

COSTLY MISTAKES

**PEOPLE CAN MAKE WHEN BUYING
LONG-TERM CARE INSURANCE**



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Costly mistake #1: Electing a reimbursement model instead of a cash model

“Reimbursement” long-term care insurance policies require that you **account** for all of your long-term care expenses through submission of your receipts. Additionally, expenses must be “approved” by the insurance carrier and many may **not** fit into that category such as:

- Payment of prescription co-pays.
- Payment of physician(s) bills and co-pays.
- Transportation to doctors’ offices.
- **The cost, direct or indirect, of care by your family members.**
- Household maintenance – if care is being given at home – such as gardening, snow removal, and housecleaning.
- Medical equipment that may not be covered by long-term care or health insurance.
- Money to pay for technology that may not be covered under the reimbursement model such as robotic care giving, smart medicine dispensers, and sophisticated GPS systems.

The reimbursement model can be quite burdensome because it requires **continuous** accounting to process and sort bills, and then filing them with your claim forms. Equally important, this process may become impossible for you to perform during some stages while you are receiving more acute long-term care.

A **cash benefit** long-term care policy eliminates these problems because it pays **100%** of your benefit **regardless** of the amount and type of long-term care expenses incurred⁽¹⁾. This eliminates the accounting process and anticipates the fact that you may incur substantial long-term care costs that do **not** qualify for payment under a reimbursement model.

(1) All long-term care insurance policies require that you are “chronically ill” before you are eligible for benefits. In most policies, “chronically ill” means that (1) you are unable to perform 2 or more of the “activities of daily living” or (2) you suffer from a disease such as Alzheimer’s or other dementias that require you receive constant supervision. You should, of course, carefully read all of the provisions of your long-term care insurance policy to make certain that you completely understand the circumstances under which you will, or will not, be paid benefits.

Costly mistake #2: Buying a long-term care insurance policy that does not pay 100% benefits for home health care

There are three reasons that, when you need long-term care, you will want to receive it in the **privacy** of your own home⁽¹⁾.

- Most long-term care is extremely *personal* in nature and can involve services that you do not want to share with strangers.
- Having your family members near to you – as long as they do not *have* to be caregivers – can be of great comfort.
- Under certain conditions it may be actually more *economical* to receive care at home.

Unfortunately many long-term care insurance policies either **restrict** or severely **reduce** the benefits that are payable while you are at home. For example, a long-term care insurance policy might pay only 50% of the stated benefit when care is received at home.

This critical detail makes it imperative for you to assure that your long-term care insurance policy pays 100% of its benefits **regardless** of where you receive the care you need.

(1) 80% of all long-term care is provided at home (Genworth, 11/06).

Costly mistake #3: Buying a long-term care insurance policy without a COLA feature

A policy lacking a COLA feature can come with a big price tag because the cost of long-term care is increasing at a rate **faster** than inflation⁽¹⁾. This means that today's long-term care insurance benefit may be completely inadequate for tomorrow's care.

For example, an individual buys a long-term care policy, without inflation protection, that will pay \$100,000 a year for 7 years based on an estimate of current care costs. 15 years from now full-time care is needed due to Alzheimer's and that care is received it for 7 years:

| Year | Assumed annual cost of care ⁽²⁾ | Paid by insurance | Paid by liquidating assets | |
|------|--|-------------------|----------------------------|----------------------|
| | | | Annual | Total ⁽³⁾ |
| 2023 | \$197,993 | \$100,000 | (\$97,993) | (\$101,521) |
| 2024 | \$207,893 | \$100,000 | (\$107,893) | (\$216,953) |
| 2025 | \$218,287 | \$100,000 | (\$118,287) | (\$347,308) |
| 2026 | \$229,202 | \$100,000 | (\$129,202) | (\$493,665) |
| 2027 | \$240,662 | \$100,000 | (\$140,662) | (\$657,162) |
| 2028 | \$252,695 | \$100,000 | (\$152,695) | (\$839,012) |
| 2029 | \$265,330 | \$100,000 | (\$165,330) | (\$1,040,499) |
| | \$1,612,061 | \$700,000 | (\$912,061) | |

In this case failure to add a COLA feature cost the individual **\$1,040,499**: \$912,061 in liquidated assets plus \$128,438 of lost earnings.

(1) Wall Street Journal, December, 2005.

(2) Assumes the \$100,000 cost of care in 2008 has inflated to \$197,993 in 2023 at a 5% rate.

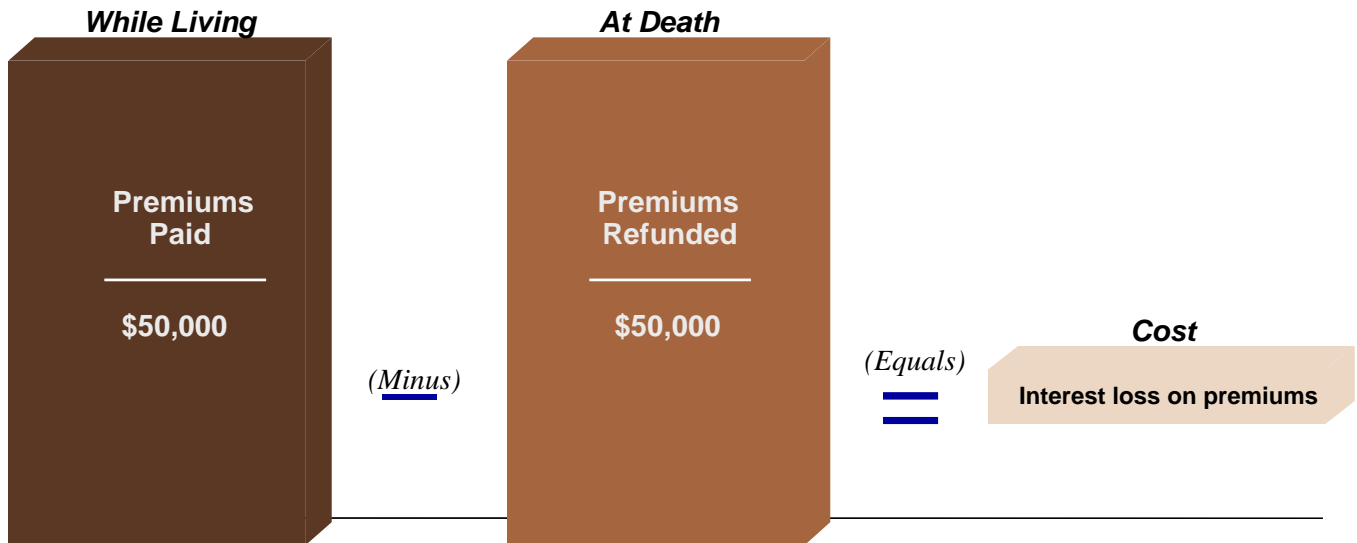
(3) Assumes a 3.6% after-tax loss of earnings on liquidated assets.

Costly mistake #4: Not considering a Return-of-Premium benefit

A Return-of-Premium benefit guarantees that, when you die, **100%** of your premium payments will be **refunded** to your family⁽¹⁾. This guarantee effectively converts your policy into an **asset** allowing it to be analyzed in terms of an alternative **investment**.

The Return-of-Premium benefit also means that the **maximum** cost of your insurance is the **opportunity** cost of money – the interest you could have earned on your premium payments had you invested them.

Example: An individual purchases a Long-Term Care insurance policy with a \$2,500 annual premium and dies 20 years later - before collecting any benefits



(1) There are two types of Return-of-Premium benefits: The first returns premiums less any benefits that have been received. The second returns all premiums regardless of any benefits that have been paid.

Costly mistake #5: Failing to take advantage of available tax deductions and tax credits⁽¹⁾

Self-employed individuals as well as partners in partnerships, 2%+ shareholders in S corporations, and members in LLCs are entitled to **deduct** some, or all, of their long-term care insurance premiums on their Federal Tax returns. The current deductible amounts for 2009⁽²⁾ are as follows:

| | |
|-------------------|----------|
| Age 71 and older: | \$ 3,980 |
| Age 61 to 70: | \$ 3,180 |
| Age 51 to 60: | \$ 1,190 |
| Age 41 to 50: | \$ 600 |
| Age 40 or less: | \$ 320 |

In addition, significant state **tax credits** are available to residents of New York and Virginia⁽³⁾.

However, many individuals who are eligible for these tax reductions do not take advantage of them – or fail to realize that deductible amounts increase each year.

(1) This is only a summary of the tax treatment of long-term care insurance. In all cases you should consult with your tax counsel.

(2) These deductible premium amounts are determined by the IRS and are indexed to the cost of medical care.

(3) The New York State Tax credit is **20%** of the total premium; the Virginia credit is **15%**.

Costly mistake #6: Not asking your employer to sponsor a long-term care insurance plan

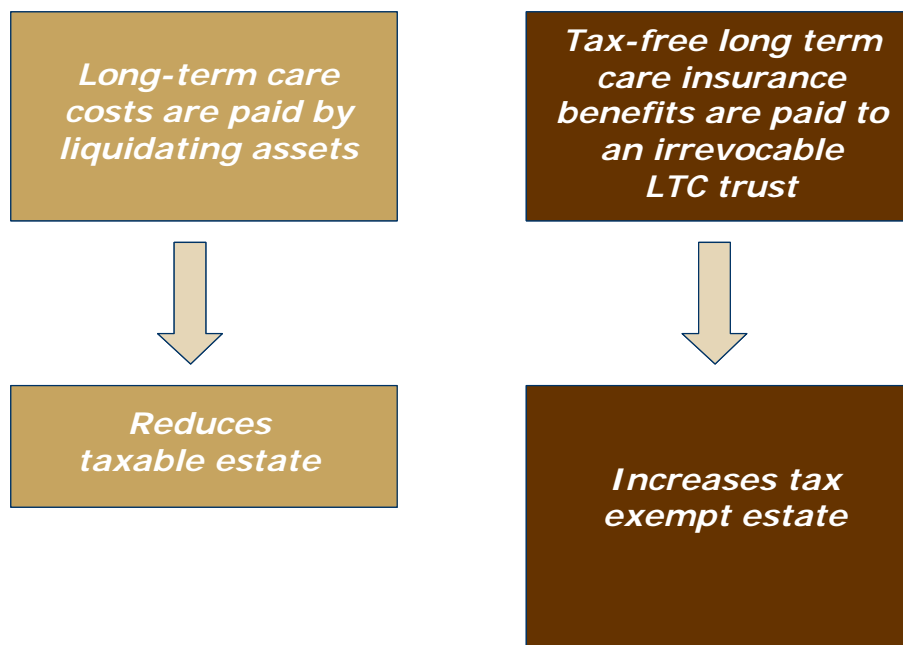
Most long-term care insurance companies will provide premium **discounts** for employer-sponsored programs. This means that you may be able to **reduce** your premium cost by taking advantage of such a plan even when it is offered on a voluntary basis. Further, policies through these programs often provide features and benefits that are not available on an individual basis.

In addition to saving money, an employer-sponsored plan may allow you to pay premiums through the convenience of payroll deduction as well as acquire your protection without a medical examination.

Costly mistake #7: Not considering the use of a long-term care insurance trust to reduce your estate taxes and transfer wealth⁽¹⁾

You should give serious consideration to using a long-term care irrevocable insurance **if** trust estate tax planning is one of your financial goals.

Here is the strategy: Buy a long-term care insurance policy with a Return-of-Premium benefit and assign **ownership** to an irrevocable trust. Then, if you need long-term care, plan to pay the cost of it by liquidating assets – which, in turn, will **reduce** your taxable estate. At the same time, your trust will be receiving insurance benefits that can be invested – for the benefit of your heirs. Further, when you die, your premium payments can be refunded to your trust. For example:



(1) You should review this strategy carefully with your personal legal, tax, and trust advisors before taking any action on it.

Costly mistake #8: Thinking about buying long-term care insurance tomorrow

No one plans on having a stroke, suffering a traumatic brain injury, or being diagnosed with Parkinson's disease or Lou Gehrig's Disease. It is certainly human nature for all of us to think that it will happen to the "other" person.

However, as we get older, the odds of needing long term care increase exponentially. In fact, there is a **60%** chance that we will need some form of long term care at some time during our lifetime and a **40%** chance we will enter a nursing home⁽¹⁾.

Of course, the need for long-term care might be for a short while; but there is also the potential it could be for **years** – or even for life. For example, the average duration of a need for care for Alzheimer's is 8 years; and that is just the average⁽²⁾.

There are two other factors to think about:

- We can't buy long term care insurance at **any** price after the onset of a medical condition that requires care or disables us.
- There is **no** real financial advantage in waiting to buy long-term care protection. Waiting simply means locking in an **increased** premium amount at your **older** age. Today you can take advantage of your good health and premium at your **younger** age.

In short, **today** is the day to give serious consideration to the threat that the cost of long-term care can pose to your financial security – and to determine if it makes sense for you to buy insurance to reduce that threat.

(1) MetLife Mature Market Institute, June 2004.

(2) The Wall Street Journal, December 2005.