

# A Long-Term Care Review: A Life Insurance-LTC Hybrid Solution

Do you have a plan to pay for long-term care services, if needed...a plan that helps to preserve your financial independence from the ravages of long-term care costs?



## Table of Contents

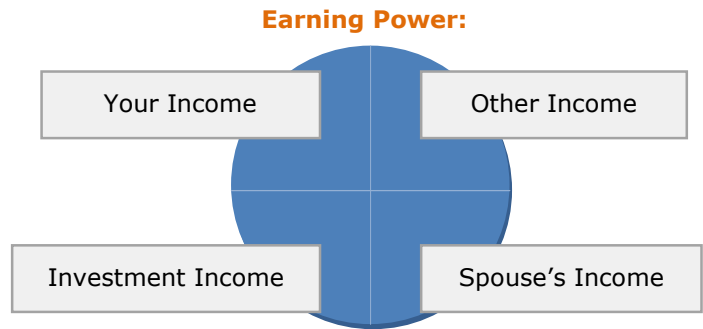
## Page

Your Earning Power	2
Did You Know...	3
Separating Fiction from Fact	4 - 5
Asset-Based Long-Term Care Solution	6
Life Insurance-LTC Hybrid Plan	7
Life Insurance-LTC Hybrid Plan Income Tax Treatment	8
Important Information	9

# 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...



Almost 70% of people turning age 65 will need long term care services and supports at some point in their lives.

*(Source: LongTermCare.gov, February 2020)*

**Medicare and most health insurance plans, including Medicare Supplement Insurance (Medigap) policies, don't pay for long-term "custodial care."**

*(Source: 2023 Medicare & You, Centers for Medicare & Medicaid Services)*



About 67% of nursing home residents and 70% of assisted living residents are women.

*(Source: Long-Term Care Providers and Services Users in the United States, February 2016, National Center for Health Statistics)*



The national median daily rate in 2021 for a private room in a nursing home was \$297, an increase of 2.41% from 2020.

*(Source: Genworth 2021 Cost of Care Survey)*



The average length of a nursing home stay is 835 days...more than two years.

*(Source: Centers for Disease Control and Prevention, Nursing Home Care FastStats, last reviewed March 2021)*



At a median daily rate of \$297, an average nursing home stay of 835 days currently costs almost \$248,000, 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><b>“Medicare and my Medicare supplement policy will cover it.”</b></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"> <li>■ Medicare will pay for up to 100 days in a skilled nursing facility, <b>but only after a 3-day minimum inpatient hospital stay for a related illness or injury</b>. 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: 2023 Medicare &amp; You, Centers for Medicare &amp; Medicaid Services)</li> <li>■ Only about 12% of nursing home costs are paid by Medicare, for short-term skilled nursing home care following hospitalization of at least three days. (Source: Guide to Long-Term Care Insurance, AHIP, 2014)</li> <li>■ Medicare and most health insurance plans, including Medicare supplement policies, do not pay for long-term custodial care. (Source: 2023 Medicare &amp; You, Centers for Medicare &amp; Medicaid Services)</li> </ul>
<p><b>“I can afford it.”</b></p>	<ul style="list-style-type: none"> <li>■ As a national average, a year in a nursing home is currently estimated to cost over \$108,000 for a private room. In some areas, it can cost considerably more. (Source: Genworth 2021 Cost of Care Survey)</li> <li>■ The average length of a nursing home stay is 835 days. (Source: Centers for Disease Control and Prevention, Nursing Home Care FastStats, last reviewed March 2021)</li> <li>■ The national average cost of a one bedroom in an assisted living facility in the U.S. was \$54,000 per year in 2021. The cost for assisted living facilities that provide Alzheimer’s and dementia care can be \$65,000 to \$75,000 or more annually. (Source: Genworth 2021 Cost of Care Survey)</li> <li>■ Home health care is less expensive, but it still adds up. In 2021, the national average hourly rate for licensed home health aides was \$27. Bringing an aide into your home for 20 hours a week can easily cost over \$2,300 each month, or over \$28,000 a year. (Source: Genworth 2021 Cost of Care Survey)</li> </ul>

**FICTION**

**FACT**

**"It won't happen to me."**

- Almost 70% of people turning age 65 will need long term care services and supports at some point in their lives. (Source: LongTermCare.gov, October 2017)
- About 67% of nursing home residents and 70% of assisted living residents are women. (Source: Long-Term Care Providers and Services Users in the United States, February 2016, National Center for Health Statistics)

**"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.

## Asset-Based Long-Term Care Solution

A form of long-term care protection 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 and Medicare does not pay for custodial long-term care 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.

Depending on the terms of the coverage purchased, long-term care protection may cover the cost of a variety 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 protection 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 protection, you're in a better financial position to make the choice of what long-term care services you receive and where you receive them.

Let's say you have evaluated the possibility that you will need long-term care at some point in the future and concluded that purchasing long-term care protection to cover at least a portion of long-term care costs might make sense in your situation. You are, however, concerned about paying premiums for standalone long-term care insurance coverage that you may never need. Alternatively, you may have several needs competing for the dollars you have available.

### **A possible solution is available...**

You may be interested in a newer generation of long-term care protection that blends several types of insurance coverage in a single policy. These "hybrid LTC" policies, also known as asset-based plans, combine the benefits of a life insurance policy with the availability of long-term care benefits should you need them in the future.

## Life Insurance-LTC Hybrid Plan

**Permanent life insurance** can be a smart addition to the financial plan of people interested in protecting their families, minimizing their taxes and growing their investment over time. The addition of a long-term care rider to a permanent life insurance policy adds additional flexibility, providing a living benefit in the form of financial protection to help pay the costs of long-term care while you're alive.

**Assuming you need additional life insurance protection**, your financial advisor can work with you to design a plan with the life insurance death benefit and long-term care benefit amount, elimination period and any optional benefits needed to help meet your needs, both today and in the future.

In designing a life insurance-LTC hybrid plan with your financial professional, these are some of the factors to consider:

<b>Premiums</b>	Will you purchase the life insurance through periodic premium payments or through a single premium payment?
<b>Type of Rider</b>	Will the rider be a reimbursement plan, paying only for the qualifying LTC expenses incurred, or an indemnity plan that pays the maximum allowable benefit regardless of what the actual LTC expenses are, making cash available for use in any way that suits your needs?
<b>LTC Rider Cost</b>	Will there be an additional cost for the rider, meaning that the LTC benefit is known from day one, or will it be paid for by discounting the acceleration of the death benefit when the rider is actually needed, meaning that the benefit cannot be determined until a claim is actually made?
<b>Certification</b>	What certification is required for benefits to begin?
<b>Waiting Period</b>	Following certification, when do benefits begin? Do benefits begin immediately or is there a waiting period?
<b>Maximum Monthly/ Lifetime Benefit</b>	What is the rider's maximum monthly benefit? Maximum lifetime benefit?
<b>Inflation</b>	Are benefit amounts adjusted for inflation?
<b>Life Insurance Death Benefit</b>	What impact will the payment of LTC benefits have on the amount payable to your beneficiaries at your death?

# Life Insurance-LTC Hybrid Plan Income Tax Treatment

## Premiums:

Premiums paid for LTC Hybrid Plans are not tax deductible for income tax purposes.

## LTC Benefits:

The taxation of long-term care benefits received from an LTC Hybrid Plan depend on whether the distribution is the result of terminal illness or chronic illness.

- Amounts paid to a **terminally-ill person** are generally received free of income tax. A terminally-ill person is an individual who has been certified by a physician as having an illness or physical condition that can reasonably be expected to result in death within 24 months following the certification.
- Amounts paid to a **chronically-ill person** are subject to the same limitations that apply to benefits paid from a long-term care insurance policy. Generally, this means that the benefits are not taxable income to the recipient, up to a per diem limit. The per diem limit, which is adjusted annually for inflation, is \$420 for 2023. A chronically-ill person is an individual who is not terminally ill and who has been certified by a licensed health care practitioner as unable to perform without assistance at least two of the activities of daily living (ADLs) or who requires substantial supervision in order to protect against threats to health or safety from cognitive impairment.

***In order to avoid unforeseen income tax consequences, you should seek professional tax advice regarding your receipt of long-term care benefits.***

## Tax-Free Exchanges:

If you have an existing life insurance contract, you can exchange it on a tax-free basis for a new life insurance-LTC hybrid plan. Tax-free Section 1035 exchange requirements can be complex. In order to avoid unforeseen and/or negative tax consequences, you should seek professional tax advice before implementing a Section 1035 exchange.



## 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, VSA, L.P. is not 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.

U.S. Treasury Circular 230 may require us to advise you that "any tax information provided in this document is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The tax information was written to support the promotion or marketing of the transaction(s) or matter(s) addressed and you should seek advice based on your particular circumstances from an independent tax advisor."

© VSA, LP All rights reserved (VSA 1a2-24 ed. 01-23)



**1-888-320-9343**

[d1financial.com](http://d1financial.com)