

# \$ - For Long Term Care



**Gary A. Powell**

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**FINANCIAL SECURITY SPECIALISTS**

*Helping you protect what is most important to you – your family and your business!*

# Table of Contents

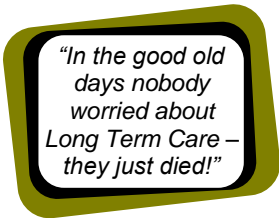
Introduction and Disclaimers .....	1
Why Living a Long Life Requires More Than Good Luck! .....	1
Understanding Long-Term Care .....	2
Options in Financing Long-Term Care.....	3
What is Your Plan? .....	10
Long Term Care Cost Calculator .....	11
Products and Services.....	12
Resources .....	13

# Introduction

The purpose of this booklet is to provide you with an easy-to-understand reference that will help you plan for the costs associated with Long Term Care.

# Disclaimer

Pac Con Ltd is a Financial Security Consulting firm. Neither it, nor its employees or owners are in the business of providing legal, accounting or tax advice. You should always consult your own professionals before acting on any of the ideas presenting in this booklet. Pac Con LTD does provide financial products that are sometimes used in planning for Financial Security.



## Why Living a Long Life Requires More Than Good Luck

Not all that long ago it was common for someone who developed pneumonia, had a stroke or a heart attack or one who was diagnosed with Cancer to have a significantly shorter life expectancy than what is expected today! With the advances in medical treatment and medications, conditions once thought fatal are now considered manageable. Most of us alive today will have a long life, but, unfortunately, living a long life does not always mean living a healthy life. Because this is true, we encourage our financial planners, including ourselves, to make long reaching plans. We cannot leave that planning to luck and we cannot afford to leave planning for potential Long Term Care costs to luck either.

- We will live a long life
- If we live a long life we will get older
- If we get older we have a high chance of getting sick

- If we get sick we will need care
- If we need care we need to have a plan to pay for it

Reasonable people understand that they are likely to live a long life. They understand that the chances of needing care increase proportionately. And they are willing to consider the risks that living a long life will have on their best thought out retirement plan.

## Understanding Long Term Care

Very simply, Long Term Care is the term used to describe the physical care an individual needs when he or she has become unable, or needs a lot of help, in taking care of at least 2 of the basic activities of daily life (ADL's). These basic activities include being unable to, or needing help with, the following: bathing, walking, getting in or out of bed, using the toilet or eating. ADL also refers to care needed due to the physical conditions of incontinence and bowel control and the various needs involved with caring for a person with Alzheimer's disease.

While no one wants to look forward to needing help, denying the probability of it is just not realistic. Probably you know of people in your family or in your community who have needed care and you have probably heard all kinds of statistics that sound pretty scary. It is true that nearly 50% of a population will need some kind of long-term assistance. In folks over the age of 65, 43% may spend *some* time in a nursing home. But just a very small percentage of those will spend their last days in a nursing home. That is why it is important to face the fact that **Long Term Care is a family issue.**



Long Term Care actually has very little to do with you. Your family will take care of you. Over 70% of care is provided by families (children, spouses,

grandchildren...) That may sound reassuring, but, Long Term Care rarely brings families together – it actually tears them apart. Jobs have to be given up, the time normally spent raising children may have to be dedicated to taking care of you. Financial realities often stretch resources to the breaking point. And the idea that your spouse will be physically able to handle your care is really not practical.

So what are you to do? **Plan now**, while you can really be involved in the process. **Long Term Care planning is a family issue.** Planning will make it easier for your family to provide the care you may need and they will be able to provide better care for a longer time.

## Options in Financing Long–Term Care

Insurance Agents have a phrase they like to use – “*You can either be rich (and pay for all the care you need yourself) or you can be poor (and have the Government pay for the level of service they feel is adequate) or you can be insured (and let an insurance company take the risk of financing your Long-Term Care costs.*” – But this is too simplistic. For most people, financing Long Term Care requires a combination of approaches.



The next few pages will highlight several approaches to financing the cost of Long Term Care. You should work with a knowledgeable and ethical planner to work out a plan that fits your circumstances, your budget and your lifestyle. It is important that you look for someone with the nationally recognized **CLTC<sup>1</sup>** designation who is also registered with the **National Ethics Bureau<sup>2</sup>**

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<sup>1</sup> Certified in Long Term Care

<sup>2</sup> National Ethics Bureau [www.ethicscheck.com](http://www.ethicscheck.com)

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# Medicare

Medicare is health insurance administered by the Centers for Medicare and Medicaid Services (CMS). Part A primarily covers skilled nursing care and hospital care. Skilled care is the kind that is needed to help you get better! Part B has broader coverage and acts similar to major private medical insurance. Neither A nor B covers *custodial care* – the kind of care that makes up 90+% of Long Term Care needs. For more specific detail on what Medicare does and does not pay for visit [www.medicare.gov](http://www.medicare.gov) or ask for our free publication MMY2006.



# Medicaid

Medicaid is another Government program administered by CMS. It is a program that is designed to provide medical and custodial care services for those who do not have enough personal resources to foot their own bill. It is a program facing more restrictions and more controlled funding each year. Medicaid is not open to everyone. Under this program, there are strict limits to the amount of income you can receive and there are limits to the amount of assets you can hold.

Not that many years ago no one would have expected the Government to pay their individual care bills but over the last couple of decades there has been a movement among some people to try and hide personal assets and create a make-believe (but usually legal) condition of poverty. This leaves the Government stuck with the necessary care bills. The rules today make it extremely difficult to pull this trick. Our publication “Medicaid and Morality”<sup>3</sup> looks more closely at the responsible use of the Medicaid system.

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<sup>3</sup> Medicaid and Morality © 2004 Gary A. Powell [revised 9/2/2006]

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# Veteran's Administration

Abusing a program has not been the practice of one particular group of Citizens. The class of Citizen that has been under appreciated and under paid, our Military Veterans, is now being denied Long Term Care services except for those who can prove that service-related injuries have caused the conditions which make them need Long Term



Care. This flies in the face of the Government's own promises<sup>4</sup>. And this is an area that is not likely to change before an entire generation of Military retirees has passed beyond the need for financed care.

- Medicare
- Medicaid
- Veteran's Administration

These 3 resources will provide little if any in the way of helping you finance the real costs of Long Term Care.

## Self Funding

Long Term Care can be incredibly expensive. Whether the care is provided at home, in day-care centers, assisted living facilities or actual nursing homes, it will require a substantial amount of personal income and/or savings to be able to self fund. In 2007 the cost of a semi-private room in a nursing facility in Hawaii was more than \$100,000 a year. At home care, while hard to calculate accurately, is priced more by the hour and ranges from a low of \$23 all the way up to a couple of hundred dollars an hour!

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<sup>4</sup> GAO report: VA Long Term Care: Service Gaps and Facility Restrictions Limit Veteran's Access to non-institutional Care, May 9, 2003

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# Long Term Care insurance

Long Term Care insurance is generally thought to be the most efficient method of paying the costs associated with Long Term Care. And while the premiums may be substantial they are always much, much less than paying for even a year or two in a nursing facility.

Long Term Care insurance is not a product to be purchased without the aid of a seasoned professional agent who specializes in this area. By law, the agent must provide you with “A Shopper’s Guide To Long Term Care insurance” and you would do well to study it.

Some thoughts to consider before working with an agent

1. Is he or she trying to sell me insurance or help me solve my long-term care needs by asking appropriate questions and listening to my answers?
2. What are this person’s credentials? What steps has this person taken to approach this subject professionally?
3. What carriers does this person represent – is he or she looking to find the right company to fit my circumstances or is he pushing just one company?
4. Does he or she own Long Term Care insurance (ask to see the policy)

Pac Con LTD has a “Guide to buying Long Term Care insurance”<sup>5</sup> that is available free and will give you answers to many other questions . This booklet gives additional ideas on what to look for in a policy and how to avoid getting ripped off!

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<sup>5</sup> How to Avoid Getting Ripped Off by Long Term Care Insurance © 2006 Gary A. Powell  
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## Short Term Recovery Insurance

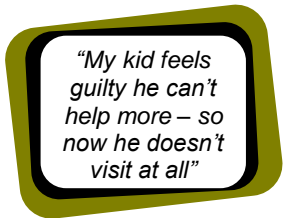
According to the American Association of Long Term Care Insurance (AALTCI) 42.8% of all patients admitted to nursing care facilities stay for less than a year. These stays are often the result of an injury or illness but the cost of this care can mount quickly since it is covered only minimally by Medicare and private health insurance. The plan should not be considered a replacement for traditional LTCi but can be an alternative when cost constraints are a significant factor.

## Annuity Plans

Annuity plans are financial contracts between you and an insurance company that are traditionally designed to provide with guaranteed income for the rest of your life. Today, many insurance agents pitch them as ideal places to invest your money.

That is usually not an appropriate use of an annuity.<sup>6</sup> However, an annuity can be a sensible way to provide a stream of income to pay for expenses incurred in a long-term care situation or a means to guarantee the payments on a Long Term Care insurance policy that would provide a much greater sum of funds for Long Term Care costs.

There are several very useful *hybrid* plans that couple annuities with either long term care insurance or life insurance and sometimes even both. They usually require a large amount of money to make them practical so be sure to work with a reputable firm and agent before signing a contract.



*"My kid feels guilty he can't help more – so now he doesn't visit at all"*

## Family Funding

This method is the way it used to be done and it is still a mostly uncouneted solution to Long Term Care costs. Simply put – the family pulls together whatever resources they can raise and

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<sup>6</sup> “Asses and Angels” The Good, the Bad and the Ugly on Annuities

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foots the bill. Sometimes this means having to change living arrangements, taking out unexpected loans, forgoing college tuitions and so forth. With the high cost of Long Term Care today, this solution often falls short and is inadequate to pay all the costs involved. And the cost is most often shared unequally among the family members.

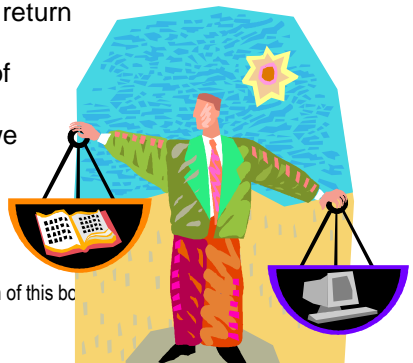
A useful process for families needing to face Family Funding is a moderated meeting with a professional Long Term Care planner. During this meeting family members are guided through the process of conflict resolution, how to handle resentment and anger, and work to develop a family plan that strives to provide the best care possible with the least amount of family strife. Below are listed some creative ways to address family funding.

- Inheritance sharing – this process adjusts the eventual shares of inheritance (if any) to fairly compensate the family member providing care by increasing that person's share and decreasing the amount left to the rest of the family.
- Family employment – using family assets to formally employ and compensate a family member.
- Parent Care Contracts- creating a legal contract for services between a parent and child and fund it through a accrual method of asset transfer.

## Asset Replacement Plans

First of all – you don't *have* to leave anything to your kids or anyone else when you die. You could trade your home in and allow all your savings to be spent in return for guaranteed care until death.

However, a lot of us have dreams of leaving something to our children, a favorite charity or Church, etc and we know that if we have to use our assets to pay for Long Term Care there could be nothing left to pass on. This is where an asset



replacement plan may be a sound solution.

An asset replacement plan uses various forms of life insurance. If you are in good health and make this idea part of your Long Term Plan, you may be able to purchase a large enough insurance policy on yourself that will, when you pass away, pay out to the beneficiaries you have chosen an amount equal to or greater than the value of the assets you have had to spend on Long Term Care costs. If you are not insurable, you or your family might consider placing an insurance policy on another family member who is insurable and is of a similar or slightly older age. By doing this there now becomes a certainty that at some point in the future the insurance money will come back into the estate and offset what has been spent on Long Term Care.

As always, before acting on this or any idea presented in this booklet, you need to work with experienced professionals which should include your attorney and tax advisor.

## Reverse Mortgages



Reverse Mortgages can be an excellent way to access the cash you have built up in your home. Unlike a conventional mortgage or a home equity line, there are no monthly payments to be made. There are substantial costs in setting up a reverse mortgage and they are often rolled into the borrowed amount. There are strict federal guidelines overseeing this type of loan and if you decide to look into a reverse mortgage, be sure to look for an advisor who has years of experience and excellent referrals. Some important points to consider

- Any existing mortgage must be paid off before or as part of a reverse mortgage.

- Interest accumulates and compounds but the total amount of the loan repayment cannot exceed the value of the home.
- The loan is due a: upon the borrower's death or b: when the borrower ceases to live in the home.<sup>7</sup>

## What is Your Plan?

The first step toward developing a plan to handle your potential Long Term Care Costs is understanding how much the care is likely to cost. Each year several insurance companies commission studies of all the States' statistics and publish their findings. Met Life<sup>8</sup>, John Hancock and Genworth are the 3 most well known studies. Next, you need to make a realistic appraisal of your own assets and your ability to pay the costs. Once you have a clear picture, it is time to sit down with your family and begin a conversation on how the funding might be handled. The worksheet provided here is a preliminary worksheet and should be used as a starting point to finding a comprehensive plan. It is wise to involve a professional Long Term Care expert in the process.

Understand that no one *wants* to plan for Long Term Care. But wise and responsible people don't leave a potentially devastating situation to their spouses or kids.

Remember - When you don't die .....you live  
 And when you live .....you grow old  
 And when you grow old.....you get sick  
 And when you get sick.....you need care  
 And when you need care .....you need a plan<sup>9</sup>

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<sup>7</sup> note- current regulations provide exemptions for nursing home confinement  
<sup>8</sup>

<http://www.metlife.com/WPSAssets/18756958281159455975V1F2006NHHCMarketSurvey.pdf#search=metlife%20survey%20of%20long%20term%20care%20costs%202006>

<sup>9</sup> Phillip Sullivan

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# Long Term Care (LTC) Worksheet

## Planning for My Personal Aging

- A) What is your life expectancy (Estimate) \_\_\_\_\_
- B) My best guess as to the age I will need care \_\_\_\_\_
- C) My age today \_\_\_\_\_
- D) # of years I have to save for aging costs (B-C=D) \_\_\_\_\_

## Calculating the Costs I Need to Plan For

- E) # of years I may have to pay for aging costs (A-B=E) \_\_\_\_\_
- F) Current annual costs of LTC \_\_\_\_\_
- G) Minimal Amount I will need to plan for LTC (ExF=G) \_\_\_\_\_
- H) G divided by D = Estimate of my annual LTC costs \_\_\_\_\_

## Calculating Resources to Pay for LTC costs

- I) Current savings that can be dedicated for LTC costs \_\_\_\_\_
- J) Guaranteed income that can be used for LTC costs (ExJ) \_\_\_\_\_
- K) Amount needed from other resources (I+J-H) \_\_\_\_\_

NOTE – this calculator does not take into effect the impact of escalating costs and inflation.

## **Financial Security Products and Services**

**Traditional Long Term Care Insurance**

**Hybrid Life Insurance/Annuity/Long Term Care Insurance**

**Return of Premium Long Term Care Insurance**

**Annuity**

**Structured Payment Plan**

**Pre-Paid Long Term Care Service**

**Asset Exchange Plan**

**Reverse Mortgage**

**Charitable Remainder Trust Plan**

**Life Settlement Plan**

**Private Pension Plans**

**Family Inheritance Agreement**

**Personal Care Service Contract**

# Resources

## On-line calculators

[http://cgi.money.cnn.com/tools/elder\\_care/elder\\_care\\_cost\\_finder.html](http://cgi.money.cnn.com/tools/elder_care/elder_care_cost_finder.html)

[https://www.ltcfeds.com/ltcWeb/do/assessing\\_your\\_needs/costofcare?action=costofcare](https://www.ltcfeds.com/ltcWeb/do/assessing_your_needs/costofcare?action=costofcare)

<http://www.bbt.com/bbt/calculators/LongtermCare.html>

## Publications

*“Let’s Talk: A Family Guide to Discussing and Creating a Plan for Long-Term Care”* Harley Gordon

*& Thou Shalt Honor...The Caregiver’s Companion* Witrogen McLeod. Rodale Press

*Medicare Basics: A Guide for Caregivers*

[www.medicare.gov/Publications/Pubds/pdf/11034.pdf](http://www.medicare.gov/Publications/Pubds/pdf/11034.pdf)

*Health and Long-Term Care Financing for Seniors*

Jr. Burton T. Beam :The American College

*How to Avoid Getting Ripped Off by Long Term Care Insurance* © 2006 Gary A. Powell

*Medicaid and Morality* © 2004 Gary A. Powell [revised 9/2/2006]

***GAO report: VA Long Term Care: Service Gaps and Facility Restrictions Limit Veteran's Access to non-institutional Care, May 9, 2003***

***"Asses and Angels" The Good, the Bad and the Ugly on Annuities © 2003 Pac Con LTD***



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**Financial Security  
Specialists**

95-099 Lauaki Pl.  
Mililani, HI 96789

Phone (808) 625-3782  
Cell (808) 722-1903

pacconltd@yahoo.com  
[www.insure-hi.com](http://www.insure-hi.com)