

# How to Protect Your Family, Assets and Legacy from the Cost of Catastrophic Illness and Long-term Care – Part II, Insurance Perspective

## The Case for Long-Term Care Insurance – Planning During Good Health

Morgan Stanley’s research report, [Planning for Long-Term Care \(LTC\)](#), located on our web site at <http://stchristopherschatham.org/personal-planning>, states that many people underestimate the need for long-term care to protect their families and assets from catastrophic illness costs. As a result, some postpone the decision to purchase coverage until they reach the age where it is more expensive or perhaps even unavailable because they are uninsurable.

What is the chance that you will need long-term care after age 65? The estimated years of LTC after age 65, according to [The 2014 Sourcebook for LTC](#), [American Association for LTC Insurance](#) are:

- None – 31% of people
- 1 year or less – 17%
- 1 – 2 years – 12%
- 2 - 5 years – 20%
- > 5 years – 20%

Long-term care costs have soared in recent years and are expected to rise even higher. According to the Genworth’s [2014 Cost of Care Survey](#), here is what you can expect to pay for a private room in a nursing home, assuming an approximate 4% annual increase in costs:

	1 Year of Care	3 Years of Care	5 Years of Care
Cost today	\$87,600	\$273,452	\$474,470
In 15 years	\$157,763	\$492,472	\$854,493
In 30 years	\$284,122	\$886,914	\$1,538,894

## What is Long-Term Care?

Long-term care includes services provided to anyone with a chronic disease, disability or sudden illness who requires assistance with at least two Activities of Daily Living (ADLs), for at least 90 days, including: eating, bathing, dressing, toileting, independent mobility and severe cognitive impairments (e.g., Alzheimer’s disease or other forms of dementia).

We are living longer and many people do not want to be a burden to their families. Given the choice, many people want to remain in their own homes while receiving care.

According to the U.S. Department of Health & Human Services, National Clearing House for LTC information, people prefer:

- Home Health Care (51% of people) – professional provider giving care in the home.
- Community Care (18%) – Assisted living/Adult day care.
- Nursing Home (31%) – 24-hour professional assistance.

LTC insurance provides coverage in the three above-mentioned settings.

## How Do You Pay for Long-Term Care?

There are many ways to provide or pay for long-term care. Below are some basic options that can help you make the right decision:

- Family members – However, some recent surveys show that just 3 in 10 Americans feel they are prepared to take on the job of caregiver for family or friends.
- Self-funding – People with sizable assets may prefer to “self-insure” by paying all of their LTC costs out-of-pocket or by combining out-of-pocket

payments with other funding strategies. Actual costs could exceed expectations, given the highly inflationary nature of healthcare.

- Traditional long-term care insurance – This option may be a more cost-effective alternative to self-funding. Premiums, however, increase with age and are impacted by pre-diagnosed conditions, amount of coverage and inflation so the sooner you start exploring this option, the better.
- Hybrid universal life insurance with optional LTC benefits - This is an alternative to traditional LTC insurance. A hybrid policy provides LTC insurance, if needed, and life insurance upon death. Additionally, a “return of premium” feature reimburses 100% of premiums if LTC benefits are not used or the owner chooses to discontinue coverage. Policies typically offer an income tax-free death benefit to beneficiaries net of loans, withdrawals and benefits paid. Two types of policies are offered: a [reimbursement plan](#) that pays for LTC costs through a certified provider; and an [indemnity plan](#) that pays the covered benefit to the owner without requiring submission of receipts and allowing for family care. Benefits in a reimbursement plan are generally higher. Inflation riders are often available. Premiums are usually paid on a one-time basis, although 5-year and 10-year schedules are available.
- Medicare – Medicare does not pay for the largest part of LTC services or personal care. Medicare will help pay for a short stay in a skilled nursing facility, home health care or for hospice

care if you meet the following conditions:

- You have had a recent prior hospital stay of at least three days.
- You are admitted to a Medicare-certified nursing facility within 30 days of your prior hospital stay.
- You need skilled care, such as skilled nursing services, physical therapy or other types of therapy.

If you meet all these conditions, Medicare will pay for some of your costs for up to 100 days. In addition to skilled nursing facility services, Medicare will pay for home and other care for a limited time and Hospice care if you have a terminal illness and are not expected to live more than 6 months.

- Medicaid – Refer to the Medicaid Eligibility Requirements in Part I, Legal Perspective brochure.

### Tax Benefits May Be Available

Premiums for qualified long-term care policies may qualify as a medical expense and be partially tax-deductible up to age-based maximum limits. Your non-reimbursed medical expenses, including those premiums, exceed 10% of your adjusted gross income if you are under age 65, or 7.5% of your adjusted gross income if you are age 65 or older. If you own a Health Savings Account (HSA), you may be able to pay your LTC insurance premiums with pre-tax dollars. In addition, benefits paid for long-term care services are not taxable as income. Because the hybrid insurance with LTC option plans provide for a “refund of premium”, a tax deduction is not available.

The Personal Planning Committee (PPC) suggests that you consult with a certified long-term care insurance professional and tax advisor on this very important topic.

### St. Christopher's Personal Planning Committee

Formed to provide education about personal planning and referrals to qualified professionals in fields of legal, financial and health planning, the Committee works to encourage parishioners to develop and keep updated their personal health, financial and asset or estate plans. We encourage discussions within families.



We manage the Cloister Society and celebrate those who have made or planned gifts to St. Christopher's, unless they choose to remain anonymous.

We will be long-term stewards of St. Christopher's, cooperating to build the church's Endowment.

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## St. Christopher's

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## ST. CHRISTOPHER'S

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### Protect Your Family from Catastrophic Illness & Long-term Care Costs – Part II

Conversations we should have  
Questions we should answer



Personal Planning  
for Your Future