

THE SHINE REPORT

DEDICATED TO HELPING OUR CLIENTS MAKE SMART FINANCIAL DECISIONS

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LONG-TERM CARE UPDATE: 2009

The Kassebaum - Kennedy Health Insurance Bill was signed into law by President Clinton on 08/20/1996.

Clear Message

The government sent a clear and unmistakable message that government programs will not and cannot cover the cost of long-term care. Both Medicare and Medicaid have been targeted for budget slashing. Individuals must take responsibility to provide for their own long-term care (LTC) costs.

To help individuals meet this need, the government has granted tax-favored status to long-term care insurance. *Premiums paid for LTC insurance can be a tax-deductible medical expense and benefits paid may be tax-free.*

Who Needs LTC Insurance?

The government has put everyone on notice that it is not going to pay for this need.

Anyone who wants to protect their family's wealth and/or the lifestyle of the spouse who does not need care.

Anyone who wants independence and the ability to choose how and where they want to receive care.

Anyone who does not want their children to have to care for them.

☆ 40% of nursing home patients are between the ages of 18 and 64.

☆ 70% of the nursing home population is female.

☆ LTC will be needed by one in three of those over 70.

☆ LTC will be needed by one in two of those over 80.

☆ Of couples age 65, 75% can expect at least one partner to use a nursing home.

☆ On average, married women live 7 years after the death of their husband.

Legislated Benefits

LTC insurance premiums will be deductible as a medical expense for those who itemize, to the extent medical expenses exceed 7.5% of Adjusted Gross

Income. There is a limitation to the amount of premiums that are eligible for deduction. That limitation is based on the current age of the person filing the tax return for 2009 as shown below:

<u>Attained Age</u>	<u>Limitation*</u>
Less than 41	\$320
41 to 50	\$600
51 to 60	\$1,190
61 to 70	\$3,180
Older than 70	\$3,980

*2009 Limitations. Limitations indexed for inflation.

✓ LTC insurance benefits received by a claimant will be tax-free to the recipient from policies that meet legislated guidelines. Per diem pay contracts are capped at \$290/day tax-free benefit (indexed for inflation), or actual cost, what ever is greater.

✓ LTC premiums paid by a Self-Employed individual through his/her business may deduct 100% of the premiums paid as a business expense.

✓ LTC premiums paid by employers on behalf of employees are tax deductible as a business expense.

✓ LTC premiums paid by employers for employees are not included as income to the employees.

✓ LTC premiums can be paid using tax-free dollars from a Health Savings Account. (HSA)

Policies Grand fathered!

✓ Any LTC policy issued before January 1, 1997, provided the policy met the requirements of the state of issuance at the time it was issued, will receive the same tax-favored treatment. You do not have to replace your existing policy to receive the new tax benefits. Don't drop or replace these policies.

✓ NOTE: A limited benefit policy in Florida will not receive tax-favored treatment as outlined above. A pre-1997 Nursing Home Only or a Home Health Care Only policy will not qualify for tax-favored benefits.

Criminalizes transfer of assets.

For the first time, imposes fines up to \$10,000 and jail sentences of up to one year for those who “knowingly and willingly” transfer assets to qualify for Medicaid.

Can't Win Them All

- ✓ Does not allow LTC insurance to be included in Section 125 cafeteria plans.
- ✓ Does not allow for penalty-free withdrawals from IRAs and 401(K.) plans to pay for LTC insurance.
- ✓ Permits selling of multiple policies to unsuspecting seniors.
- ✓ Medical necessity cannot be a trigger for tax-qualified policies.

LTC Standards Set for Policies

For LTC policies issued after Jan. 1, 1997 to qualify for tax-favored status, they will need to conform to specific standards.

- ◆ One of the triggers for benefits must be the inability to perform (without substantial assistance) two or more Activities of Daily Living (ADLs) out of five or six ADLs that are listed.
- ◆ The inability to perform these ADLs must have an expected duration of at least 90 days.
- ◆ Another trigger for benefits can be severe cognitive impairment without a dependency on ADLs (for example, Alzheimer).
- ◆ Medical necessity as a benefit trigger in policies issued before 1/1/97 will still qualify.
- ◆ Policies must be guaranteed renewable and non-cancelable
- ◆ Policies must include protection from unintentional lapse.
- ◆ Policies must offer non-forfeiture benefits that include a shortened benefit period or other choices, but not cash.
- ◆ Inflation protection must be offered. Note: You do not have to take it. Usually if you are under age 65, you should accept it. Above age 70, look at choices, such as a higher daily benefit.
- ◆ Post-claim underwriting is prohibited.

Cost

The sooner you start, the less the cost. Once issued, the premiums can increase only on a class basis

- ✓ Each year of delay means a starting premium jump of 8% to 10% for those in their 60s, 12% to 14% for those in their mid-70s.
- ✓ The average cost of a nursing home stay in S. FL is \$62,000/year, NY is \$81,000/ year. The cost of care is increasing at about 6% per year.

- ✓ Average nursing home cost in S. FL is \$150 per day.
- ✓ It is now possible to purchase **paid up policies**. You can single pay, pay to age 65, pay only for 5 or 10 years. Once paid up, premiums are no longer required. Business can deduct 100% of the premiums paid for employees and their spouses.

Policy Features & Company

- The first decision is either to purchase a “pooled” benefit or a “per diem” benefit policy.
- To be a tax-deductible personally or as a business benefit, the policy must be a tax-qualified policy.
- The insurance company should have an AM. Best rating A or better, and been in the LTC industry for 10 or more years.
- One of the key ADLs your policy should have is bathing.
- The home care benefit should at least equal the nursing home benefit. It can be a higher amount.
- Benefits can be paid as a Daily or Monthly or Cash benefit. Daily is least expensive, Cash the most expensive. Read the contract! This is a very critical financial decision.
- The cost of an LTC insurance policy varies by the benefits, inflation calculations, how you pay the premiums, and how and where you purchased the policy. You need to fully understand what you are giving up to lower the cost.

There are real differences between companies, policies, and benefits offered. *It is critical that you consult with a financial planner who specializes in this area, so you can make a good decision regarding the best coverage for you and your family.*

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