LONG -TERM CARE PLANNING

INTRODUCTION

GET INFORMED

If you have long term care insurance, you've done the right thing! Having coverage guarantees that you will have the best care in the best facilities. But don't despair if you don't have it and can't afford it. There are still things you can do to protect yourself!

Even a well-developed investment plan can fail for reasons that have nothing to do with investments. It could fail because of an auto accident that results in a large judgment. It could fail because of a natural disaster that destroys your home. There is a saying that "there are a thousand more ways for a thing to go wrong than for a thing to go right".

It shouldn't come as a surprise, then, that health care costs are among the leading concerns on people's minds as they near retirement. And long term care costs are at the top of those concerns since most health insurance policies (not even Medicare) covers long term care.

Fortunately, there are solutions. New types of coverage have been introduced in the past few years. There are even new strategies that will provide some protection for people who decide not to get long term care insurance, can't qualify medically, or can't afford it. Things are constantly changing…and mostly for the better!

Make sure you consult with someone regularly so that you are up-to-date on all of the changes. It's a fast paced world these days and with all the new ideas and strategies that have become available in the last couple of years, there isn't any reason why everybody shouldn't have some protection!

Let's take a look at the fastest growing problem of the retired population: Healthcare, and more specifically, long-term care. Of course, every senior investor knows about long-term care and what it entails. But if you need long-term care, who is going to pay for it?

A year of long-term care now costs $76,680 per year 4, which isn't small potatoes. Do you really think that your health insurance will cover everything? Think again, and read your policy.

Do you think your HMO will cover you? It won't.

Do you think Medicare will cover you? It will for the first 20 days. After that, you are on your own.

You may not realize it, but long-term care is the greatest unfunded liability in America. So who pays for it?

Well, if we break it down:

- 5% of the time it's paid for by LTC insurance
- 35% percent of LTC costs are paid by the individual receiving the care
- 60% of the time Medicaid picks up the tab (the first 20 days are completely paid for, but after that you have to be broke for Medicaid to step in and pay anything past the first 20 days)

The two biggest payers of long-term care, therefore, are you (the person needing LTC) and Medicaid (after you go broke). You can imagine what kind of impact this has on a couple's finances and investments.

Have you, or someone you know, ever written a monthly check for the long-term care of a loved one? It's staggering. There are individuals who regularly write out monthly checks for $6,600, $7,000, even $8,500. That's for one month of long-term care––just thirty days!

Now imagine how long your nest egg would last if you had to write checks of that size every month. You may have spent 40 years building up your savings, but you could lose it all in a few years.

Listen to what others are saying:

- According to Business Week magazine, nursing home care can blow apart the retirement you saved for through the years.
- The Atlanta Journal says that the quickest way for your family to lose your property, possessions and money is to ignore LTC and estate planning.
- AARP says that long-term care costs $50,000 a year. And with an average annual inflation rate of 5%, long-term care costs will rise to well over $100,000 per year in 10 years.
- Lastly, the American Health Care Association says that failure to prepare for the cost of long-term care is the primary cause of poverty among the elderly.

WHO NEEDS IT?

Your spouse does! Because if they get ill, you are going to be the one holding the bag! The majority of seniors in this country are not only gambling with their investments, but with their health as well. And if you don't have long-term care insurance, you are also gambling with your future. Are you willing to risk everything you've worked and saved for in hopes that you won't ever need long-term care?

About 60% of those reading this book will spend less than $100,000 in long-term care. They are the lucky ones.

About 30% of readers will spend between $100,000 and $500,000 on long-term care[5]. That may seem like a lot…

But 10% of those reading this book will spend more than $500,000 on long-term care! And if you don't have the money for long-term care, the government will cover the cost for you, but only after you or your spouse reaches the poverty level by spending all of your life savings. Unfortunately, there is no way of knowing which of these categories you will fall in. And since none of us know how much we'll spend in long-term care, we can do one of two things – either cross our fingers or get long-term care insurance.

Obviously, you don't want to be one of those people who spend a half-a-million dollars on long-term care or go broke trying. No one does. But statistics show that 10% of seniors will spend that much. So it's better to plan for long-term care and purchase LTC insurance than to hope for the best and cross your fingers. If you don't plan, you will be relying on the government for care…and we've already seen how poorly they look out for us when it comes to taxes.

WHO SELLS LTC INSURANCE AND WHY?

About a million people in the US have bought long-term care insurance[6]. Of course, more people are buying long-term care insurance each day, but the number of people who own it remains relatively constant because as more people age and buy LTC, others who already own LTC are dying.

The rest of the population has long-term care insurance through the government…and if you think that's enough take a look at how it works.

The government will pay for your long-term care only if you meet certain criteria, which means you must have exhausted every financial asset you own before they chip in a cent –– and that literally means everything.

For example, in Minnesota if you have a spouse, the government will allow you to keep your house until you die. If you are single, you are allowed to keep your house for six months before you must sell it to cover your care. The government also allows you to keep your car and $1,500 in burial funds. If you have a burial trust, you are allowed to put as much as you want in it, but that money must be used for your burial. If you are single, you can keep $3,000 in cash and investments, and married couples can keep $6,0007. Lastly, you are allowed to keep a family bible.

That's it. But some of you might be thinking that your life insurance will solve your problem. It might, but there's a problem with that solution.

Some people say, "I've got $250,000 in life insurance. So if I go into a long-term care facility, spend a lot of money and die, my wife and children will get the $250,000."

That's not how the system works. If you need long-term care, the government will require you to spend the cash value of your life insurance before they'll take care of you. So what happens in those situations? You spend all of the cash value of your life insurance on long-term care, and your spouse and children end up with nothing when you are gone.

The government doesn't make exceptions or have loopholes when it comes to long-term care. A prenuptial agreement won't protect your assets. Your 401(k) and other retirement accounts have to be used, as well as things like revocable living trusts. So don't fall for any claims that certain investments or shelters will be left alone.

Let's say Jim and Mary live in Minnesota and have $300,000 in investments, as well as their house and car. Jim needs long-term care, and Mary is forced to spend $294,000 of their investments before they qualify for any government assistance (remember, a married couple can only keep $6,000).

Mary still has $6,000 in her investments, but how much peace of mind would she have once her nest egg went from $300,000 to $6,000? Not much, because a few problems or repairs can wipe that out. If Mary needs a new car, or she needs a new furnace for the house, or a storm causes some damage to her home, or the roof needs some repairs… any-thing like that could wipe Mary out!

LTC insurance was designed to make sure something like that couldn't happen to you. But there are a couple of problems with LTC insurance.

LTC insurance is not only expensive, but your premiums will almost certainly increase. And if you can't afford your premiums 10 years down the road, you'll have to cancel your coverage.

What happens then? You don't get your money back. And if you die without needing LTC your beneficiaries certainly don't get your money. When it comes to long-term care insurance, you either use it or lose it.

10 SECRETS YOUR LONG-TERM CARE SALESPERSON DOESN'T WANT YOU TO KNOW

Everyone should consider long-term care insurance, but it is expensive and not everyone qualifies because of their health. So if you are thinking about LTC insurance, make sure you protect yourself. The following list will not only make you an informed consumer, but also help you separate the handful of long-term care advisors out there from all the long-term care salespeople you are likely to meet.

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1. "Don't ask me this question!"

There is one question every long-term care salesper son doesn't want you to ask:

"What are the last three books you read about long-term care issues?"

You can imagine what you might hear: "Well, I went through the book the company I'm selling for gave me when I spent a day in their training class." But that's not good enough. Would you really give your money to someone who hasn't read at least three books on the very topic of the product they are selling? Anyone who isn't knowledgeable about long-term care, but tries to tell you that their LTC insurance is best is nothing more than a salesperson.

2. "The more you buy, the more I make."

People with different financial situations are buying the same amount of LTC insurance all the time, and it doesn't make sense. Talk to someone with $500,000 in assets and $70,000 of income, then to someone with $100,000 of assets and $20,000 of income, and both were probably sold the exact same amount of long-term care insurance.

Yet someone with $500,000 in assets and $70,000 of income shouldn't need the same amount of coverage as someone with $100,000 and $20,000 of income. That's because the person with more assets and income should be able to pay a little bit of their own long-term care cost without making much of a financial sacrifice. And if they can do that, shouldn't they be paying less because they don't need as much LTC insurance? Of course!

You probably don't have a zero deductible on your car insurance, right? And why? Because you can afford to pay a few hundred dollars out of pocket for an accident or repair, and it's worth it to save the money on your auto insurance. Well, your LTC insurance should be the same way.

But long-term care salespeople don't tell you this because they'd lose commissions if you bought a lesser policy. If a long-term care salesperson admitted that you only needed $50 of coverage a day versus $100 of cover-age, they'd only make half the commission. So if someone tries to sell you a policy without even looking at your assets, expenses, and tax return, you can bet they are a salesperson.

3. "I only recommend one company."

Imagine that you're a farmer and you need to buy a new automobile. You are looking for a truck to haul feed and tools that has four-wheel drive to get through the snow and mud of country roads.

But what if you walked into a car dealer that only sold one kind of European sports car? What if the car dealer showed you the car and said, "Well, it's got four wheels, a trunk, and steering wheel. It's what you need." You'd probably turn around and walk out as soon as you realized that there were no trucks in the showroom.

So then why is it okay when advisors only sell one particular product from a certain company? If someone tells you they only offer one type of long-term care policy from one company, would you buy it without shopping around? Hopefully not.

4. "Your premium will go up."

No one is going to mention that your long-term care premiums can go up unless you ask. And even then, they may suggest that it's possible, but wave off your concerns.

Remember that companies can and will increase your premiums in the future, and if you can't afford your premiums, you'll lose your coverage…and you won't get your money back.

5. **"The company is new at this."**

Just like you wouldn't get in a taxi driven by a 16 year-old, you should avoid companies that are new to LTC insurance. Odds are that companies that have never offered long-term care policies before now have no idea how to set rates and manage them in the future. That means that new companies will have to change their rates and benefits as they learn from their mistakes, which translates into increased premiums for you down the road as well as other headaches.

6. **"What you don't know won't hurt you."**

How many times have we all heard that? If someone is trying to sell

you LTC insurance, but avoids explaining things by telling you, "It's a complicated issue," you should beware. When this happens, either the salesperson doesn't understand it themselves or the policy will obviously be a bad choice. Either way, it's not a good sign. If they can't explain everything about the LTC insurance they are offering, go to someone who can. Make sure you understand a policy before you buy it.

7. **"I can save you 15% to 30% on your premiums."**

This is something you aren't likely to hear. Even if you bought your LTC insurance years ago, you could still save 15% to 30% of your premiums. But few people will tell you this or even know how to do it.

8. **"Your premiums are deductible."**

It's true, but only if you become so sick that you are spending 7.5% of your income on medical expenses. Of course, once that happens, you wouldn't be eligible for long-term care from any company. Besides, even if you were, you wouldn't have money to buy LTC insurance because every last cent would be spent on the care itself.

9. **"You can compare long-term care companies yourself."**

This is something else you aren't likely to hear. There is actually software available that allows you to compare LTC policies side-by-side, and you should do just that before you buy long-term care insurance.

10. **"There are other ways to protect your assets with-out buying long-term care insurance."**

This is also something you'll never hear from someone trying to sell you LTC insurance. Not everyone qualifies for long-term care insurance. But if you need coverage, there is a way to protect your assets without buying LTC insurance.

You should be shown how to do this, as well as alternatives to buying LTC insurance. But if the person selling you a policy doesn't mention these options, they are a salesperson and not an advisor.

Another option we've already mentioned is the government plan for coverage: Medicaid.

Medicaid is an entitlement program covered by Social Security. If you've paid into Social Security you may qualify for Medicaid. But as with everything involving the government, you have to understand the rules in order to receive your benefits.

Medicaid is the "Cadillac" of all policies and pays 100% of all nursing home costs including medications. But the only way you get to ride this Cadillac is if you are flat broke like we talked about earlier. You must meet the eligibility requirements. That means you must already have spent all of your savings and investments (even your IRA's and retirement plans) for long-term care in order to qualify.

WHAT IF I CAN'T GET LTC OR CAN'T AFFORD IT?

Don't' despair. It's a problem that is on everybody's radar. The government realizes it's a problem, and the investment companies realize it as well. That's why there are several new strategies that have come out in the past couple of years to help people who can't qualify medically for long term care insurance, can't afford long term care insurance, or just plain don't want to roll the dice that they will buy it and never use their long term care insurance.

These new strategies wont' get you all the bells and whistles that long term care insurance would. But you've worked a long time to get what you've got. Isn't it worth it to have some protection? And at the very least shouldn't you know what your options are?

Consult with your financial planner regularly to see how these new strategies work. Because these strategies are constantly evolving, I can't tell you what the specifics will be for you when you go to look into it. But many of these strategies are loosely referred to as "win, win, win" strategies (since you win if you are healthy and don't need LTC, you win if you die without using it, and you win if you need LTC).

It pays to at least look into them since you never know if you or your spouse will fall into the dreaded category of spending everything you've worked so hard for because of an unexpected illness. Feel free to contact us to learn what the current long-term care strategies are and how they work.