<u>Are you prepared for the Expenses Related to Long-term Care?</u>

According to the U.S. Department of Health and Human Services National Clearinghouse for Long-Term Care Information, almost 70% of people over 54 will need Long-Term Care; that is, they'll need assistance performing certain daily activities due to issues with health or other incapacitation. There are three common ways people deal with the possibility of long-term care and thanks to legislation, there is a fourth option. This fourth option is lesser known and will be the focus of this article, but first I'll review the common three.

1. <u>Denial.</u> Although most of us can think of someone we know who has needed long-term care, we'd rather not consider the possibility that we could face the same challenges so we do nothing until it's too late. Many middle income couples who choose to self-insure their risk often spend their life savings on the first spouse's long-term care expenses leaving the second health spouse with little or no savings.
2. <u>Purchase long-term care insurance.</u> Traditional long-term care policies have the potential to offer the best coverage. This method can be effective and tax-efficient due to potential Federal tax incentives. However, the cost of the insurance and the medical qualifications may be deterrents. Many also worry about paying for long-term insurance but never needing it.
3. <u>Hybrid life insurance/long-term care insurance policy.</u> This strategy allows one to hedge their bet on long-term care a bit. You can pay into a policy that offers benefits for you if you require long-term care and/or can pay out death benefits at your passing. So, no matter what happens, payments will come out of the policy, meaning your costs deliver on a benefit. This is a simplistic explanation; you can learn more by contacting me or another qualified professional.
4. <u>Long-term care Annuity.</u> Certain tax qualified annuities can allow you to avoid having to pay federal income tax on an annuity proceeds if you use those proceeds to pay for long-term care coverage. This lesser known option exists thanks to the Pension Protection Act of 2006. The implication is that chronically ill or disabled individuals will no longer have to rely solely on a long-term care insurance policy or Medicaid to fund their medical and non-medical care.

As is the case with any solution, annuity-funded long-term care may not be for everyone. Before you decide if this option is worth exploring, consider the advantages and disadvantages.

Advantages:

- **Flexibility.** If you purchase a standard long-term care policy, you pay whether or not you ultimately need benefits. Unspent funds from an annuity belong solely to the account holder and can eventually be withdrawn or may pass to beneficiaries in the event of death.
- **Tax-free access.** If you own an annuity that has accumulated significant tax-deferred interest, transferring it to a new long-term care annuity allows you to access that income tax-free (as long as it's used for long-term care expenses).
- **Tax-free deferral.** Long-term care annuities generate tax-deferred gains. This is a benefit particularly for those currently in high tax brackets who plan to be in lower brackets when they begin drawing down their accounts. And although gains used to pay for long-term care needs will be tax-free, gains that don't fund such services are still subject to tax upon withdrawal.
- **Ease of Qualification.** If you're too ill to qualify for a regular long-term care insurance policy, you might have an easier time getting coverage through a long-term care annuity because there are fewer hoops to jump through.

Disadvantages:

- **Length of coverage.** If you don't deposit enough upfront, your coverage may not last during an extended long-term care situation.
- **Lack of Liquidity.** There are steep penalties (in the form of surrender fees) for accessing cash from an annuity too early. The lock-in time on withdrawals is typically 5-10 years. If short-term liquidity is a concern, an annuity is not a viable option.
- **Initial Investment.** Unlike purchasing a regular long-term care insurance policy in which you pay for coverage in monthly payments, buying an annuity with a long-term care rider requires you to pay a lump sum upfront. The ideal initial investment is greater than $50,000. Anything less than that is not going to provide a very meaningful long-term care benefit.

As you can see, there are many ways to pay for long-term care. Unfortunately, the do nothing approach can end up being the costliest approach for you and your loved ones. Fortunately, a little preparation goes a long way. Whether you choose to contact me to discuss your options and situation or another long-term care specialist, there is no time like the present to start planning for tomorrow.