Smart Long Term Care Planning:

Options that Don't Break Your Bank

TABLE OF CONTENTS

Long-Term Care Planning: Options That Don’t Break Your Bank

INTRODUCTION

It appears that no matter how you look at it, Long-Term Care ("LTC") planning, the long- term care itself, and Long-Term Care Insurance ("LTCI") is expensive.

This guide is designed to show you how to responsibly plan for the cost of long-term care without breaking your bank.

With decades of experience helping people plan and pay for LTC – whether they are planning years in advance, or have not planned and are currently in the middle of a crisis – we are here to assist with any situation. There are smart and legal ways to pay for care while minimizing the damage to your wallet.

Interested? Good for you! Once you understand what the options are and who they apply to, it’s simple to put a plan in place. Let us start with some basics.

Overview of Long-Term Care

Long-Term Care ("LTC") is the full range of services and support required for the day-to-day living when prolonged illness, disability, cognitive impairment, or an accident prevents a person from caring for themselves.

LTC can be provided in many settings such as one's own home, an assisted living facility, a continuing-care retirement community, an adult day healthcare program, or a nursing home.

With the national average cost of a home health aide at $20.25/hour, and nursing homes costing as much as $12,000/month in some states, LTC costs can add up quickly and cause painful decisions for families with insufficient planning.

Even if you've worked hard to prepare for the future, the costs of LTC can quickly add up. As your age increases, so does the likelihood that you will need care. LTC services are not covered by your regular health insurance, Medicaid, or Medicare supplemental insurance.

An Easy Decision… An Important Step

Perhaps you requested this guide because you are helping a family member or friend who is currently in an LTC crisis. Maybe you are thinking of planning LTC before there is a clear need, or perhaps you considered planning and hit a few roadblocks. You can overcome almost any roadblock with one of the two strategies described in this guide.

Which response best describes you?

"I'm helping a family member or friend who is in an LTC crisis right now."

- Proceed to **Part 2** of this guide, since the strategy explained in Part 1 is not available to people currently in crisis.

"I'm thinking of doing LTC planning now before there is an obvious need."

- **Part 1** of this guide explains the strategy that thousands of people have implemented.

"I've considered LTC planning but I thought the options were too expensive and I'm wondering if there's anything affordable."

- **Part 1** of this guide explains a very smart strategy that many people have implemented and is endorsed in most states with significant incentives. This strategy is one of the most affordable ways to secure a comprehensive LTC plan.

"I've considered LTC planning now but I ran into problems because of my health, and I'm wondering what the smartest move would be for me."

- Depending on your health challenges, **Part 1** and **Part 2** of this guide are relevant to the challenges ahead.

PART 1:
PROTECTING YOUR ASSETS WITH A QUALIFIED STATE LONG-TERM CARE INSURANCE PARTNERSHIP PROGRAM

As you may know, Long-Term Care Insurance ("LTCI") is the "gold standard" of planning to pay for LTC. However, policies can be expensive. If you have an extensive need for care and run out of benefits, a Partnership policy will allow you to receive coverage for most claims – while also protecting your wallet and nest egg, should you ever run out of benefits. Almost all states have approved this consumer-friendly program[1].

Partnership policies offer people a smart way to plan for future care costs while protecting their hard-earned assets. Today, Medicaid is the largest payer of professional LTC.

To qualify, Medicaid requires that a married couple exhausts their countable assets to approximately $120,900[2] ($2,000 for a single person). If you have a Partnership policy, it will allow you to protect and keep some assets above these levels if you have a long-lasting claim. Then you can apply for Medicaid after using up your policy's benefits. Under most states' Partnership policy, the amount of Medicaid spend-down protection received is equal to the amount of benefits paid.

A Partnership program helps both individuals and the state. It allows individuals to receive and pay for services they need, without having to spend all their assets. For the state, since the policy dollars are used before Medicaid, a Partnership policy can decrease the amount of Medicaid dollars used for long-term care services.

This solution enables you to protect your hard-earned financial resources, freeing your family from burdens and allowing you to spend your money in the ways you desire.

In most Partnership states, a dollar of policy benefits shelters a dollar of your assets, offering what is referred to as dollar-for-dollar asset protection. With an LTC Partnership policy, you can retain countable assets at least equal to the benefits paid under the insurance policy benefits.

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1 *Partnership is available in every state except AK, HI, IL, KY, MA, MS, NM, UT, VT and the District of Columbia (as of June 2017).*

2 *Based on 2017 SSI and Spousal Impoverishment Standards.(https://www.medicaid.gov)*

Why purchase Long-Term Care Insurance?

Long-Term Care Insurance ("LTCI") protects your retirement and maintains your family's well-being, allowing you to choose where and how you receive the care you need. Without a Partnership policy, individuals typically have the following options to pay for long-term care:

Out-of-Pocket – This can quickly wipe out all savings and inheritance.

Transfer assets – Medicaid planning may allow you to qualify quicker than spending down your assets on care. A downside of Medicaid planning is the loss in control of your assets.

Relying on the charity of friends and family – Most people prefer the independence offered by paying their way or having LTCI. A Partnership policy allows them to do that, while adding an extra level of protection against losing life savings to LTC costs.

According to America's Health Insurance Plans (AHIP), informal caregivers, such as family and friends, provide about 70% of all long-term care. You should discuss with your spouse, children, relatives, or friends what assistance they could provide if you were to become sick or injured and need care for an extended time period.

A need for LTC can diminish even the best-planned estate, with costs in many states averaging more than $100,000 a year for a private room in a nursing home.

Partnership policies are no more expensive than policies with the same design that lack such protection.

Policy Overview

There are many combinations of benefits available for LTCI and many types of policies.

How much will you collect on a policy?

There are two basic types of Partnership Long-Term Care Insurances, explained below.

Reimbursement: This is the most common policy type. Your policy or certificate will pay benefits after you receive and pay up to your daily or monthly benefit limit for eligible services. For ongoing care that regularly exceeds your policy benefit, such as nursing home care, arrangements can often be made for the insurer pay the provider directly. The insurance pays for the lesser of the expense you incurred or the dollar limit of your policy.

Indemnity policy: The benefits are paid without regard to the actual amount of the expense incurred. Instead, the insurance company decides if you are eligible for benefits upon receiving services that you paid for. Once you have paid for the services covered by the policy, the insurance company will pay the full daily benefit to you directly.

Tax Benefits

Due to the Federal Health Insurance Portability and Accountability Act of 1996, some insurance companies offer policies or certificates with certain tax advantages. Policies or certificates with tax benefits are known as “qualified policies or certificates.” In general, they offer the same benefits as LTC policies or certificates, but the eligibility requirements may differ.

For example, to qualify for benefits under a qualified policy or certificate, the insured must be chronically ill or unable to perform at least two activities of daily living (ADLs). Examples of ADLs include: bathing, dressing, or transferring (such as moving from a bed to a chair).

Long-Term Care Insurance ("LTCI") premiums may be fully or partially deductible from your federal taxes, and in some cases state and city taxes as well, as a medical expense. For most people, the amount of premium that can be deducted is based upon the attained age in each tax year and can be verified by your tax advisor. Long-term care premiums can also be paid through a health savings account ("HSA"), allowing additional tax benefits.

One of the most attractive aspects of qualified LTCI is that the benefits are almost never taxable. The benefits are received tax-free, with this one unusual exception: *With an indemnity policy, if the amount you are paid exceeds the actual cost you are paying for your care, the excess is taxable.*

As we age, our chances of needing care increases. LTCI can be a part of the solution to the cost of aging. You can protect your family, finances and future while maintaining your independence with a LTC Partnership policy.

Qualifications

To qualify for a Partnership policy or certificate, there are certain requirements that must be met. You must purchase a Partnership policy from a company that has been approved for Partnership, since not all are approved. You must be a resident of a Partnership state at the time of purchase, and your policy must meet the inflation guidelines required by the Federal government, as shown below.

Age at Time of Purchase	Minimum Required Level of Inflation Protection
60 or Younger	Compound inflation required
Ages 61 to 75	Some form of inflation protection is required
Ages 76 or Older	No inflation protection is required

A qualified LTC Partnership policy or certificate purchased in one state may be used in another state. However, the asset protection aspect of a Partnership policy may not be portable to another state. If you purchased Partnership coverage in another state for care, then confirmation is required from the state Medicaid Department in which you reside, on whether your Partnership policy provides protection there as well. If it does, you also need to understand how that protection may vary from Partnership protection in the state of purchase. For example, “Is the protection dollar-for-dollar or something else?”

A Partnership policy may be the best way for you to alleviate the financial burden of long-term care on your family, while also maintaining your independence and protecting your assets. The example below shows how this works.

Example

A widowed 70-year-old woman purchases a Partnership policy with a policy benefit equal to $150,000. A few weeks after the coverage becomes effective, she is injured in a car accident. Once she is released from the hospital and rehab, she requires assistance doing activities of daily living (“ADLs”).

Her impairment is significant, so instead of being sent home, she is transferred to an assisted living facility. Over the ensuing years, she goes through the $150,000 of policy benefits in her Partnership LTCI policy.

To now qualify for Medicaid to pay for her LTC, she would normally have to spend- down all her countable asset limits to $2,000. However, because she has a Partnership policy, she can qualify for Medicaid while keeping $152,000 of countable assets in her name.

This provides her with a peace of mind in two ways. She knows that in the future, if she were to recover some or all of her function, she would have cash assets to support herself and possibly return to her community. Alternatively, she is happy to know that she can leave her children or charity of choice an inheritance worth $150,000.

Frequently Asked Questions

Are both Long-Term Care Insurance policies and certificates eligible to be in the Partnership program?

Yes. Both policies and certificates are eligible to be in the Partnership program.

The difference between a policy and a certificate is simple. A *policy* is an individual contract issued by an insurance company in the state in which it is bought. A *certificate* describes group coverage for an insured under a master policy, which may or may not have been issued in the state where the policyholder lives.

Read your policy or certificate or contact the Division of Insurance to find out if the coverage that you have provides you with Partnership protection.

What if I already have a long-term care policy or certificate and want to change the policy or certificate to a Partnership policy or certificate?

Contact your insurance company to inquire if you are eligible for an exchange to a long-term care partnership policy or certificate.

Can the insurance company cancel the Partnership policy or certificate?

LTC policies or certificates (including Partnership policies or certificates) may not be canceled by the insurance company as long as the premiums are paid on time.

An insurance company cannot exclude coverage for named diseases and conditions. Once you have a policy, it cannot be canceled if your health declines. However, an insurer has the right to refuse to issue you a policy if you have failing health when you apply. Therefore, it is wise to consider purchasing coverage while you are in good health.

PART 2:
PROTECTING YOUR ASSETS WITH CRISIS LONG-TERM CARE PLANNING

To qualify for an LTCI Partnership Plan, you will want to learn more about what options are best suited for your situation.

"If my health is not good enough to enroll in a Long-Term Care Partnership Program, what is left for me to do?"

In this situation, you are not without options, but the crisis planning options available to you are limited to the Medicaid program. This usually means your care would be primarily in a nursing home.

The Medicaid program pays for the bulk of nursing home LTC. To utilize Medicaid, you should strongly consider utilizing the services of a professional who specializes in crisis planning for individuals in a nursing home who are paying out-of-pocket.

The primary disadvantage of Medicaid planning is that the home healthcare and assisted living options, which are preferred by most clients, are usually only available when someone is privately paying. This means they are typically not available under the Medicaid program.

If you are faced with the inability to bypass the underwriting process for LTC, due to your health or the health of your loved one, Krause Financial Services, Inc. specializes in crisis planning for Medicaid benefits. Crisis planning is appropriate when you need immediate financial relief from long-term care services already being provided or about to be provided.

Resources:

National Clearinghouse for Long-Term Care: (202) 619 - 0724
www.LongTermCare.gov

Centers for Medicare & Medicaid Services: 1-800-MEDICARE (1-800-633-4227)
www.Medicare.gov

LTC Partnership Only, sponsored by LTC Solutions: (800) 945 - 1953
www.LTCPartnershiponly.com

Crisis Planning by Krause Financial Services, Inc.: (866) 605 – 7437
www.MedicaidAnnuity.com

Definitions:

Countable Assets: Assets in which the value is calculated in determining financial eligibility for Medicaid. This includes vehicles, (other than the one used primarily for transportation) revocable trusts (including living trusts), and your home, only if your spouse or child does not reside there and its equity value is greater than $500,000 (in some states, up to $750,000).

Estate Recovery: The process by which Medicaid recovers an amount of money from the estate of a person who received Medicaid. The amount Medicaid recovers cannot be greater than the amount spent on the person's medical care.

Partnership Policy: A private LTCI policy that allows you to protect (keep) some or all of your assets if you apply for Medicaid after using up your policy's benefits. Over half of the states currently have Partnership programs, and the Deficit Reduction Act of 2005 allows any state that wishes to do so to establish a Partnership program. Under a Partnership policy, generally, the amount of Medicaid spend-down protection you receive is equal to the amount of benefits paid to you under your private Partnership policy. State-specific program designs may vary.

Spend-down: The process by which someone spends countable assets until they are at the Medicaid asset eligibility level. A Partnership policy can help the policyholder avoid some or all spend-down since countable assets equal to the policy benefits used can be added to the Medicaid asset eligibility numbers.

IMPORTANT NOTICE:

This guide is intended to educate you on the long-term care insurance Partnership program. It does not provide legal or tax advice. Seek qualified advice for your personal situation before taking action.