

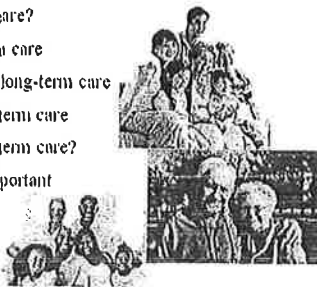
WELCOME

2012 Update on
Long Term Care Insurance

Presented by
Bultman Financial Services
Mary Kay Bultman, RN, MS
and
Ralph D. Bultman, CPA, CLTC

Long-Term Care Insurance
(LTCI) Seminar Agenda

- ❖ What is long-term care?
- ❖ Receiving long-term care
- ❖ Myths surrounding long-term care
- ❖ All ages need long-term care
- ❖ Who pays for long-term care?
- ❖ Why planning is important
- ❖ Policy options



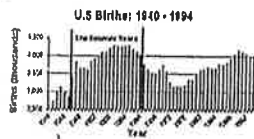
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Long-Term Care

A National Challenge...



American Baby Boomers



Aged 47-65 years
Born 1946-1964

- ❖ 47-51 born 1960-1964 -- 23,005,812
- ❖ 52-56 born 1955-1959 -- 21,891,470
- ❖ 57-61 born 1950-1954 -- 19,331,673
- ❖ 62-65 born 1946-1949 -- 13,543,850
- ❖ Total Number 77,702,865
- ❖ Represent 27.5% of the population
- ❖ 49.1% male
- ❖ 50.9% female
- ❖ Over 54 million baby boomers are over age 50
- ❖ By the year 2030, the boomers will be age 66-84 and make up about 20% of the total population

What is Long-Term Care?



Long-term care is the assistance and supervision required when an individual needs help providing for their own care.

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Qualifying for Long-Term Care Benefits

❖ Assistance with Activities of Daily Living (ADL's)

- ❖ Bathing
- ❖ Dressing
- ❖ Toileting
- ❖ Transferring
- ❖ Eating
- ❖ Continence



❖ Cognitive Impairment

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Where Does One Receive Long-Term Care?



- ❖ Home Health Care
- ❖ Adult Day Care
- ❖ Assisted Living Facilities
- ❖ Nursing Home Care

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Four Myths Surrounding Long-Term Care

- ❖ Long-Term Care is only Nursing Home Care
- ❖ Only older people need Long-Term Care
- ❖ Medicare pays for Long-Term Care
- ❖ I'll never need it!



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All Ages Need Long-Term Care

- ❖ 40% of people needing long-term care today are working age adults, ages 18 - 64.
- ❖ 1/3 of people who have a stroke are under 65.
- ❖ 10,000 people/year suffer a nonfatal spinal cord injury, median age being 26.
- ❖ Average age for those afflicted with Parkinson's is 55, with 15% under age 50.

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How Likely Am I To Need It?

Most people think they will never need long-term care. Statistics tell another story.

- ❖ 72% of people over age 65 will use some form of home health care ⁽¹⁾
- ❖ Currently a 65 year old has a 43% chance of entering a nursing home ⁽²⁾
- ❖ 47% of people over age 85 have some type of dementia, commonly Alzheimer's; an Alzheimer's patient can live an average of 8 years and as many as 20 years ⁽¹⁾

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Elder Law Experts Refer to
LTCI as

"The Golden Ticket"

LTCI is Asset Protection

Who Pays for Long-Term Care?

- ❖ Medicaid - 39%
- ❖ Out-of-pocket - 27%
- ❖ Medicare - 15%
- ❖ Private insurance - 11%
- ❖ Other - 7%
- ❖ Veterans administration - 2%



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Medicaid

- ❖ Joint State and Federal Program
- ❖ Pays for health care for the poor (Welfare)
- ❖ Many must "spend down" their assets to qualify

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Spend Down



Assets
\$2,000



Income
\$45 per month



\$50,000 - \$99,540 \$2,281 month

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Don't Count on Government

- ❖ 1935....40 workers to 1 retiree
- ❖ 1989....3.4 workers to 1 retiree
- ❖ 2020....1.8 workers to 1 retiree

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Your Health Plan Does Not Cover Long-Term Care

- ❖ HMOs
- ❖ Health Insurance
- ❖ Medicare
- ❖ Medicare Supplements

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Federal Legislation Shows Intent

- ❖ Health & Welfare Reform of 1996
 - ❖ TAX-DEDUCTIBLE premiums
 - ❖ TAX-FREE benefits
- ❖ Deficit Reduction Act of 2005
 - ❖ Increased look-back period
 - ❖ Delayed penalty period
 - ❖ Reduced ability to use annuities to shield assets

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Federal Legislation Shows Intent

- ❖ February 8, 2006 President signed the Deficit Reduction Act of 2005 (DRA)
- ❖ DRA will generate \$39 billion in federal entitlement reductions between 2006-2010
- ❖ \$99 billion 2006-2015

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Section 6021: Expansion of State Long-Term Care Partnership Program Section

- ❖ Allows all states to develop Long-Term Care Partnership programs, beyond the original 4 states – CA, CT, IN, NY
- ❖ Partnership programs allow individuals who have exhausted benefits of their private LTCI to access Medicaid without the same means-testing requirements
- ❖ To qualify, states and the insurance plans must meet extensive federal requirements

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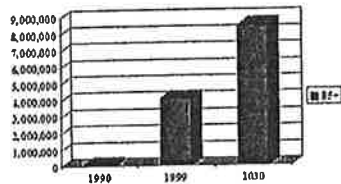
Section 6011: Lengthening Look-Back Period

- ❖ Extend the “look-back” period from 3 years (previous law) to 5 years
- ❖ Any asset transfers made for less than fair market value in the 5 years before application will be treated as if the individual still has the assets

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Why Planning is so Important

The American population is aging



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Why Planning is so Important

Families have changed



- ❖ Two out of three women work outside the home
- ❖ Smaller family size
- ❖ Separated and live at a distance

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National Cost of Care

- ❖ 6% Increase over last year
- ❖ \$192 a day for Nursing Home Care
- ❖ Average stay is 2.4 years at a cost of \$168,192



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Long-Term Care is Very Expensive – Today!*

Home Health Care	\$144,000/year
Adult Day Care	\$50,000/year
Assisted Living	\$70,000/year
Nursing Home	\$80,000 - \$120,000/year



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*Figures based upon cost averages for the Metro-Milwaukee area.

Current Statistics

- ❖ Today, 1.6 million people reside in 18,000 nursing homes in the United States
- ❖ 10% or 160,000 are under age 65
- ❖ 46.5% or 744,000 are age 85 or older
- ❖ 72%, or 1,152,000 residents are women
- ❖ 75% or 1.2 million residents require assistance with 3 or more activities of daily living

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Long-Term Care Insurance Policy Options

- ❖ **Inflation Protection:**
 - ❖ 3%, 3.5%, 4%, 4.5% and 5% Compound Inflation Protection: Your current Daily Benefit Amount and the balance of your Lifetime Benefit Amount will automatically increase annually by your selection with NO corresponding increase to your premium.
 - ❖ **Guaranteed Purchase Option:** Every three years, you will be offered the option to increase your benefit amount
- ❖ **Elimination Period:**
 - ❖ The number of days you will pay your LTC costs on your own, before your benefits begin. (Options: 0, 30, 90, 180 or 365 days)

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Long-Term Care Insurance Policy Options

❖ Benefit Amount:

❖ Facility Care- the maximum dollar amount that a policy will pay for care received in a facility, such as an assisted living facility, hospice facility or nursing home. (Options: \$60 a day to \$500 a day)

❖ Home/Community Care- the dollar amount of coverage for home and community care, usually expressed as a percentage of the facility benefit amount.

❖ Benefit:

❖ The maximum amount of benefits that will be paid out over the life of the policy. For reimbursement contracts, this is calculated by multiplying the daily benefit amount times the length of time selected. (Options: 2, 3, 4, 5, 6, 10 year and unlimited duration)

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Long-Term Care Insurance Policy Options

❖ Daily Benefit vs. Monthly Benefit

❖ Spousal Discounts (Not all the same)

❖ Group Discounts (Not all the same)

❖ Spousal Waiver of Premium

❖ Shared Care Rider

❖ Many, Many Other Options

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The Advantages of Having Long-Term Care Insurance

- ❖ Protects retirement assets from being lost to a long-term care "spend down"
- ❖ Helps you maintain independence and choice
- ❖ Avoid becoming a total burden to spouse or children
- ❖ Allows assets to be available for other uses
- ❖ Avoid becoming a Medicaid welfare recipient
- ❖ Most cost-effective way to fund the risk
- ❖ Provides peace of mind to self and family

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In Summary, Long-Term Care is...



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❖ Very likely to happen

❖ Very expensive

❖ Not covered until most of
your resources have
been exhausted

Disclosure

The information contained in these slides are provided with the understanding that it is not to be interpreted as specific legal or tax advice. IRS Private Letter Rulings (PLRs) are opinions rendered by staff of the IRS relating to a specific case. These opinions do not set legal precedent but do provide some insight concerning the IRS' attitude toward the relevant tax issue. PLRs cannot be relied on as can published rulings (Revenue Rulings).

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Purchase LTCI with Pre-tax Dollars

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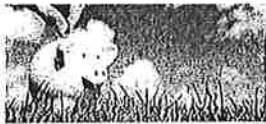
Pension Protection Act of 2006

- ❖ Allows tax-free distributions from an annuity to pay for long-term care.
- ❖ Updates the rules that apply to combinations of life insurance and long-term care products.
- ❖ In these combined products, the life insurance cash values could be applied to long-term care premiums, but the premiums cannot be deducted from gross income as medical expenses.
- ❖ Allows tax-free conversions of existing life, annuity, and long-term care products into annuities with long-term care riders.
- ❖ These rules generally apply to taxable years beginning after December 31, 2009

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Health Savings Account (HSA)

- ❖ LTCI premiums can be paid from an HSA
- ❖ One time rollover from an IRA to an HSA is available



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LTCI Tax Deduction Puzzle

Medical Expense Deduction

- ❖ IRS Form 1040, Schedule A
- ❖ IRC §§ 213(a), 213(d)(1)(D)
- ❖ "Eligible" premium

Self-Employed Health Insurance Deduction

- ❖ IRS Form 1040, Line 29
- ❖ IRC § 162(l)
- ❖ "Eligible" premium



Employee Benefit Programs

- ❖ IRS Form 1120
- ❖ IRS Form 1120S
- ❖ IRS Form 1040, Schedule C
- ❖ IRS Form 1065
- ❖ IRS Form 990
- ❖ IRC §§ 105, 106, 162(a)
- ❖ Actual premium

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LTCI Lexicon

"The term 'medical care' means amounts paid for any qualified long-term care insurance contract"

"In the case of a qualified long-term care insurance contract, only eligible long-term care premiums shall be taken into account"

IRC § 213(d)(1)(D)

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LTCI Lexicon

Eligible LTC premiums in 2012:

Attained Age	Limitation on premiums
	2012
Age 40 or less	\$350
Age 41 - 50	\$660
Age 51 - 60	\$1,310
Age 61 - 70	\$3,500
Age 71 and older	\$4,370

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(if self-employed)

Table figures change based on inflation rate.

Employer Provided LTCI IRC §§ 105, 106 & 162(a)

"Any plan of an employer providing coverage under a qualified long-term care insurance contract shall be treated as an accident and health plan with respect to such coverage."

IRC § 7702B(a)(3)

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if insurability @ issue, getting initial policy / base plan may be beneficial

Thru employer

Split-premium LTCI

- ❖ Percentage split
- ❖ Benefit split
- ❖ Elimination period split
- ❖ Benefit period split
- ❖ Rider split

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New Rules Under Pension Protection Act 2006

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Expanded Hybrid Policies

Life & LTCI

Annuity & LTCI

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†

Can now use cash build up in Life Insurance or Annuities to pay for LTCI Riders.

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†

Expanded 1035 Exchange

Law now allows tax free (1035) exchange of old life insurance policies for new hybrid Life/LTCI combo policy.

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†

Expanded 1035 Exchange

Law now allows tax free (1035) exchange of old annuities policies for new hybrid Annuity/LTCI combo policies.

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Expanded 1035 Exchange

To allow the income tax free exchange of any life or annuity contract directly into a LTCI policy. Possibly a single premium LTCI policy.

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Pending Legislation

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House of Representatives Bill 897 (2009)

A bill to amend the tax code to allow long-term care insurance to be offered under cafeteria plans and flexible spending arrangements.

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House of Representatives Bill
3517 (2007)

A bill to amend the tax code to provide that the distributions from an IRA or other retirement plan shall not be included in gross income to the extent used to pay long-term care insurance premiums.

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House of Representatives Bill
1891 (2009)

A bill to amend the tax code to allow a deduction for qualified long-term care services in computing adjusted gross income.

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Senate Bill 504 (2007)

A bill to amend the tax code to establish long-term care trust account and allow a refundable tax credit for contributions to such accounts.

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Q & A

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Glossary of Terms

Activities of Daily Living (ADLs)-ADLs are activities that are a normal part of everyday life such as bathing, continence, dressing, eating, toileting, and transferring.

Adult Day Care-Care given in a nonresidential, community-based group program designed to meet the needs of functionally impaired adults. It is a structured, comprehensive program that provides a variety of health, social and related support services.

Alternative Plan of Care-If you otherwise qualify for benefits, this provision allows you to qualify for benefits not specifically listed in the policy upon the agreement of you, your physician, and the insurance company.

Assisted Living Facility-A place certified or regulated by the Department of Health and Family Services as Assisted Living Facility. The facility must have five or more residents and provide care and services necessary to assistance with ADLs and cognitive impairment.

Benefit Triggers-A term used to describe when to pay benefits. One type of benefit trigger is an activity of daily living (ADL). Insurance companies may use different events or types of benefit triggers to determine when benefits will begin to be paid. The triggers are described in the eligibility criteria of the policy.

Caregiver Training-Training provided in order to assist an informal and unpaid caregiver to care for you at home.

Cognitive Impairment-A deficiency in your short-term or long-term memory, orientation as to person, place and time, deductive or abstract reasoning, or judgment as it relates to safety awareness.

Elimination Period-The number of days you must wait after receiving long-term care before receiving insurance benefits.

Exclusion-Any condition or expense for which the policy will not pay.

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Glossary of Terms

Home Health Care-Care including skilled nursing services such as providing therapy treatments or administering medication; home health aide services such as checking temperature and blood pressure; personal care such as help with bathing, dressing, walking, exercise; and physical, occupational, respiratory, or speech therapy.

Hospice Care-A specially designed package of social and medical services that primarily provides pain relief, symptom management, and supportive services to terminally ill people and their families.

Non-Forfeiture Benefits-The non-forfeiture benefit must provide paid-up long-term care, nursing home care, or home care insurance coverage when you do not pay the premiums on your policy. The maximum benefit under the paid-up policy is the greater of 100% of the sum of all premiums paid for the policy, including premiums paid prior to any change in benefits, or 30 times the daily benefit amount in effect on the lapse date.

Paid-up Survivor-In the event of the death of your spouse, this feature waives the premiums for life if both you and your spouse had coverage for a specified time with the same company.

Respite Care-Benefits payable for personal care, supervision, or other services to relieve a family member or other primary caregiver from care giving duties. Respite care services are usually provided in your home or in another home or home-like setting.

Return of Premium-A rider that provides that if you die after being insured for a specified period or if you have paid premiums for a specified period, the insurance company will return premiums paid minus any benefit paid.

Waiver of Premium-The suspension of premium payments after you have been receiving benefits from the policy for the period of time specified in the policy.
