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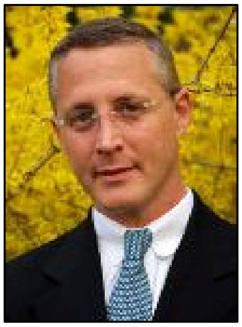

Funding Options For Long Term Care Expenses:

A Must-Have Conversation with Your Clients (and Yourself)

BY JEFFREY A. KERMAN AND MARK W. McGORRY

This article provides several funding strategies for Long Term Care (LTC) expenses, with the intention of helping people reduce their exposure to the unknown (and rising!) expenses associated with their future health care costs. This is a topic of increasing interest to attorneys and other advisors due to the potential exposure to very high and uncertain expenses for the type of care needed if a person either cannot perform two out of the six normal Activities of Daily Living (ADL's) for themselves (*please see sidebar ADL chart*), or if a person is diagnosed as chronically ill, such as cognitive impairments like Alzheimer's or dementia. Long Term Care (LTC) services can be provided in a variety of settings: a client's home, an assisted living facility, an adult day care center, a residential care facility, and/or at a nursing home.

ACTIVITIES OF DAILY LIVING (ADL'S)

Loss of 2 out of 6 ADL's triggers your LTC Policy:

- Bathing
- Dressing
- Eating
- Toileting
- Transferring
- Continence
- Or Severe Cognitive Impairments Such as Alzheimer's or Dementia

These unknown LTC costs can indeed derail even the best retirement, estate and elder law planning. This article is written from the point of view of skilled financial and insurance advisors, working in conjunction with skilled trust, estate and elder law attorneys well in advance of the likely time when these physical and resulting financial issues might first arise. These are planning strategies, not crisis planning strategies.

Having a plan for an extended care event will help protect the other plans that have been put in place. On the other hand, the failure to have a discussion about extended care can have severe consequences to a family. How do clients deal with funding this increasingly important protection? Let's discuss…

There are primarily three (3) types of Client "Categories" to be considered here:

Category 1: Those whose financial resources are likely *inadequate* to meet even their basic living expenses in later life. Very often they cannot afford to set aside funds or purchase insurance to plan to meet these LTC expenses. This article does not cover this segment of the population.

Category 2: The next level up on the financial ladder are those who have been able to develop enough financial independence that they can likely be financially comfortable for the rest of their lives, barring large financial calamities, such as unknown LTC expenses.

Category 3: Those who can comfortably deal with the cash flow needed to fund out-of-pocket LTC expenses, in addition to regular living expenses.

Based on real world experiences, it is the authors' position that when discussing advance planning for LTC expenses, each individual's and family's situation is so unique as to require at least some basic financial planning in order to make informed decisions associated with covering the costs of LTC expenses. The first step in analyzing an individual's needs is to help them identify their lifetime financial needs and goals, as well as their objectives for their descendants, charities and other beneficiaries. The recommendation is to develop a financial plan which matches their resources to these objectives. As part of that plan, consideration must be given to dealing with possible LTC expenses.

TOOLS AVAILABLE TO FUND LONG TERM CARE EXPENSES

Once there is a better understanding of which of the above categories the client fits most closely (and all of their lifetime related and testamentary goals), the next step is to examine available strategies for planning for these possible expenses.

I. Long Term Care Insurance (LTCi) Policies In Various Forms

Some features include: daily or monthly benefit amount, coordination of care services, elimination periods, benefit periods, inflation protection options, benefit type (indemnity, reimbursement or cash), and home health care.

A. Traditional Long Term Care Insurance:

1. Annual Pay Premium Version – the most common choice with annual premiums for life. Like medical insurance, premium rates are ***not*** guaranteed for life and can increase. There is a clear trend of increasing premiums in the LTCi industry.

2. 10 Annual Payments Version ("10 Pay") – probably the "gold" standard of LTCi because after completing the ten premium payments, the clients have a "fully paid up" policy with no additional premiums (and therefore no premium increases!). Premiums are often a multiple of an annual premium policy.

Practice Note: The 10 Pay Plans are often used by C-Corporation business owners due to the tax deductions, and "Category 3" clients to avoid the premium rate increases.

B. Shared Care Option:

Two policy holders who can each make use of a combined pool of benefits. Either spouse can access the pooled money. This provides for greater flexibility in planning.

C. Hybrid Life Insurance/Annuity Policy with Long Term Care Benefits Features:

These policies combine Life and LTC insurance into one policy. These products are generally a universal life insurance policy with coverage for LTC services provided by a contract rider. The initial premium provides for a death benefit if all of the LTC coverage is not used over the life of the insured. This potential death benefit helps to alleviate a common objection to the purchase of a traditional LTC policy should the client never need the services. There is also a policy version that is linked to an Annuity product, currently only available outside NYS.

Practice Note: These linked benefits contracts provide for a Return of Premium option which allows the insured to receive their initial premium back, reduced by any claims or loans on the policy.

II. Life Insurance

A. Individual Life Insurance Policies on one or both Spouses:

For a married couple, who can likely weather the additional expense of one spouse having LTC needs; consider life insurance on one or both spouses, purchased while still healthy. The life insurance policy proceeds could be an available resource to the surviving spouse to replenish assets that were dissipated or borrowed against to meet the LTC expenses.

B. Life Insurance on a couple via "Second to Die" Coverage:

This type of coverage would be intended to benefit the testamentary beneficiaries of a deceased couple who might have reduced their ultimate estate values due to LTC expenses.

Practice Note: Consider if life insurance should be owned by an irrevocable trust outside the insured's estate for tax reasons and protection from creditors of the insured(s) and beneficiaries.

III. Available Home Equity through a Home Equity Line of Credit (HELOC) or Reverse Mortgage

Practice Note: The reverse mortgage industry is in a state of change due to recent regulation changes and falling real estate property values. This option will work best for those who have either little or no mortgage outstanding on their primary residence.

IV. Cash Out-of-Pocket

This might be for those "Category 3" clients who have lots of surplus assets and cash flow. Often we find that clients in this position still want to at least partially insure LTC risk using one or a combination of the policies discussed above.

Conclusion

In short, a comprehensive LTC plan can help protect:

- The family's resources - their time, energy, and money
- The client's independence - the ability to choose how and where they want care
- The family assets - preserving and protecting wealth

Although the general opinion is that LTC insurance policies are expensive, it is important to communicate that several different funding strategies exist. This is not an "all-in" or "all-out" decision. Some insurance is better than none when it comes to funding LTC expenses. Clients often wish to turn an "un-quantified" future health care expense into a "quantified" expense, since they will have a specific dollar amount of coverage that they can count on to protect their overall financial and estate plans. The time for these conversations is now.

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