

# Long-Term Care Insurance for Flexible Planning

By Vicki Hodder

**I**t's a sobering government statistic: At least 70% of people 65 years and older will need long-term care services at some point. Long-term care recipients will need help with daily living skills—such as bathing, dressing or preparing meals—for an average of three years, a U.S. Department of Health and Human Services report prepared in 2012 further predicts.

So it may seem surprising that only about 12% of Americans 65 and up had private long-term care insurance as of

2008, according to the HHS report. But traditional long-term care insurance is often relatively expensive, and many people are reluctant to pay premiums for a policy they hope to never use. And if they don't use it, traditional long-term care policies pay no benefits.

But long-term care contingency options have changed now that the provisions of the Pension Protection Act of 2006 have kicked in, allowing policyholders to receive tax-free long-term care insurance benefits

as part of a hybrid life insurance policy or a long-term care annuity. On top of this tax break, some of these new hybrid life insurance policies and long-term care annuities come with a guaranteed payout—either the policyholder makes use of the policy's long-term care benefits or designated beneficiaries receive a tax-free death benefit. For retirees who don't need the Required Minimum Distributions (RMDs) from their retirement plan accounts, hybrid insurance products provide an option for continuing to invest in future life stages without draining

savings intended for beneficiaries.

"If you have to take those RMDs, that's a really good place to put them," says Dave Reed, Landmark Bank financial advisor.

## Flexible long-term care contingency planning

Only a handful of carriers offer life insurance policies that pay for long-term care, but a growing number of people are buying them, says Jesse Slome, executive director of American Association for Long-Term Care Insurance (AALTCI). Indeed, LIMRA, a worldwide association of insurance and financial services companies, estimates 354,000 life-combination policies were in force in 2012. Slome says policyholders particularly like the fact that their beneficiaries receive a payment if the long-term care benefit turns out to be unnecessary. "That's the key benefit," he notes.

Landmark Bank offers customers a handful of such policies. Among the most popular is a Lincoln Financial Group universal life insurance policy with an optional long-term care rider. Called the Lincoln MoneyGuard® Reserve Plus policy, the life insurance product offers purchasers a choice of payment options ranging from a single premium to monthly payments spread out over as long as 10 years. The policy's payouts, which can pay for home care, assisted living or nursing home costs, may be nearly triple the buyer's premiums.

Take as an example the policy's payouts for a 62-year-old man and a 61-year old woman—which differ because a man's shorter life expectancy affects an insurer's financial risk—who each pay a \$1,000 per month premium on a LincolnMoneyGuard policy for 10 years, or \$120,000 in all. If the man requires long-term care, he would receive a benefit of \$3,353 per month for as long as five years—a total long-term care benefit of \$213,256. A woman would receive a monthly payout of \$3,807 for up to five years, for a total benefit of \$348,594. The man's heir would receive an income tax-free death benefit of \$12,071 even if he used all of the policy's long-term care benefit; the woman's beneficiary would receive \$13,706 tax-free upon her death, assuming her long-term care benefits had been used.

If the man never used the long-term care benefit, his heir would receive a tax-free death benefit of \$120,711. The woman's heir would receive a tax-free death benefit of \$137,062 if she never required long-term care.

Landmark Bank's Reed points as well to the policy's money-back guarantee. Policyholders can obtain a full refund of their premiums after they've funded it for five



years, minus any loans, withdrawals or benefits paid, Reed says. While the money will not have earned interest, the guarantee makes the policy a relatively risk-free long-term care contingency plan, Reed says.

“If you change your mind down the road, you can get your money back and go do something else,” Reed notes.

Also available through Landmark Bank are annuity-funded whole life insurance policies that offer long-term care coverage. Buyers pay a lump sum up front—or make a tax-free exchange of an existing annuity as allowed under Internal Revenue Code section 1035—for a long-term care annuity that can pay untaxed benefits. The minimum premium generally is about \$20,000,

an amount that grows over time with interest, Reed says. Along with the single premium total, buyers decide on the duration of their long-term coverage. These annuities provide death benefits to heirs if the long-term care benefits are never used.

### Mitigating the costs of care

Long-term care issues have been coming to the fore as American life expectancy increases. Life expectancy generally has been on the rise for years, reaching 78.7 years for the total population in 2011, according to preliminary data from the U.S. Centers for Disease Control and Prevention. Though researchers are divided as to whether those additional years are healthier years than in the past, most people will need some sort of long-term care as they age.

Formal long-term care services are quite costly. A 2011 MetLife Mature Market Institute survey of long-term care costs calculates that U.S. nursing homes on average cost \$87,235 per year for a single occupancy room and \$78,110 annually for a semi-private spot. Assisted living costs on average come to \$41,724 annually, the report says.

Home care can cost considerably less, depending on the amount of time it's required. Typically, home care costs about \$20 per hour, the MetLife survey says—which comes to \$10,400 annually for 10 hours per week of service, and to \$58,240 a year for eight hours of daily home care.

Financial planning to cover potential long-term care needs can prevent family difficulties. Caregivers often help pay for long-term care expenses, spending an average of

\$8,000 of their own money to cover the costs of caring for their loved ones, a 2013 Genworth Financial, Inc. study says. What does that mean in practical terms? Nearly 60% of caregivers cut their own discretionary spending to help

cover long-term care costs, and more than 75% of care recipients had to reduce their spending, according to the report.

As stressful as the financial impacts of long-term care can be, there are career, relationship and emotional effects as well. Of the nearly 900 caregivers Genworth surveyed for its 2013 study, 65% had missed some work—and more than 40% had had to cut back on their hours. Nearly 15% had actually lost their job, according

to the study. Nearly 35% of the caregivers reported negative impacts on their family relationships, and nearly half experienced negative feelings such as depression, Genworth reports.

Long-term care insurance can help mitigate those effects on both caregivers and recipients. Caregivers who helped recipients with long-term care insurance experienced fewer negative effects, the Genworth survey found. Put another way, 58% of the survey's participants without long-term care insurance said recipients would have benefited from it.

Reed, of Landmark Bank, confirms the findings of Genworth's study based on his client experience. “There's just less stress for long-term care recipients and their families when they've invested in some form of long-term care insurance,” he says.

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