expected claim period. The difference is the insurers expected profit.

TAX CONSIDERATIONS

■ **Benefits are received taxed free within limits** *The per diem limitation is equal to the excess of the greater of a \$230 per day limitation in 2004 or the costs incurred for qualified long-term care services provided for the insured over the total payments received as reimbursement for qualified long-term care services for the insured. However, if the policy is for indemnity, benefits are tax-free irrespective to amount.

■ **Premiums are partially, and in some cases fully tax deductible, based on the age of the insured and the premium amount as described below** - Generally, amounts paid for any qualified long-term care insurance contract or for qualified long-term care services are included in the definition of "medical care" and are eligible for an income tax deduction, subject to certain limitations. Amounts paid for the medical care of a taxpayer, his spouse or dependents are deductible subject to the 7.5% adjusted gross income floor. However, the deduction for eligible long-term care premiums for a qualified long-term care insurance contract is subject to an additional dollar limitation that increases with the age of the insured.

As of 2008

for persons age 40 or less the limitation amount is \$290
for ages 41 -50, the limitation amount is \$550
for ages 51 - 60, the limitation amount is \$1,110
for ages 61 - 70, the limitation amount is \$2,950
for ages over 70, the limitation amount is \$3,680
The limitation amounts are indexed annually.

Closing Comments: Long-Term Care Insurance is complicated as there are many components that make up a policy. Additionally, definitions, limitations and exclusions vary among policies.

We suggest you evaluate your particular situation and have any policies you own or are considering reviewed by a qualified, impartial professional for assessment. A service WMI clients receive standard as a part of an INTEGRATED WEALTH PROTECTION PLAN™

©2008 WEALTH MANAGEMENT INTERNATIONAL, INC.