

There is Not a Better Time to Purchase Long Term Care Coverage

Many Americans who own medical care coverage are concerned that the quality of medical care they receive today will decline in the near future should future health reform legislation become law. Even if it doesn't become law, more government involvement in issues that should be between you and your physician appears certain.

As this happens, purchasing long term care insurance will become an even more important financial decision that a husband and wife make regarding their financial future.

With these impending changes, do we have the assurance that the medical tests, procedures, and medicines that are so readily available today, will be as readily available in our future? Studies of Government-Run Health Care in other countries show long waits to see specialists, getting tests run, and having procedures and surgeries performed (see source below)*. These delays have led inevitably to an increase in mortality for illnesses that might otherwise have been detected and treated sooner. A decreased level in health care maintenance and preventative care will likely also lead to an increase in prolonged illnesses like Alzheimer's, requiring assisted or facility long term care.

In 2009 according to the U.S. Department of Health and Human Services website, the state of Georgia's average cost for facility care is \$149 for a semi-private room. The department also reported that in 2009 the average cost for a semi-private room in the country was \$198/day. What will the estimated daily cost of LTC be in the future? Below is an illustration of the average cost in middle Georgia today of \$140/semi-private room benefit and what those costs are likely to be at a 5% year increase (the actual average increase in Georgia) in the future. Let's take a look at the annual cost for LTC for John Davis, who is age 60 today but is in need of 3 years of Home Care in 20 years, at age 80.

Current Age	Future Ages			
	Age 70	Age 75	Age 80	Age 85
Age 50	\$371	\$474	\$605	\$772
Age 60	\$228	\$291	\$371	\$474
Age 70	\$140	\$179	\$228	\$291



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Amy Davis, John's life partner, is then age 78 and is unable to take care of her husband due to back problems and arthritis. They would prefer someone to come to their home to help John rather than him going to assisted living or a nursing home. However, when they find out the cost is almost two times the cost to provide care at home versus a nursing home, they reconsider. They still have about \$1.2 million dollars left in IRAs and other investments. John is concerned about living too long and not leaving Amy enough assets to last her lifetime. John was a "buy-term-insurance-and-invest-the-difference" kind of investor, and therefore has no life insurance benefit. The cost of John's care before his death was well over \$400K. Their IRA had to be liquidated more quickly than planned and after John's death, Amy, who was still in relatively good health at age 81, realizes she could outlive her remaining savings.

The story above is fictitious, but one that is being lived over and over again today in America. As financial planners, we see sons and daughters who are paying for their parents' care or they have moved their parents into their homes to live with them. Thirty years ago LTC insurance was a new form of insurance. Today it is a mainstream financial product, purchased by those who want to be prudent in their retirement planning and insure that their families do not have to be concerned about where the money will come from to pay for their care. Insurance premiums depend on the age and health of the applicant and good coverage can cost as little as it costs

to insure a nice home and/or a couple of automobiles. How many people do you know whose house has burned to the ground compared to someone in their family needing long term care?

The statistics show that a couple recoups their premiums with just one year of care. For example, a couple today both age 55 buy a \$140/day benefit for a benefit period of six years. Based on standard rates of a comprehensive (care at home, assisted living, or facility care) expense reimbursement plan, waiver of premium (if one receives care, no more premiums are paid), a compound inflation rider of 5%, and a shared care rider (each can share their benefit with the other) costs about \$3,700/year. Assuming care is needed for just one of them in 15 years, the couple has paid nearly \$60,000 in total premiums. Care in 15 years, assuming the cost of health care increases at 5%, would be about \$292/day which is \$106,580 annually. If the couple invested \$3,700/year for 15 years at a conservative 5% growth rate, they would have approximately \$80,000 in a savings fund. The cost of premiums over the 15 year period or the total saved in the savings fund is less than what the projected annual cost will be for care in 15 years for just one year. When you think about the cost of LTC insurance and the odds of needing coverage, insurance is a pretty good deal.

Congress also has granted tax benefits for purchasing a long term care policy.** If you own a business, all or most of the premium is tax deductible. As a businessman or woman, you can offer LTC benefits to your employees. You can choose a benefit and design a unique plan for each class of employee. You can also arrange a business pay plan, a split-premium plan or offer payroll deduction for an employee pay plan. What better way to reward key employees that are important to your organization? There is simply not a better time to purchase Long Term Care coverage.

**This information is intended as a general overview and is not intended to provide tax or legal advice. Please consult a tax or legal advisor for specific advice about your situation. Sources: *Government-Run Health Care, CATO Institute, Policy Analysis, "The Grass Is Not Always Greener: A Look At National Health Care Systems Around The World", by Michael D. Tanner, March 18, 2008.