Long-Term Care Protection
UW Retirement Association - March 20, 2007

Presented by:

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What are we here to talk about?

- What is Long Term Care?
- How likely am I to need care and how much does it cost?
- What are my options for paying for care?
- What is important to consider when looking at LTC Insurance?
- What is available?
What is “Long-Term Care”?

- Long-Term Care ≠ Nursing Home Care
- Long-Term Care includes
  - Nursing Home Care
  - Assisted Living Facilities
  - Hospice Care
  - Community Based Care
  - Home Health Care
  - Respite Services

- Long-Term Care includes “Custodial Care,” which is 90% of all care given.

Presented March 20, 2007
The Facts

Traditional Nursing Home Data
Dec. 31, 2005

<table>
<thead>
<tr>
<th>Age</th>
<th>Residents</th>
<th>%</th>
<th>Admissions (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;55</td>
<td>1,222</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>55-64</td>
<td>1,677</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>65-74</td>
<td>3,463</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>75-84</td>
<td>10,575</td>
<td>31</td>
<td>38</td>
</tr>
<tr>
<td>85-94</td>
<td>14,381</td>
<td>42</td>
<td>31</td>
</tr>
<tr>
<td>95+</td>
<td>3,024</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>34,342</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Top Two Disabling Diagnoses

Mental Disorders   34%
Cardiovascular Diseases 14%
TOTAL                  48%

SOURCE: Wis. Dept. of Health and Family Services, Nov 2006

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The Facts

Traditional Nursing Home Data

Length of Stay

<table>
<thead>
<tr>
<th>Length of Stay</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1 yr</td>
<td>39% *</td>
</tr>
<tr>
<td>1-2 yrs</td>
<td>18%</td>
</tr>
<tr>
<td>2-3 yrs</td>
<td>13% **</td>
</tr>
<tr>
<td>3-4 yrs</td>
<td>9%</td>
</tr>
<tr>
<td>4+ yrs</td>
<td>22%</td>
</tr>
</tbody>
</table>

* Up 2% from 2004
** Past maximum was often 36 months

SOURCE: Wis. Dept. of Health and Family Services, Nov 2006
New Paradigm: Assisted Living Facilities

AL vs LTC – Trend in capacity for residents
Assisted Living Options

- **Adult Day Care**
  - WI Capacity: 2,617
  - Key Focus: Advanced age

- **Adult Family Homes**
  - WI Capacity: 4,059
  - Key Focus: Developmentally disabled

- **Community Based Residential Facilities (CBRF’s)**
  - WI Capacity: 22,379
  - Key Focus: Advanced age

- **Residential Care Apartment Complexes (RCAC’s)**
  - WI Capacity: 9,020
  - Key Focus: Retired, fairly independent
  - None in 1995, 203 now
How likely am I to need this care?

- There is a greater than 50% chance of needing long-term care during your lifetime.¹

- 40% of those over age 65 will enter a nursing home in the future, and the average length of stay is 2.8 years.²

**SOURCES:**
2) National Center for Health Statistics
Where can I receive this care and how much does it cost?

- Nursing Home Care
  - $72k/year

- Assisted Living
  - $37,600/year basic
  - $55k/year with assistance

- Community Based
  - $91/hour skilled care
  - $40/hour custodial care

- Home Health Care
  - $85k/year for 24 hours/day
  - $30/hour

SOURCES: Genworth Financial 2006 survey & Metlife Market survey, October 2005
How can I pay for this care?

- Rely on government programs
- Utilize your own assets (HSA’s an option)
- Transfer the risk to an insurance company
What about Medicare?

“Very few nursing home stays are covered by Medicare. This is both because many nursing homes do not participate in the Medicare program and because Medicare defines, skilled care, in a very restrictive way.”

- State of Wisconsin “Guide to Long-Term Care,” page 4
What about Medicare?

- What Medicare covers –
  - Care in a skilled nursing facility
  - Facility must be Medicare approved
  - Requires minimum 3-day hospitalization first
  - Must enter a skilled nursing facility within 30 days of discharge from a hospital
  - Pays for skilled and rehabilitative care only
  - Evaluated rigorously – “Restorative” care
What about Medicare?

<table>
<thead>
<tr>
<th>Medicare</th>
<th>You</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 20 Days</td>
<td>100% of approved amount</td>
</tr>
<tr>
<td>Next 80 Days</td>
<td>Only above $124.00/day</td>
</tr>
<tr>
<td>After 100 Days</td>
<td>Nothing</td>
</tr>
</tbody>
</table>

Let’s assume that an individual needs care for 180 days at $200/day. That’s a total of $36,000. *Best case*, Medicare would pay $10,080. You pay $25,920 for the first six months! And that’s only if “skilled care” is required throughout your stay. (In 20 years, with just 5% inflation, a 3-year stay in a nursing home could cost $495,076)
How about Medicaid?

- Medicaid is our Nation’s welfare program.
  - Requires strict financial qualifications.
  - Government programs are subject to government budgets, political pressure, trend to privatization.
How about Medicaid?

- Medicaid financial qualifications\(^1\):
  - Single may keep $2,000 in assets, $1,500 of life insurance, prepaid funeral, personal residence and $45/month income.
  - Couple may keep one home, one car maximum, 50% of assets to $99,540 and $2,738/month income.
  - Selection of an approved Medicaid facility is not entirely your own.

- Medicaid divestiture advising illegal

- Substandard care

Source: 1) Wis. Dept. of HFS – “Medicaid Eligibility Handbook”
What other solutions are available?

- Care provided by family and friends
- Gifting strategies (5-year look-back for Medicaid)
- Accelerated death benefit on life insurance or a viatical settlement
- Reverse mortgage
- Cash & assets (self-insure)
- Life Insurance (younger segments)
- Continuing care retirement communitites (CCRC’s; upfront fees of $25-450k)
- Long-Term Care Insurance
What about Long-Term Care Insurance?

- Long-term care insurance benefits are triggered by an inability to perform 2 of 6 “activities of daily living”, or by severe cognitive impairment.
  - ADL’s
    - Dressing
    - Bathing
    - Feeding
    - Toileting
    - Transferring
    - Continence
  - States set minimum coverage standards for LTC policies.
  - LTC policies pay benefits for all of the forms of care previously discussed.
What LTC policy features are important?

- Company strength and experience
  - Premiums are not guaranteed
  - A company’s “promise to pay” is EVERYTHING
- Benefit amount
- Elimination period
- Benefit period
- Inflation adjustments
- Waiver of premium
What else can LTC insurance provide?

- Professional Care Coordinator
- Indemnity benefits (vs. reimbursement)
- Alternative Plan of Care
- Shortened premium periods
- Non-forfeiture options
What Tax Savings are available to purchase LTC insurance?

- LTC Premiums are tax deductible in the State of Wisconsin.
- Individuals can deduct eligible premiums in excess of 7.5% of their AGI.
  - Federal Maximum
    - Age 51-60: $1,110
    - Age 61-70: 2,950
    - Age 70+: 3,680
- Benefits are received income tax free as a reimbursement, and up to $260 per day as an indemnity benefit.
## Long-Term Care Premium Analysis

**Couple Age 55**

**Combined Annual LTC Premium: $3,461**

<table>
<thead>
<tr>
<th>Year</th>
<th>Initial $200/Day Benefit</th>
<th>EOY After Tax Growth 6% Net Pool</th>
<th>Days Until Exhausted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5% Compound Inflation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>200</td>
<td>3,669</td>
<td>18.3</td>
</tr>
<tr>
<td>10</td>
<td>310</td>
<td>48,356</td>
<td>155.9</td>
</tr>
<tr>
<td>15</td>
<td>396</td>
<td>85,392</td>
<td>215.6</td>
</tr>
<tr>
<td>20</td>
<td>505</td>
<td>134,954</td>
<td>267.0</td>
</tr>
<tr>
<td>25</td>
<td>645</td>
<td>201,279</td>
<td>312.1</td>
</tr>
</tbody>
</table>

*Policy shown is for a couple, age 55, preferred non-smokers, with an endorsed group discount. The policy pays a $200 daily benefit for 5 years, with a 90-day elimination period. Riders included Calendar Day Elimination Period, Compound Inflation Rider, HHC Monthly Benefit and Spousal Waiver of Premium*

**Long Term Care is assumed to cost $72,000 per year with 5% Compound Inflation.**

***Long-term care quotations and policy options are not guaranteed***
Self-Insuring vs. Insurance Analysis

Couple Age 55

LTC Costs

<table>
<thead>
<tr>
<th>Self-Insuring</th>
<th>LTC Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,461/year</td>
<td>$365,000</td>
</tr>
<tr>
<td>$201,279 *</td>
<td>$1,236,020 Each *</td>
</tr>
</tbody>
</table>

$72,000 today 5% for 25 Years
$243,818 **

*Policy shown is for a couple, age 55, preferred non-smokers, with an endorsed group discount. The policy pays a $200 daily benefit for 5 years, with a 90-day elimination period. Riders included: Calendar Day Elimination Period, 5% Compound Inflation Rider, HHC Monthly Benefit and Spousal Waiver of Premium

** Long Term Care is assumed to cost $72,000 per year with 5% Compound Inflation

***Long-term care quotations and policy options are not guaranteed***
# How much does LTCI cost?

## Sample monthly premiums

<table>
<thead>
<tr>
<th>Age 55</th>
<th>Individual</th>
<th>Joint</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 year Benefit Period</td>
<td>$209</td>
<td>$301</td>
</tr>
<tr>
<td>Lifetime Benefit Period</td>
<td>301</td>
<td>434</td>
</tr>
<tr>
<td>Lifetime w/10-Pay Premium</td>
<td>886</td>
<td>1,152</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age 45</th>
<th>Individual</th>
<th>Joint</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 year Benefit Period</td>
<td>$188</td>
<td>$271</td>
</tr>
<tr>
<td>Lifetime Benefit Period</td>
<td>255</td>
<td>369</td>
</tr>
<tr>
<td>Lifetime w/10-Pay Premium</td>
<td>955</td>
<td>1,241</td>
</tr>
</tbody>
</table>

Assumes: $200 Daily Benefit with 90-Day Elimination Period, 5% Compound Inflation Rider, 100% Home Health Care Coverage, Endorsed Group Discount and Best Underwriting Class.

***Long-term care quotations and policy options are not guaranteed***

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What is the advantage to buying LTC Insurance at a younger age?

- Current health status
- Coverage during working years, as well as retirement
- Receive permanent endorsed group discount
- Current premium rates
Age Analysis
The Cost of Waiting

- Couple, Age 45
  - $200 Daily Benefit
  - $3,112 annual premium (assumed paid to age 85)
  - $56,069 present value*

- Couple, Age 65
  - $520 Daily Benefit
  - $14,733 annual premium (assumed paid to age 85)
  - $72,659 present value*

* Present value calculated at 5%

***Long-term care quotations and policy options are not guaranteed***

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What are the most common reasons for purchasing LTC insurance?

- “Dignity, independence and control.”
- “Spouse’s care and security.”
- “I don’t want to outlive my savings.”
- “I don’t want to burden my family.”
- “I want choices in the care I receive.”
- “I want to leave a legacy, not a liability.”
Why are women especially concerned about LTC?

- Women quit their jobs more frequently than men to become caregivers
- 66% of informal caregivers are women
- Women live an average of 6 years longer than men
- 70% of nursing home residents are women

SOURCE: Wis. Dept. of HFS, Nov 2006
What is Available?

- Various benefit durations – 3, 5, unlimited
- Single or couples
- 10 pay premiums
- “Share Care” policies
- Life insurance coupled w/LTC (underwriting risk)

***Long-term care quotations and policy options are not guaranteed***
References/Websites

- Steve Leimberg, ElderCare Planning Newsletter
  - www.leimbergservices.com

- Bottom Line Personal
  - www.bottomlinesecrets.com/LTC

- HSA’s
  - www.hsainsider.com
  - www.hsafinder.com
  - www.irs.gov/publications (Publication 502)
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Companies
- www.johnhancock.com
- www.metlife.com
- www.prudential.com
- www.genworth.com
- www.allianzlife.com
- www.massmutual.com
References/Websites

- Assisted Living – Wisconsin Association
  - www.ewala.org

- Insurance Commissioner
  - Guide to Long-Term Care, Wis. Insurance Commissioner’s Office
  - www.oci.wi.gov

- U.S. Dept. of Health & Human Services
  - www.longtermcare.gov
What are my next steps?

- Evaluate your personal situation, determine if you need help to accomplish your goals.
- Schedule an appointment with a trusted advisor.
In Summary

- Long-Term Care is complex.
- Knowledge about options is important.
- We can help you find a reasonable solution to what can be a financially significant and emotional event.
Thank You!

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buresht@sva.com

This information is current as of March 20, 2007. Laws and regulations change frequently. Please consult your professional adviser.