

# FINANCIAL *fitness*

By RWIA President and Wealth Advisor Sandy Carlson CFP®, CPA, CDFATM



## Long-Term Care Policy Options

A Long-Term Care (“LTC”) insurance policy covers the insured for a chronic illness. For benefits to be paid, a physician or licensed health care provider would need to certify that the insured needs to have substantial supervision due to cognitive impairment (such as Alzheimer’s), or is unable to perform at least two of the six activities of daily living which include:

- Bathing
- Continence (control of bladder and bowel functions)
- Dressing
- Eating
- Toileting (including general personal hygiene)
- Transferring (moving from a bed, chair or wheelchair)

### Why is coverage needed?

Research shows that up to 70% of individuals 65 and older will need some form of long-term care. While Medicaid is available to help those with limited resources cover nursing home costs, Medicare does not pay for this type of care. According to a survey conducted by MetLife, 2012 LTC costs in the US ranged from \$70 per day (\$25,550 per year) for less-involved adult daytime assistance to \$248 per day (\$90,520 per year) for nursing home care. Additionally, health care costs are increasing at a higher rate than inflation, generally 5% to 6% annually. While 72% of nursing home residents are female, the average stay is 30 months or 2.5 years with the cost of care ranging from \$100,000 to \$500,000.

### What are my choices?

Currently, there are two LTC options: a traditional LTC policy, and a combination policy which combines LTC coverage with a universal life-insurance policy. While there is no right or wrong solution to LTC needs, combination policies are increasing in popularity.

• **Traditional or “stand-alone” LTC insurance products.** These were the original policies offered to cover LTC risks. Think of this policy like auto or homeowners insurance. It is important to have for risk management purposes. If you have an incident with your home or car, you make a claim and recover some or all of your loss. Similarly, if you have a stand-alone LTC policy and a LTC need, you make a claim and receive a benefit.

- Advantages:
  - Provides a greater LTC benefit for premiums paid.
  - Premium payments are tax deductible.
  - Benefit payments are tax-free.
- Disadvantages:
  - Premium increases may be passed down from carriers due to claims experience.
  - Possibility that no benefit is received for the premium payments made. This is sometimes called a “use it or lose it” style of benefit. You could pay the premium for many years, yet never actually receive the LTC benefit if you do not qualify before the end of life.

• **Combination or “hybrid” Policies.** Due to the risk of not using a stand-alone policy, the market has demanded optional products. Thus, insurance companies

have responded with “combination” policies that combine LTC and life insurance. They are cash-value life insurance policies that use a portion of the policy for LTC benefits, if necessary, and keep the rest as a death benefit.

- Advantages:
  - Benefit payments are tax-free.
  - A life insurance benefit is provided to beneficiaries if LTC is not used. To the extent that the insured needs LTC benefits during their lifetime, those benefits will be available by reducing the death benefit dollar for dollar.
  - Potential for more stable premiums, or fewer increases, over the life of the policy.
- Disadvantages:
  - Higher upfront investment in the form of a single premium or higher fixed premiums over a pre-determined period.
  - Premiums are not tax deductible.
  - Two layers of fees. Because these policies offer two forms of insurance, they assess mortality charges for the insurance portion, as well as morbidity charges for LTC.

Clients may consider LTC or combination policies at any point. Most often, these policies become a serious planning consideration around age 55. Although consideration can occur later, premiums will vary with age, medical classification, policy size, and policy benefits.

Sandy Carlson has over 20 years of wealth management experience including income taxation, retirement planning, executive compensation planning, insurance, banking, trust administration and estate planning. She is a Certified Divorce Financial Analyst™ (CDFA) and also holds the QKA designation by the American Society of Pension Professionals & Actuaries. She is President of the Financial Planning Association, a Tax Instructor in the CFP Program at Queens University, and is a member of the Charlotte Estate Planning Council. Sandy values getting to know her clients and providing creative, integrated solutions for accumulating, preserving and transferring wealth.

Rinehart hosts a monthly series entitled “Women, Wisdom & Wealth: Necessary Information for your Financial Fitness”.

The series is held the first Wednesday of each month beginning in September. For more information, please contact Cynthia Sims at [csims@rinehartwealthmanagement.com](mailto:csims@rinehartwealthmanagement.com) or 980-585-3367.

**Rinehart**  
WEALTH & INVESTMENT  
ADVISORY

521 East Morehead Street / Suite 580  
Charlotte, NC 28202 / 980-585-3362  
[RinehartWealthManagement.com](http://RinehartWealthManagement.com)