



LONG TERM CARE INSURANCE AS AN EXECUTIVE BENEFIT

HELPING EXECUTIVES PREPARE FOR RETIREMENT

When it comes to planning for the future, a person can never be too diligent. With advances in the quality and availability of medical care, Americans are expected to live longer and healthier lives. Saving sufficiently for retirement has always been a challenge and realistically, with increased age comes the risk of needing help with everyday activities.

Despite some misconceptions, the need for long term care (LTC) is not restricted to the elderly. Many working age adults have disabling injuries and illnesses as well. Consider the following statistics:

- Over 12 million people in the United States require long-term care.¹
- Two out of five or 40 percent of Americans receiving long-term care are under age 65.²
- By age 75, the odds of requiring long term care is almost 60 percent. The average duration of a nursing home stay is 2 ½ years, and one in four people remain in nursing home care for more than three years.³
- Women face a 50 percent greater likelihood of entering a nursing home after age 65 because of their longer life expectancies.⁴

While LTC insurance coverage is popular among retirees, it is also something to consider in the retirement planning stage of life for many reasons. First and foremost, LTC insurance protects and helps maintain financial independence and a comfortable lifestyle. LTC coverage will prevent an individual from becoming completely dependent on (and a burden to) a spouse, children and/or friends. Secondly, LTC coverage helps protect hard earned assets and retirement savings with the enormous and ever increasing cost of medical care. Finally, a good LTC policy allows an individual access to health care professionals who will assist in determining the best care available, whether that is in-home care or in a facility, when it is needed. LTC policies can be designed to cover such needs as:

Nursing Facility Care
Community-Based Care
Home Health Care
Homemaker Services

Assisted-Care Living
Adult Day Care Centers
Skilled Services
Chore Services

¹ The Henry J. Kaiser Family Foundation, Fact Sheet #2186, "Medicaid's Role in Long-Term Care", March, 2001.

² Health Insurance Association of America (HIAA), "Guide to Long-Term Care Insurance," © 2002.

³ NYS Robert Wood Johnson Project, 1988 Nursing Home Discharge Survey (unpublished).

⁴ HIAA, "Guide to Long-Term Care Insurance," © 2002.



THE COST OF LONG TERM CARE

The average cost of a nursing home in Colorado is approximately \$54,000 annually and can be much higher in other parts of the country. In addition, the cost of other expenses such as in-home care, prescription drugs and medical supplies are increasing at a rate much faster than inflation. Therefore, the chances are total costs of nursing home and in home care will be much higher in the future.

Many conditions can result in the need for ongoing care including arthritis, heart disease, mental impairment, and trauma. In fact, stroke is the leading cause of serious long-term disability in the United States.⁵ Also, nursing homes are not just for the elderly. Younger persons who are victims of an accident or with degenerative muscle or nerve diseases can spend many years in a nursing home.

LTC can protect against the extraordinary costs of an extended illness or injury by paying benefits if a person is unable to perform some or all of the activities of daily living. Many plans are available that cover in home care, or in a facility.

THE COST EFFECTIVENESS OF LONG TERM CARE INSURANCE

If long term nursing home care becomes necessary, it can be financially catastrophic for the spouse or other family members of the patient. It may mean that all of the retirement benefits of the couple will be used for nursing home costs, and that the spouse will then have to rely solely on Social Security. This is not the retirement most of us plan for.

As with life insurance, age is a major determining factor regarding the cost of LTC insurance. The younger a person is when the policy is purchased, the lower the premiums. For example, if you pay \$1,500 per year in premiums for 30 years, the total investment in the LTC policy would be \$45,000. A person would pay that much to a nursing home in just 10 months at today's average cost! Even assuming a very low inflation rate, \$45,000 will only pay for a few months of care 30 years from now.

GOVERNMENT ASSISTANCE FOR LONG TERM CARE

Some people make the decision to self insure because when personal resources are used up, Medicaid will pay for the remaining costs. Unfortunately, this plan could lead to the impoverishment of a spouse and government programs may not provide the desired quality of care.

Medicare is the government health insurance for persons age 65 and older. It also covers younger persons qualifying for Social Security disability. Medicare pays for only 8 percent of the nation's annual nursing home costs.⁶ Most people purchase supplemental health insurance because there are

⁵ 2002 Heart and Stroke Statistical Update, American Heart Association.

⁶ Who Will Pay for the Baby Boomers' Long Term Care Needs? Expanding the Role of Long Term Care Insurance, American Council of Life Insurance, April 1998.



many medical expenses that Medicare does not cover, including prescriptions. Medicare will pay for skilled nursing home care, which is usually in a rehabilitation-type setting to recover from a stroke, accident, or similar event. Medicare will pay most costs for such care for up to 100 days. However, once the patient no longer responds to rehabilitation services the patient will be moved to “custodial care.” Medicare does not pay any of the cost of custodial care, even if the skilled care only lasted a few days.

Medicaid is the government program for low-income families. It pays for general medical expenses and nursing home expenses if the patient qualifies. To be eligible for Medicaid help, an individual must first meet federal and state guidelines for income and assets. Most individuals must spend or use up most assets before qualifying for Medicaid.

In practice, many Americans start paying for nursing home care out of personal funds and spend down their financial resources until they are eligible for Medicaid help. Medicaid, a program specifically developed for impoverished people who have no other means to pay for medical costs, steps in when their savings are gone. Obviously, the financial impact on other family members can be devastating.

Additionally, people who receive Medicaid assistance are required to receive care in Medicaid-approved facilities. Due to financial pressures, many nursing homes try to avoid accepting Medicaid applicants. The problem is so acute, that every state and the federal government have regulations prohibiting discrimination against Medicaid applicants.⁷

Some assets and income can be protected for a spouse who remains at home, but the state determines how much money the spouse is allowed to keep. These rules are quite stringent, and there is little likelihood that Medicaid coverage will be expanded in the future. Medicaid was not expanded during the boom years in the 1990s, so it is unlikely it will be expanded when times are more difficult. In addition, when the baby boomers start needing long-term care, the cost will simply be prohibitive. This is another reason that planning to pay for this care personally through insurance may be the safest method.

LONG TERM CARE INSURANCE AS AN EXECUTIVE BENEFIT

For an individual purchasing a tax qualified long term care insurance policy, LTC premiums will be treated as medical expenses under the itemized deduction rules. The taxpayer can combine other non-reimbursed medical expenses with LTC premiums and deduct the portion of the total that exceeds 7.5 percent of Adjusted Gross Income.

However, long term care insurance can also be integrated into a comprehensive executive benefit plan. By designing a LTC contract with a guarantee issue amount of monthly benefit, executives can use the benefit if necessary, saving a substantial amount of money that would have come out of their pension, deferred compensation, or other retirement savings. Without a long term care plan,

⁷ How to Protect Your Life Savings from Catastrophic Illness, Harley Gordon, Attny at Law, Financial Strategies Press, Inc. 1997.



expenses for nursing home or professional in home care would greatly reduce the retirement accounts of these executives.

As a nonqualified benefit, LTC insurance can be offered only to select key employees (and their spouses) of a specified group of executives without discrimination or compensation conflicts. Companies can offer the benefit to highly compensated employees as “golden handcuffs”, an incentive to remain with the company.

A C corporation receives the most comprehensive tax advantage, as the IRS allows this corporate structure to pay the individual premium on LTC insurance and deduct the full amount as a business expense. Furthermore, when executives receive benefits under this plan, they are not subject to any income tax.

When the employer is a partnership, a limited liability company, or an S corporation, and pays the LTC insurance premium for its employees and their spouses, none of who are partners, members/owners or shareholders of more than two percent of the stock in the entity, then the premium paid by the employer is fully deductible as a business expense. These tax “flow through” entities can also provide long term care insurance on the partners, members, and shareholders. Partners, members, and S corporation shareholders are effectively treated the same as self-employed individuals which, as of 2003, can deduct 100 percent of an IRS determined age related premium that is adjusted for inflation and has increased each year.

CONCLUSION

We believe that planning for long term care is an important part of both a retirement and estate plan to preserve financial security and independence in the event of an extended medical condition or impaired mental capacity. There are actually very few options when it comes to paying for LTC:

Option 1 – Self-Insure. Even if an individual has managed to save a significant amount for retirement, those assets could be rapidly depleted if they have to pay for LTC services out-of-pocket. Asset protection is essential to financial security and insurance coverage is used to transfer the risk of excessive expenses away from the individual. Most people have life insurance, health insurance, and insurance for their home and car. LTC insurance can help protect assets, maintain financial freedom and provide the options necessary to receive quality care and services.

Option 2 – Private/Family Support. No one really wants to become a burden to his or her family. In addition, there are numerous physical, emotional, and geographical requirements of caring for a dependent person that makes relying upon family or friends an unrealistic option.

Option 3 - Government Programs. On a nationwide basis, Medicare only covers about 17.8% of nursing and home health care costs.⁸ Also, Medicare pays only for post-hospital, short-term rehabilitative care and short nursing visits. Medicare supplement plans usually

⁸ Health Care Financing Administration, Department of Health and Human Services, 2000



only cover co-payments and deductibles of the limited benefits and services covered by Medicare. In contrast, to qualify for Medicaid, a person generally must spend down assets to the state's poverty level. It could take years to qualify at which time the person's savings will be gone.

Option 4 – Company Sponsored Executive Benefit. Recent changes in the tax code have resulted in the IRS providing a tax incentive for firms to offer a LTC insurance benefit either as an employee benefit, or as a voluntary benefit at a discounted rate. This benefit is often very attractive to a key employee because the company is filling a potentially devastating financial void in his retirement planning package. Long term care insurance essentially acts as a catastrophic disability and asset protection plan for the professional. It offers an enhancement to an executive's benefit package and a tremendous benefit to the business.

Without proper planning, a long term care event can wipe out an executive's personal assets, retirement savings, and a family's estate. Long term care insurance is an effective way for many individuals to protect assets for family members and remain independent for as long as possible in the event of a debilitating injury or extended illness. Executives view long term care protection as an important and valuable benefit and by providing LTC coverage, a company can attract and retain key executives.