

Preserving Your Assets and Your Dignity: A Long-Term Care Review

Do you have a plan to pay for long-term care services, if needed...a plan that protects the assets you have accumulated over a lifetime from the ravages of long-term care costs?

Prepared for: **Public**

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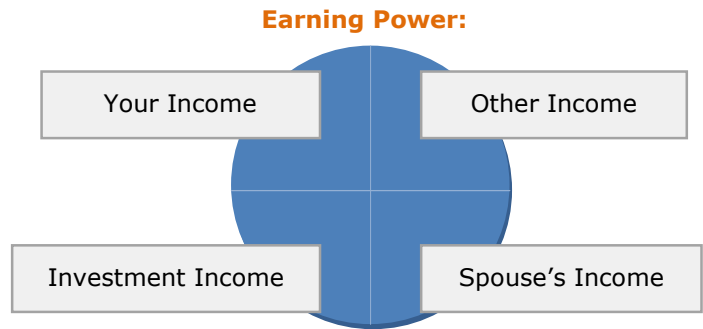
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Your Earning Power

Your earning power – your ability to earn an income – is your most valuable asset.

Few people realize that a 30-year-old couple will earn 3.5 million dollars by age 65 if their total family income averages \$100,000 for their entire careers, without any raises.



How Much Will You Earn in a Lifetime?

Years to Age 65	Your Future Earning Power If Your Family Income Averages:			
	\$50,000	\$100,000	\$250,000	\$500,000
40	\$2,000,000	\$4,000,000	\$10,000,000	\$20,000,000
35	1,750,000	3,500,000	8,750,000	17,500,000
30	1,500,000	3,000,000	7,500,000	15,000,000
25	1,250,000	2,500,000	6,250,000	12,500,000
20	1,000,000	2,000,000	5,000,000	10,000,000
15	750,000	1,500,000	3,750,000	7,500,000
10	500,000	1,000,000	2,500,000	5,000,000
5	250,000	500,000	1,250,000	2,500,000

You've worked hard and translated your earning power into financial security for yourself and your loved ones. Without proper planning, however, a serious accident or illness, or just declining health, could rob you of your financial independence.

Did You Know...



About one-third of individuals who turned 65 in 2010 will need at least three months of nursing home care, 24% more than a year, and 9% more than five years.
(Source: What Is the Distribution of Lifetime Health Care Costs from Age 65?, Center for Retirement Research at Boston College, March 2010)



About 71% of nursing home residents are women.
(Source: CDC Vital and Health Statistics, Series 13, No. 167, June 2009)



The national median daily rate in 2013 for a private room in a nursing home was \$230, an increase of 3.6% from 2012.
(Source: Genworth 2013 Cost of Care Survey, March 2013)



The average length of a nursing home stay is 835 days.
(Source: CDC Vital and Health Statistics, Series 13, No. 167, June 2009)



At a median daily rate of \$230, an average nursing home stay of 835 days currently costs over \$192,000, making it virtually unaffordable for many Americans.



Medicare does not pay for long-term care services, as explained by the Social Security Administration:

“About Social Security and Medicare...Social Security pays retirement, disability, family and survivors benefits. Medicare, a separate program run by the Centers for Medicare & Medicaid Services, helps pay for inpatient hospital care, nursing care, doctors’ fees, drugs, and other medical services and supplies to people age 65 and older, as well as to people who have been receiving Social Security disability benefits for two years or more. **Medicare does not pay for long-term care, so you may want to consider options for private insurance** (emphasis added).”

Separating Fiction from Fact

While few people are prepared to handle the financial burden of long-term health care, many people have a false sense of security when it comes to long-term care.

<i>FICTION</i>	<i>FACT</i>
<p>“Medicare and my Medicare supplement policy will cover it.”</p>	<p>In fact, Medicare and “Medigap” insurance were never intended to pay for ongoing, long-term care:</p> <ul style="list-style-type: none"> ■ Medicare will pay for up to 100 days in a skilled nursing facility, but only after a 3-day minimum inpatient hospital stay for a related illness or injury. Medicare will pay all of the costs for the first 20 days, but you must pay a co-payment amount for days 21 – 100 during each benefit period. Medicare doesn’t cover long-term care or custodial care in a skilled nursing facility. (Source: Medicare & You 2014, Centers for Medicare & Medicaid Services) ■ Only about 12% of nursing home costs are paid by Medicare, for short-term skilled nursing home care following hospitalization. (Source: National Care Planning Council, 2010) ■ Medicare and most health insurance plans, including Medicare supplement policies, do not pay for long-term custodial care. (Source: Medicare & You 2014, Centers for Medicare & Medicaid Services)
<p>“I can afford it.”</p>	<ul style="list-style-type: none"> ■ As a national average, a year in a nursing home is currently estimated to cost about \$84,000. In some areas, it can easily cost over \$100,000! (Source: Genworth 2013 Cost of Care Survey, March 2013) ■ The average length of a nursing home stay is 835 days. (Source: CDC Vital and Health Statistics, Series 13, No. 167, June 2009) ■ The national average cost of a one bedroom in an assisted living facility in the U.S. was \$41,400 per year in 2013. The cost for assisted living facilities that provide Alzheimer’s and dementia care can be \$50,000 to \$60,000 annually. (Source: Genworth 2013 Cost of Care Survey, March 2013) ■ Home health care is less expensive, but it still adds up. In 2013, the national average hourly rate for licensed home health aides was \$19. Bringing an aide into your home for 20 hours a week can easily cost over \$1,600 each month, or almost \$20,000 a year. (Source: Genworth 2013 Cost of Care Survey, March 2013)

“It won’t happen to me.”

- About one-third of individuals turning 65 in 2010 will need at least three months of nursing home care, 24% more than a year, and 9% more than five years. (Source: What Is the Distribution of Lifetime Health Care Costs from Age 65?, Center for Retirement Research at Boston College, March 2010)
- Women have a longer life expectancy than men...about 71% of nursing home residents are women. (Source: CDC Vital and Health Statistics, Series 13, No. 167, June 2009)

“If I can’t afford it and need it, I’ll go on Medicaid.”

Medicaid is a joint Federal and state program that helps with medical costs for some people with low incomes and limited assets. Certain services must be included by the states in order to receive federal Medicaid funds. For example, people who qualify for Medicaid may get coverage for costs, such as nursing home care and outpatient prescription drugs, that are not covered by Medicare. Nursing home care must take place in a Medicaid-approved facility in order to qualify for Medicaid reimbursement. Other services are optional and may or may not be included on a state-by-state basis.

To qualify for Medicaid, federal poverty guidelines for income and assets must be met. In addition, there are state requirements for Medicaid eligibility. While Medicaid recipients must have low incomes and few financial assets in order to qualify, their homes and cars are not included in determining Medicaid eligibility. There is, however, a federal estate-recovery law that requires each state to recoup assets from the estates of Medicaid recipients. As a result, children set to inherit the family home may find that, instead, the home must be sold and the proceeds used to pay for the care their parents received.

Medicaid is essentially a safety net for those who didn't adequately plan for their financial needs in retirement, or who encountered unexpectedly large expenses that depleted their financial resources.

There is, however, a potential remedy for this dilemma...

Whether purchased for yourself, your spouse or for an aging parent, long-term care insurance will help protect the assets you have accumulated over a lifetime from the ravages of long-term care costs.

A Potential Solution Using Long-Term Care Insurance

Long-term care insurance purchased today can help provide you with the financial security you need and deserve in your retirement years. By acting today, while you are still healthy and active, you will have protection to help pay for whatever long-term care needs a long life brings!

Long-term care refers to help with daily activities needed by people with disabilities or chronic, longer-lasting illnesses, such as help with eating, bathing and dressing. Long-term care also includes assistance for those suffering from cognitive impairments, such as Alzheimer's disease and dementia. Other types of insurance, such as health insurance and disability insurance, do not typically pay for these services. Long-term care can be provided in a variety of settings, such as your home, an assisted living community or in a nursing home.

A typical long-term care insurance policy helps cover the cost of long-term care services, including:

- Assistance in your home with daily activities, such as bathing, dressing, meals and housekeeping services.
- Visiting nurses and/or home health aides who come to your home.
- Services available in your community, such as adult day care.
- The cost of an assisted living community.
- Nursing home care.

While the good news is that people are living longer, the bad news is that increased life expectancy also increases the odds of needing long-term care services, which can be expensive. Without long-term care insurance to help meet the cost of needed long-term care services, you run the risk of depleting a lifetime of savings. With long-term care insurance, you're in a better financial position to make the choice of what long-term care services you receive and where you receive them.

PLUS, qualified long-term care insurance receives favorable income tax treatment...

Long-Term Care Insurance Income Tax Treatment

A qualified long-term care insurance policy is one that meets several requirements, such as providing services to a policyholder who needs help with two or more Activities of Daily Living, such as bathing and dressing, or who needs supervision as the result of a cognitive impairment, such as Alzheimer's disease. In addition, a qualified policy must offer inflation protection that increases benefits over time, as well as non-forfeiture benefits that preserve some coverage if premium payments are stopped.

Eligible Long-Term Care Insurance Premiums

Eligible premiums paid for qualified long-term care insurance can be applied toward meeting the 7.5% "floor" for medical expense deductions on your federal income tax return. The amount of eligible long-term care premium that can be applied to the 7.5% floor depends on your age:

If you are this age by the end of the year:	This is the maximum eligible long-term premium for tax deduction purposes in 2014*:
40 or less	\$ 370
41 - 50	\$ 700
51 - 60	\$1,400
61 - 70	\$3,720
More than 70	\$4,660

* The maximum eligible long-term care premium is adjusted each year for inflation.

If your employer provides you with long-term care insurance under an accident and health plan for employees:

- Your employer can deduct the full premium it pays for long-term care coverage for its employees.
- Premiums paid by the employer are not taxable income to the employees.

If you are a sole proprietor, partner or S-corporation shareholder-employee:

Long-term care insurance premiums paid on your behalf by your business are taxable income to you. However, to the extent the premiums do not exceed the maximum eligible long-term care premium for tax deduction purposes shown above, qualified long-term care insurance premiums are eligible for the self-employed health insurance deduction.

Long-Term Care Insurance Benefits

The benefits from qualified long-term care insurance, for the most part, are not taxable income to the recipient, up to a per diem limit. The per diem limit, which is adjusted annually for inflation, is \$330 for 2014.

Long-Term Care Insurance Checklist

In purchasing long-term care insurance, it is important to select coverage that matches your needs and preferences. As you evaluate various policy features and benefits, however, keep in mind that the choices you make can affect the premiums you pay and the benefits you are entitled to receive.

Covered Services	What services are covered by the policy? Does the policy offer "shared care," where two people can share the pool of benefits provided by the policy?
Benefit Amount	What is the daily benefit amount? Is it payable only while you are confined to a nursing home, or is a benefit also payable for home health care and other care alternatives? Does the policy have a maximum lifetime benefit?
Benefit Period	For how long are benefits payable? In a nursing home? At home? For an assisted living facility?
Elimination Period	When do benefits begin? For nursing home care? Home health care? An assisted living facility?
Maximum Lifetime Benefit	Does the policy have a maximum lifetime benefit? If so, what is it?
Pre-Existing Conditions	Are pre-existing conditions covered the same as any other conditions? If not, how long must you wait before they are covered?
Excluded Conditions	Are any conditions, such as Alzheimer's Disease, senility or dementia, excluded from coverage?
Inflation	Are benefit amounts adjusted to reflect increasing long-term care costs? How?
Prior Hospital Stay	Is a prior hospital stay required in order to receive benefits? Are medical certifications required in order to receive benefits?
Spousal Discount	Does the insurance company offer a discount when both spouses purchase long-term care insurance policies?
Premiums Waived	Are premiums waived after you begin receiving benefits? When?
Guaranteed Renewable	Can you renew the coverage for life, so long as you pay the premiums when due?
Premium Increases	Can your premiums be increased? How often? Under what conditions?

Important Information

The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, neither VSA, L.P. nor The National Underwriter Company is engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

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