



Luke and Jen Smith

LONG TERM CARE
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Basics of Long Term Care

Prepared for Luke and Jen Smith

Because a health event can have a serious impact on a family's finances, a comprehensive financial plan will often include a long term care assessment as part of its insurance analysis or risk management section. It is important to consider the financial risks of certain unforeseen events such as a premature death, disability, or prolonged illness that could require some level of long term care.

Long term care is generally not covered by Medicare. As nursing home care has become more expensive, a family that needs nursing care, even if only for a few years, runs the risk of depleting hundreds of thousands of dollars. This direct cost is then compounded by the lost investment earnings that those assets could have earned had they stayed invested. The overall wealth effect on a family from a nursing home stay can be significant.

Proper insurance coverage is the foundation of a comprehensive financial plan. Understanding the amount and types of insurance you require should be the result of sound analysis and reasoned considerations. The following reports look specifically at long term care risks and will help you gain an understanding of your current long term care insurance coverage, if any, and how it may help protect your assets.

Items to consider when analyzing your long term care insurance coverage include:

Different Benefits Types

Some policies offer different benefit amounts for different types of care such as skilled nursing home care or home health care. Make sure you understand specifically which types of care are covered by your policy.

Benefit Period and Amount

Some policies provide benefits for a stated period. So even if you collect less than the maximum per period, benefits stop when the period is over. In comparison, some policies offer a pool of money approach so that if you collect less than the maximum benefit per period, the policy would extend beyond the original coverage period until you collected the maximum pool of money.

Benefit Sharing

Some policies allow for a sharing of benefits between policies (or from one joint policy) between a couple. This can provide a very useful level of added flexibility.

Taxation of Benefits

Policies can be classified as qualified or non-qualified. Qualified policies have fully or partially deductible premiums and tax-free benefits. Non-Qualified policies do not provide tax deductible premiums and the current taxation of benefits is unclear. These policies, however, might offer other better terms and conditions.

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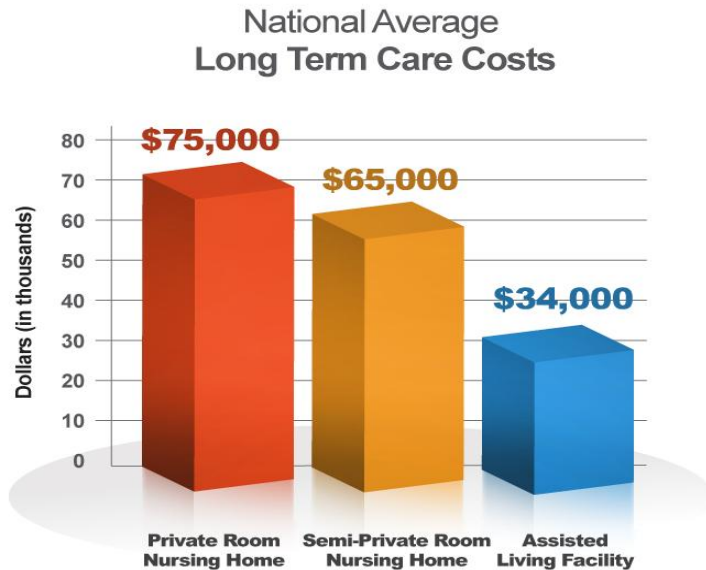
Long Term Care Cost and Payment Options

Prepared for Luke and Jen Smith

What does Long Term Care cost?

The cost of long term care can vary greatly based on the exact services needed and the region where care is being provided. Some national averages, however, might be of interest. According to the Genworth Financial Cost of Care Survey 2009:

- The average annual national cost for a private room in a nursing home is nearly \$75,000, and a semi-private room is in excess of \$65,000.
- A one bedroom unit in an assisted living facility has an average annual cost of nearly \$34,000 representing a 1.37% increase from previous year.
- The average hourly rate for a medicare certified home health aide worker was nearly \$46.



Will the government pay for my Long Term Care needs?

Generally, Medicare doesn't pay for long term care. Medicare pays only for medically necessary skilled nursing facilities or home health care, and even those services will be provided only if certain conditions are met and for a short period of time. Medicaid is a Federal program administered by the states that pays for certain health services and nursing home care for people with low incomes and limited assets. Medicaid payments are not available until one is indigent. This means that most families will have to rely on their own money and/or privately purchased insurance to pay long term care expenses.

What is Long Term Care Insurance?

Long Term Care Insurance is coverage designed to pay for personal care needs and other long term care services for individuals who are limited in their activities of daily living (ADL) or are cognitively impaired. These types of policies can pay benefits for long term care services provided in a nursing home, an assisted living facility, or even your own home.

What does Long Term Care Insurance cover?

Many policies generally cover skilled, intermediate, and custodial care in state-licensed nursing homes as well as home care, assisted living, and adult day care services. All policies have conditions, limitations, and exclusions that differ from contract to contract. These policies may pay a fixed dollar amount for each day you receive long term care services or they may cover actual charges up to a maximum daily benefit.

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Cost of Long Term Care

Base Facts with LTC is Needed - Client

Prepared for **Luke and Jen Smith**

Serious health events can have a significant affect on a family's financial condition. Health events, such as the need for long term care, can put a financial burden on not only the affected person or spouse but quite often on the children too. What type of impact could a long term care event have upon your finances?

The long term care event for **Luke** is assumed to start in **2034** when **Luke** is age **85** and last through **2037** at age **88**. The assumed cost of long term care is **\$40,000 per year** in today's dollars and is assumed to grow at **5.00%** each year beginning **immediately**.

The cost of long term care can vary greatly in different parts of the country and even in different regions in the same state. The level of need (nursing home care vs. home health care, for example) can also make a significant cost difference.

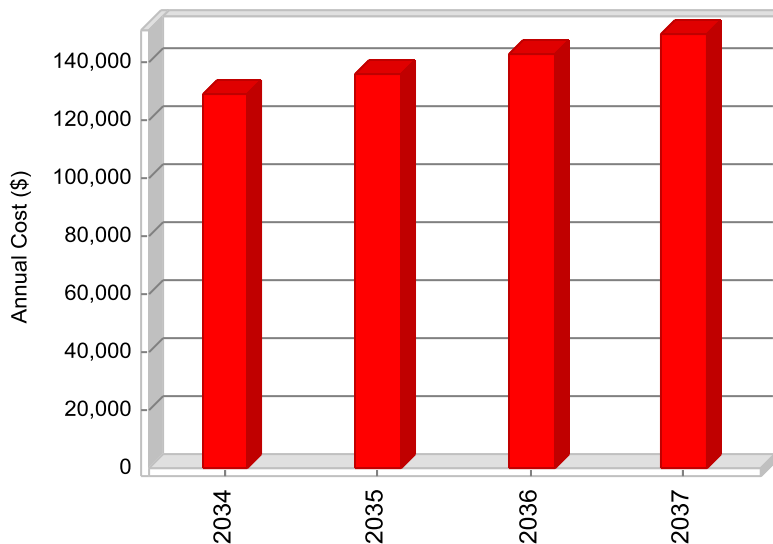
This long term care event results in **\$556,031** in health care expenses from **2034** through **2037**.

SUMMARY	
LTC Cost (today's \$)	\$40,000 (annually)
Costs Grow at	5.00%
LTC Cost in 2034	\$129,006 (annual)
Total Cost 2034 - 2037	\$556,031

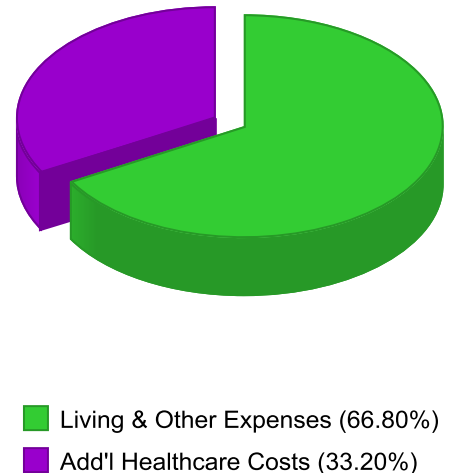
Cost of Long Term Care

The chart below illustrates the mounting costs of a long term care event and their percentage of total cost over the event duration. The cumulative cost for this scenario is **\$556,031**.

Cost of Long Term Care



LTC Costs vs. Total Expenses



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Long Term Care Wealth Effect

Base Facts with LTC is Needed - Client

Prepared for **Luke and Jen Smith**

The true cost of long term care is not limited to the additional outlay to the long term care providers. There is also an opportunity cost which is the lost investment growth on that money. Whether paying for long term care from income or from existing investments, family wealth will be reduced which could prove difficult for the surviving spouse.

The defined long term care event for **Luke results** in a cumulative out-of-pocket cost of **\$556,031** offset by existing insurance benefits of **\$0** for a net cost of **\$556,031**. However, the effect on wealth can be far greater due to the lost investment potential of those assets. The chart below demonstrates the wealth reduction of the defined long term care event.

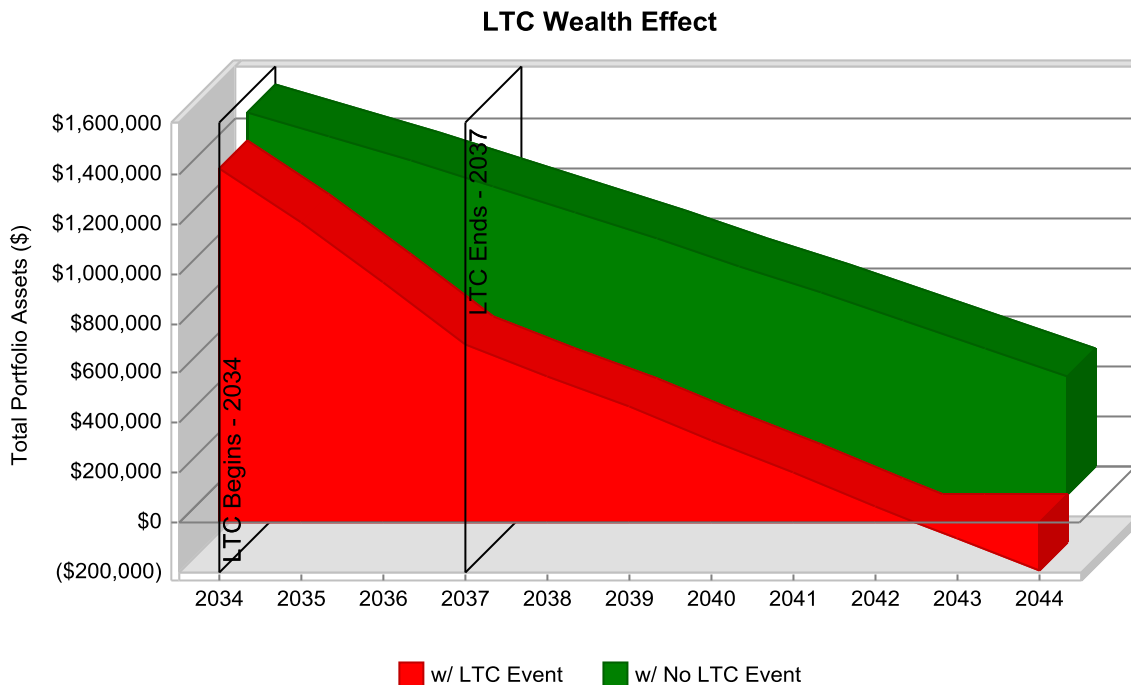
SUMMARY	
Total Cost (2034-2037)	\$556,031
Insurance Benefits (2034-2037)	\$0
Net Cost (2034-2037)	\$556,031
Wealth Reduction	
\$522,888 (2037)	
\$668,358 (2044)	

Year	Portfolio Assets without LTC Event	Portfolio Assets with LTC Event
Start of LTC Event (2034)	\$1,636,450	\$1,636,450
End of LTC Event (2037)	\$1,236,176	\$713,288
Last Death (2044)	\$474,433	(\$193,925)

The defined long term care event for **Luke** could result in the depletion of **\$668,358**, or **over 100.00%**, of portfolio assets by **2044**.

Wealth Effect of Long Term Care

The chart below compares your total portfolio assets with and without the defined long term care event.



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Long Term Care Gap Analysis

Base Facts with LTC is Needed - Client

Prepared for **Luke and Jen Smith**

This analysis reflects the cash flow gap created by a long term care event, as well as the potential insurance solution to cover all or part of that gap.

The long term care event for **Luke** is assumed to start in **2034** when **Luke** is age **85** and last through **2037** at age **88**. The assumed cost of long term care is **\$40,000** per year in today's dollars and is assumed to grow at **5.00%** each year starting **immediately**. Desired assets remaining at death are **\$100,000**.

Existing long term care insurance provides a current benefit of **\$0**.

Your cash flow and desired remaining asset goal can be achieved with additional coverage providing **\$46,000** per year in current benefits and projected to pay **\$53,326** per year when care begins.

The result above assumes a policy with the following characteristics:

- Cost of Living Adjustment 3.00% (Compound)
- Maximum Benefit Period 5 Years
- COLA Period: 5 Years
- Benefit is Not Taxable

SUMMARY

Long Term Care Period
Age 85 - 88 (2034-2037)

Existing Benefits (2034)
\$0

Additional Coverage
\$46,000 (today's \$)
\$53,326 (2034)

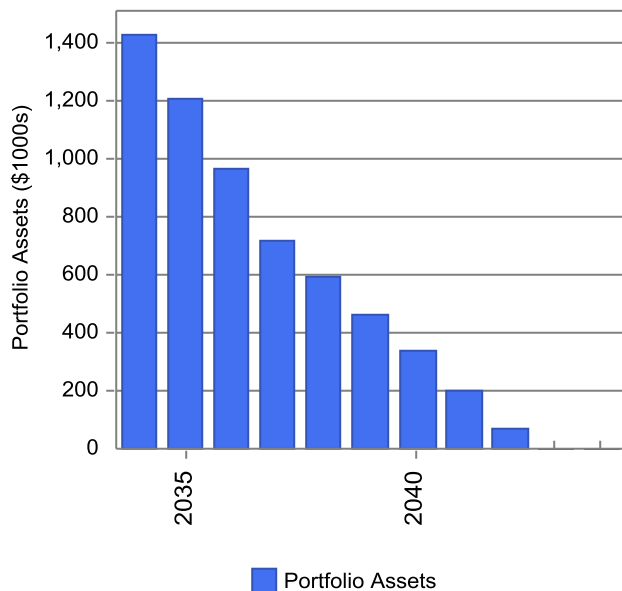
Unfunded Years
2 (current)
0 (new)

Remainder Assets (2044)
(\$193,925) (current)
\$101,099 (new)

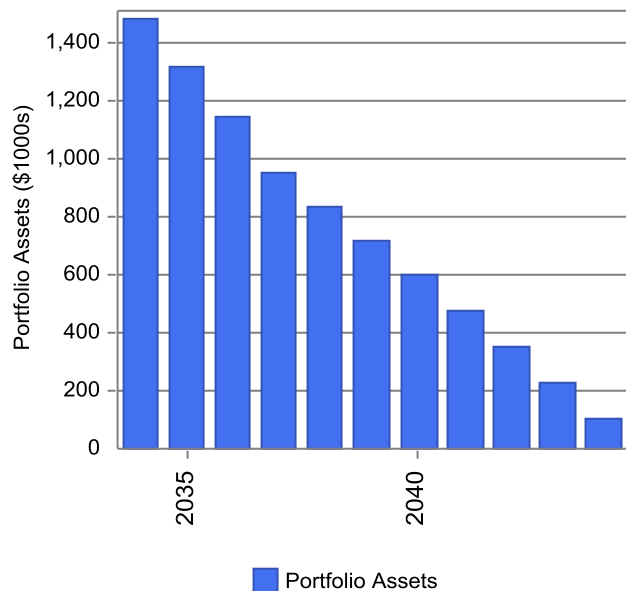
Portfolio Assets

The chart below shows the amount of portfolio assets you can expect to have in each of the long term care scenarios, one using current assumptions and the other using the above result.

Portfolio Assets
Base Facts



Portfolio Assets
Base Facts w/ Solution



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Long Term Care Gap Analysis

Base Facts with LTC is Needed - Client

Prepared for Luke and Jen Smith

Year	Age	Income Flows	Investment Income	Additional LTC Benefits	Total Inflows	Additional LTC Expenses	Total Outflows	Total Portfolio Assets
2034	85/85	\$98,680	\$0	\$53,326	\$152,006	\$129,006	\$409,711	\$1,482,340
2035	86/86	99,569	0	53,326	152,895	135,456	414,830	1,316,888
2036	87/87	100,491	0	53,326	153,817	142,229	420,200	1,139,380
2037	88/88	101,448	0	53,326	154,774	149,340	425,800	949,056
2038	89/89	102,440	0	0	102,440	0	289,290	834,134
2039	90/90	103,469	0	0	103,469	0	287,656	717,212
2040	91/91	104,536	0	0	104,536	0	286,006	598,328
2041	92/92	105,643	0	0	105,643	0	284,619	477,239
2042	93/93	106,791	0	0	106,791	0	283,245	353,961
2043	94/94	107,981	0	0	107,981	0	281,850	228,556
2044	95/95	109,216	0	0	109,216	0	280,432	101,099

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Cost-Benefit of Long Term Care Insurance

Base Facts with LTC is Needed - Client

Prepared for Luke and Jen Smith

Long term care insurance is an effective tool in helping to protect your investments and assets from a potentially costly health event. To understand the value of a long term care insurance policy, compare the benefits to that of self-insuring.

To demonstrate the cost-benefit value of a long term care insurance policy for Luke, consider a hypothetical policy and health event using the assumptions in the box to the right. The tables below examine different number of years until need, with the assumed start of long term care highlighted.

Years Until Need	15 years	20 years	24 years	30 years
Age	76	81	85	91
Annual Benefit	\$77,898	\$90,306	\$101,640	\$121,363
Total Benefit	\$413,572	\$479,445	\$539,619	\$644,333

To provide the same total benefit as supplied by the long term care insurance policy in each of these time periods, the following annual amounts must be invested (at an assumed 5.00% rate of return):

Savings Needed	\$19,166	\$14,500	\$12,126	\$9,698
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If the same \$10,000 was saved rather than spent on long term care insurance, the following annual rates of return (ROR) would be required to provide the same total benefits as supplied by the long term care insurance policy:

Annual ROR Needed	13.3%	8.4%	6.4%	4.8%
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ASSUMPTIONS

Annual Premium
\$10,000

Annual Benefit
\$50,000

COLA
3.00%

LTC Event Duration
5 Years

SUMMARY – YEAR 2034

Annual Benefit
\$101,640

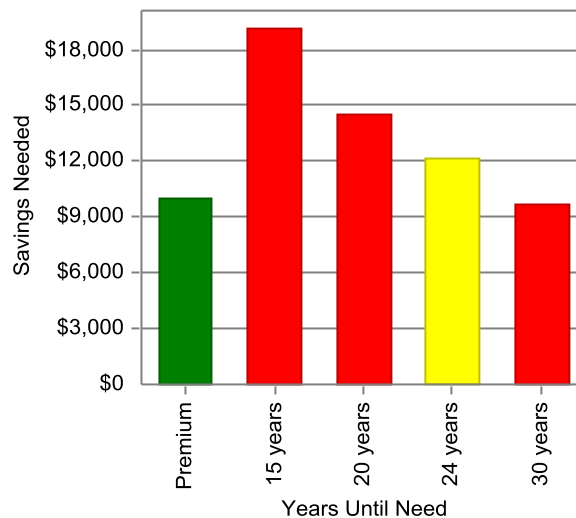
Total Benefit
\$539,619

Savings Needed
\$12,126

ROR Needed
6.4%

Savings Needed

The chart below shows the annual savings required to create the same level of benefit as provided by the assumed long term care insurance policy.



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Long Term Care Summary

Base Facts with LTC is Needed - Client

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The following is a summary of the general details of the defined long term care event and any current long term care insurance policies, as these are the main items that impact a long term care analysis.

Long Term Care Event Definitions

LTC Need Occurs to Luke Smith

Starts: When Luke is 85 (2034)

Additional Expenses: \$40,000 Annually

Ends: After 4 Years

Indexed at: Custom (5.00%) beginning Immediately

Include Social Security Disability?: No

Existing Long Term Care Insurance

No existing long term care policies are defined.

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