Avoid Mistakes in Buying Long-Term Care Insurance

Provided to you by:

Scott Farwick

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Written by Financial Educators

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Do You Need
Long-Term Care Insurance?

Maybe-Maybe not.

Statistics indicate that over half of all people over age 65 will require long-term care. In fact, the most current research statistics are below[1].

- More than half of people turning 65 who will have a long-term care need during their lifetimes. The average duration of nursing-home stay for men is 11 months. The average duration of nursing-home stay for women is 17 months.
- Females face a 58% probability of having at least one nursing home stay, compared to 47% for males.
- The probability of needing more than one year in a nursing home: men 22%, women 36%.

With such a great risk, doesn't everyone need insurance? After all, the cost of long-term care can run $7,513 or more monthly in some locations.[2] The truth is, you may or may not need to buy insurance.

It comes down to the various income and asset resources you have available to you. To illustrate this, let's take a look at the varying needs of three general groups:

- **Low Resources**
- **High Resources**
- **Medium Resources**

These groups are organized according to their income and asset resources. When reviewing this information, please keep in mind that nursing home costs and Medicaid qualification rules can vary widely from location to location.[3] As everyone's situation is different, the need for insurance can also vary among people within the same resource group.

Low Resources: This group has countable assets that are at or below the spend down limits imposed by their state Medicaid rules. Additionally, this group typically has monthly income below the average nursing home costs for the state where they live. In many cases, people that fall within this group will qualify for Medicaid without having to spend down their assets.

Countable assets include such things as cash, stocks, bonds, mutual funds, cash value insurance policies, CDs, boats, jewelry, and real estate investments.[4] In most states, you will only qualify for Medicaid if you have no more than $2,000 in countable assets.[5] Spouses of a nursing home resident who still live in the family home are allowed to retain countable assets up to $126,420 for 2019, depending on the Medicaid rules in their state.[6] The Medicaid rules will allow the live-at-home spouse (also referred to as the "community spouse") to retain the family residence, a vehicle, and a modest amount of other assets for their support. The Medicaid rules also establish a monthly support allowance to help community spouses meet their living needs, and this allowance is up to $3,160.50 per month for 2019 depending on state law.[7]

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[1] Morningstar "75 Must-Know Statistics About Long-Term Care" 8/31/17 http://news.morningstar.com/articlenet/article.aspx?id=823957
[2] Genworth Long Term Care Costs - Cost of Care Survey 2019, national median semi-private room cost of $7513 monthly. https://www.genworth.com/aging-and-you/finances/cost-of-care.html
[3] Medicaid eligibility varies by state Longtermcare/gov https://longtermcare.acl.gov/medicare-medicaid-more/medicaid/index.html 12/20/19
[4] 2019 SSI and Spousal Impoverishment Standards https://www.medicaid.gov/medicaid/eligibility/downloads/spousal-impoverishment/ssi-and-spousal-impoverishment-standards.pdf
[5] ibid. [6] ibid. [7] ibid.

This means that if the community spouse's income falls below the allowance, the state will then allow the community spouse to keep an amount equal to the difference from the resident spouse's income. On the other hand, a community spouse is usually not allowed to retain any income from the resident spouse if their income exceeds the allowance.

In some cases, even this group might want to consider the insurance if the monthly allowance is below the community spouse's living needs.

AARP offers this advice:

> "Long-term care insurance makes sense for those who earn good salaries, have accumulated assets they want to protect and have planned for a comfortable retirement. TheStreet.com Ratings says households with annual income of at least $50,000 to $75,000 and assets of $150,000, not including a car or house, might want to consider a policy. Financial planners typically recommend it for their clients, who tend to earn more."[8]

High Resources: This group has sufficient monthly income to support the community spouse's living needs and to cover the monthly nursing home costs in their area (which will vary from location to location). Alternatively, this group may have enough countable assets set aside to meet a three to five year nursing home stay ($240,000 to $400,000 per spouse, depending on nursing home costs in their community).[9] Many of these people, still do, however, obtain insurance because it can help them protect their estate from being reduced by a long-term care need. Most importantly, it can give them some added assurance by providing a separate source of funds to be used for long-term care needs.

Medium Resources: This is the group that often needs the insurance. This group of people has countable assets that exceed the Medicaid limits, but they don't make enough money to cover the monthly costs of nursing home care in their area. Another thing that separates this group from those with high resources is that they lack a separate source of assets to cover an extended stay in a nursing home. For this group, having to come up with $7,513 per month over a long-term period could potentially deplete their estate or create an economic hardship for the community spouse. If you are in this group, you should consider long-term care insurance. This insurance could help secure your financial independence. It can also help to preserve cherished assets for spouses and younger family members.

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[8] AARP Bulletin 12/06 "Pursuing Peace of Mind."
Surveyed calculations based on room rates of 15,000 nursing homes in 440 regions nationwide. Genworth Long Term Care Costs - Cost of Care Survey 2010, national median semi-private room cost of $7513 monthly.
https://www.genworth.com/aging-and-you/finances/cost-of-care.html
[9] Genworth Long Term Care Costs - Cost of Care Survey 2019, national median semi-private room cost of $7513 monthly.
https://www.genworth.com/aging-and-you/finances/cost-of-care.html

When Should
You Get Insurance?

Assuming that long-term care protection is needed, you may want to buy this coverage as soon as possible. The longer you wait, the more expensive it gets.[10]

Some people ask me if they would be better off saving money to prepare for a long-term care need rather than investing in insurance. However, you might not be able to save enough to cover your long-term care needs. Let's say that at age 60, instead of paying a premium of $1,628 annually for insurance, you started saving $1,628 per year for your future long-term care needs. Say you started your program in 2014 planning for 2034.

If we assume for illustration purposes that your savings produced a net return of 5% per year, your accumulated savings would be $56,523 at the end of 20 years. However, in the year 2034 the cost of the average stay in a nursing home could be over $300,000.[11] But the same amount paid into a long-term care insurance policy would provide a policy with benefits of $197,767 for long-term care, enough to cover a majority o0f an average nursing home stay.[12] The assumed rate above does not represent any particular investment. This illustration also assumes that the insured is healthy and qualifies for preferred insurance rates. Your actual results will vary from this example.

It is best to start a policy early because the premiums are typically lower. Most importantly, the reason to start with insurance early is so that you can qualify for coverage. As you age and the risk of adverse medical conditions becomes greater, you run the risk that you will not qualify for insurance. As you age, you may develop medical conditions and notations in your medical records that can make you uninsurable. Please note that these policy benefits are subject to the claims-paying ability of the issuing company.

Does this mean if you're already age 78, you cannot get insurance? Not at all. Insurance companies do accept many pre-existing medical conditions and there is no cost to apply. So certainly apply if you want this protection, but do it now, rather than later.

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[10] As an example, comprehensive plan, 3 year coverage at $100 per day, 3% compounded inflation, 90-day elimination for nursing home. Monthly costs rise as follows: Age 60: $135.69, Age 65: $188.25, Age 70: $251.34, Age 75: $393.06

Source:https://www.ltcfeds.com/tools/premium-calculator 12/20/19

[11] Federal long-term care insurance program annual cost in Los Angeles (2016 cost of care survey) of $85,045 and inflate for 3% annually https://www.ltcfeds.com/tools/cost-of-care

[12] Based on the Federal long-term care quote engine 12/20/19 :https://www.ltcfeds.com/tools/premium-calculator, male, age 60, comprehensive coverage, 3 yr term, 90 day elimination, $100 daily benefit, inflation compounded at 3% provides total policy benefits in 20 years of $197,767 based on annual premiums of $1,628. In other words, premiums paid for insurance providea a significantly larger benefit than saving the premium in hopes of self-insuring.

Two Important Reasons to Get Long-Term Care Insurance

If you get sick and need help, who do you think will bear the burden? If you're married, you could turn your spouse's life upside down. You could also jeopardize a comfortable retirement.

If you're single, your kids may get the burden. They may feel obligated to help you and try to manage assisting you into their already over-worked schedule.

Or, you could deplete your assets-money that would otherwise have gone to your heirs. Therefore, it's important to realize that a major reason to get long-term care insurance is to protect your family.

The other reason is to preserve your independence. Do you want your children helping you brush your teeth? Do you want family members deciding how to spend your assets for your care? Insurance provides a separate asset that can be used only for your quality care. Whether for care inside or outside your home, insurance could help you to preserve your independence.

What Does It Cost?

The cost can vary widely depending on the company you choose and the coverage you choose. For example, one company may charge more for inflation protection, while another may have a lower charge for inflation, or they may charge more for home care. The author of this booklet has analyzed coverage for hundreds of seniors and there is no single company that has the lowest cost in all cases.

Therefore, the first step is to decide on the coverage you want, then quotes can be obtained from several companies to find the best quotation for the coverage you desire. There are five important items in choosing coverage:

1. **Inflation Protection:** This protection will increase your insurance benefit over time to hopefully keep pace with the actual cost of long-term care. If you are under age 75, you may want to get inflation coverage because it will hopefully be many years until you need benefits. But in many years, the cost will be a lot higher and you'll be glad you have the inflation-adjusted benefit.

2. **Benefit Period:** You select the term of coverage. In many cases, it is good to apply for at least four years of coverage. The coverage period determines how many years the insurance company will pay you benefits once you need them. Statistics indicate that a five year policy has historically covered 90% of all long-term care cases.[13] Of course, there is no guarantee that this pattern will continue into the future.

3. **Daily Benefit:** This is how much the insurance company will pay per day for your care. The amount of needed coverage depends upon your income and ability to cover these costs. For example, if you determine that an additional $4,500 of monthly cash flow is needed to cover the costs of long-term care, then you might consider a policy with a $150 day benefit ($4,500 divided by 30 days). You should consider your various sources of income and cash flow when making this determination (e.g., social security, pensions and retirement distributions, annuities, etc.). The previous discussion regarding inflation should also be considered.

[13] Morningstar "75 Must-Know Statistics About Long-Term Care" 8/31/17
http://news.morningstar.com/articlenet/article.aspx?id=823957

4. **Coverage for In Home and Outside the Home Care:** You can select where you want to be covered. While many people like the idea of remaining in their own home and desire insurance for in-home care, the more important insurance for many is for outside the home (e.g., nursing home or assisted living facility).

There are two reasons for this:

(a) In your own home, the care you need is usually more moderate (homemaker duties such as shopping, cooking, cleaning, bill paying) and the cost may be less for such non-medical help. Often friends and neighbors and family can lend a hand making it much easier, financially, to cover in-home care. If you do need to go outside the home, the cost could be substantial and that's when you really need the insurance.[14]

(b) Your home may be poorly designed for you if you're ill. Stairs, long distances to the car and narrow doorways can all present problems for people with walkers or wheelchairs. Often, it's easier and more sensible to obtain care outside the home in facilities designed appropriately.

Of course, many seniors value their independence, and the ability to live at home certainly supports this value. With this in mind, it is also important to consider what coverage is available for home-based nursing care (also referred to as "community care"). If home-based coverage is an important priority, you will want to consider your sources of income to determine your coverage needs.

5. **Elimination Period:** Just as with your car insurance, the more you are willing to pay for a loss (the deductible) the lower your premium. Similarly, you select an "elimination period"- the number of days you will pay for care before the insurance starts to pay. Most policies allow you to select periods ranging from zero days to 180 days with shorter elimination periods generally corresponding to higher premiums.[15]

Get coverage for in-home and out-of-home care if your budget allows; otherwise, at minimum, get insurance for care outside the home.

[14] Genworth Long Term Care Costs - Cost of Care Survey 2019
[15] Source: Federal LTC Insurance Program, www.ltcfeds.com, last visited 12/20/19.

Five Ways to Potentially Reduce the Cost of Long-Term Care Insurance

While it would be ideal to have complete coverage (inflation protection, lifetime coverage, at least $200/day benefit), it is better to have at least a basic policy than to have none at all. In other words, a minimum policy is better than being uncovered for the high cost of long-term care. In order to help you minimize the cost of insurance, this booklet provides five ways to help you reduce costs and yet provide basic coverage. No one knows when a health catastrophe can strike. An onset of a heart attack, stroke, cancer, Parkinson's and Alzheimer's are debilitating illnesses, which give no advance warning. Protect yourself and your family financially.

Here are five ways to get covered at a lower cost:

1. **Reduce the coverage period.** For example, reduce the term of the policy from five years to four years. Statistics indicate that a five-year policy has historically covered 90% of the long-term care cases. Of course, there is no guarantee that this pattern will continue on in the future.

2. **Reduce the daily benefit.** The actual cost of nursing care averages $250/day.[16] If you cover just $130 or $160 per day with insurance, some people can make up the difference with other income sources, such as Social Security or interest income.[17]

3. **If you are age 75 or over**, consider omitting the inflation protection. Although you will hopefully never need long-term care, if you do, you could need it within 10 years-by age 85. Therefore, you do not need to protect for inflation over as long a period of time as, for example, a 65-year old would need to prepare.

4. **Consider partial home care coverage.** Many companies offer, as an example, $100/day benefit for nursing home payments and $50/day for home care payments (home care costs can be less expensive if you have family or friends who can help with care). By reducing the benefits for home care, you can lower your premium.

5. **Many people have a spouse or friends or relatives who can assist them in the home.** Depending on the hours of needed care, the costs of a home health aide ($146/day) can be less than the costs of round-the-clock nursing home care.[18] With this in mind, the most important coverage area for many is the care provided outside the home.

[16] Genworth Study
[17] If you have sufficient interest income or Social Security income, it may be better for you to insure for a majority of the cost of long-term care and self-insure for the remainder. This has the effect of lowering the current cost of the insurance premiums without subjecting you to being unable to cover the costs of long-term care, if and when they arise.
[18] Genworth Cost of Care Survey 2019

Other Options and Ideas

Some people resist the idea of insurance. They argue that the money invested is wasted if they never use the insurance. Some companies have decided to address this concern with a type of policy that provides coverage for life insurance and long-term care. It is a single premium fixed universal life policy containing a rider for long-term care benefits. These policies are sometimes referred to as "combo" policies because of the two benefits provided.

There are no annual premiums. The policyholder makes one premium payment. That amount earns interest comparable to rates at the bank. Here is a hypothetical example for a 60-year old female:[19]

Single Premium Payment	$100,000
Long-Term Care Insurance Benefit	$375,077
Life Insurance Benefit-Initial	$188,800

The policy provides the following features:

1. She can surrender the policy at any timeafter year1 and receive back at least her original premium (less loans, withdrawals, fees, and expenses). While she has the policy, she earns interest and has both long-term care insurance and a death benefit.

2. The policyholder dies. The heirs will receive not less than $115,972 life insurance benefit (less loans, withdrawals, fees, and expenses).

3. The policyholder enters a nursing home or needs home health care. She can receive from the policy up to $375,077 at the rate of $4,832 per month in LTC benefits for 6 years (payments reduce the death benefit and payments are reduced by prior loans, withdrawals, fees, and expenses).

The policyholder or his heirs collect the original premium or the long-term care insurance benefit or the death benefit, depending on which situation applies, provided there have been no previous loans or withdrawals (surrender charges may apply). Who is suitable for this type of policy? People who want to preserve countable assets such as stocks, bonds, CDs, bank accounts, cash value life insurance policies, or real estate without having to incur a yearly insurance premium.

In this example a minimum required single premium of $10,000 is typically required. This policy is a modified endowment contract, and loans or withdrawals of account value in excess of premiums paid are taxed as ordinary income. The purchase of life insurance and long-term care insurance requires a health review and not everyone is insurable. The purchase of insurance incurs fees, expenses, and commissions and possible surrender charges.

[19] 60-year old, married, nonsmoking female in good health. Single payment $100,000. Issued by The Lincoln National Life Insurance Company, Fort Wayne, IN, on Policy Form CC16LCN-1825356-062017 with the following riders: Value Protection Rider on Rider Form ICC15LR880 and Long-Term Care Acceleration of Benefits Rider (LABR) on form ICC13LR881; optional Long-Term Care Extension of Benefits Rider (LEBR) on form ICC13LR882.,zero days elmination period. 12/20/2018, single premium fixed UL policy. Two percent minimum interest rate, death benefit guaranteed to age 120. Benefits and guarantee based on the claims-paying ability of the insurer. There are no minimum interest rates required to keep the death benefit or long-term care benefit in force for the policyholder's life, provided there are no loans or withdrawals. http://bit.ly/2EGwTyq

Which Insurance Company is Best?

Many companies have policies with competitive features and rates. If you are age 70, company A may have better rates than company B. But if you are age 50, the opposite may be true. No single company has the best rates for all situations. Other companies offer options you may find important. As recommended earlier, the first step is deciding on the coverage items most important to you. It then becomes easier to find the insurance company that best fits your needs.

The way to find the right coverage is to supply your medical information so that we can submit it for an actual quote. The quote supplied from an insurance company rate book applies for people who meet a specific health standard. To determine the actual cost for you, the insurance company will first review your medical history based on the information you supply, as well as obtain records from your physician. The company will then make you an offer of coverage.

If you are interested in getting this important coverage to protect your family, call to make a free appointment. When you call, we will ask for relevant details in order to have information ready for you when we meet.

By the way-the biggest mistake in getting protected is waiting. If you get insurance, you can always cancel it. But if your health fails or you have a need for long-term care, you can become uninsurable. Waiting could be a mistake you cannot undo.

About
Scott Farwick

Scott is an outgoing business professional who originally started his insurance career in the early 1990's providing healthcare plans for small business owners and self-employed individuals, he has since found his calling by transitioning into estate planning and starting Safe Retirement Plans. He is passionate about helping retirees' transition into the preservation phase of life and has consistently demonstrated the ability to develop and implement estate and retirement plans customized to meet each client's needs and goals. He takes pride in knowing that his clients are in a much better position after working with him and have peace of mind knowing that their monies are safe while also protecting their assets from probate, nursing home spenddown all while creating guaranteed lifetime income and minimizing any tax liability.

Scott is very excited to assist anyone in need of his expertise or needs help with any of the legal documents that are necessary for proper estate planning. He enjoys educating people on what options they have when it comes to protecting and preserving their assets in order to avoid any unnecessary spend down of assets or tax liability, all while helping families leave a legacy to their loved ones. He recognizes the importance of these processes and ensures his clients understand the choices they have through proper pre-planning, ensuring that their goals can be accomplished.

About
Scott Farwick

Safe Retirement Plans Mission:

To serve our clients by helping them reach their goals in all areas of their financial & estate planning needs while helping them protect their assets from any unnecessary spend-down and provide guaranteed lifetime income through a variety of safe money products.

- **Estate Planning** - Educate you on how to minimize nursing home spend-down & taxes, probate avoidance, will creation, POA's, trusts, and deed management.

- **Retirement Planning** - How to create guaranteed lifetime income that you cannot outlive. How to replace any income lost when the first spouse passes away.

- **Long Term Care Planning** - Advantages of Asset Based Long Term Care options Vs purchasing a LTC insurance policy. How to protect assets from Medicaid spend-down and qualify for federal and state benefits.

- **Tax Free Wealth Transfer** - How to take advantage of tax benefits that can create tax-free Vs taxable wealth transfer to your loved ones.

- **Safe Money Options** - How to diversify your portfolio to grow your monies with no market risk of losing any monies while eliminating high advisor fees.

Phone today with questions or to see if we can help you.
There is no charge for an initial meeting.

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Published by Financial Educators