

## Long Term Care - Everything Is Different

I get emails from clients of my firm or CPAs we've worked with over the years on a pretty regular basis asking about Long Term Care Policies that were bought in the 90s and early 2000s. The companies selling them did not quite understand what they were taking on as far as systemic risk, many of the companies who sold the policies are out of the business, and often the companies that stayed in the business have raised premiums upwards of 100% on in-force policies. The consumer must continue to pay these premiums to keep the policy up in case they ever need it. In almost every case I did not sell the policy and the agent who did is long retired, but I am happy to discern and serve.

Today the market for Long Term Care Insurance has changed a lot. Carriers have gotten smarter about the design of the policy. It often makes little sense for a person to pay premium ad infinitum until they make a claim, and if they don't make a claim they get nothing from the money they've spent. Below is case study about the way the market has changed.

Jack and Diane Story are 60 and both plan to retire in five years. They own a business that does marketing and promotion for College Football programs and Beauty Pageants. When they retire they plan to sell the business and live on the proceeds as well as 401(k) retirement funds and consulting contracts. They have 3 children, none of whom live in near them in the DC area. Based on some projections from the sale of their business and growth of the 401(k)s the Storys look to have a taxable estate around \$7.5M.

In a recent meeting with their Estate Planning Attorney to update their will due to the birth of 3 grandchildren in the last year, a discussion arose around two insurance policies they bought through the business in 2000. Both policies are owned by Jack and Diane individually, but the business pays for each with a bonus paid to them at the end of the business' fiscal year. The plan prior to the 2012 American Taxpayer Relief Act was to move each policy into an ILIT at retirement and use the death benefit to cover taxes. Considering all the changes in the law, that strategy is not as relevant as it was when the plan was made in 2000.

During the discussion, Diane brought up a concern about paying for Nursing Home Care if she or Jack need it; her mother passed in 2012 after a 2 year stay in a Veteran's Administration Nursing Home that depleted almost all of her mother's savings. None of the Story children are nearby to help as Diane did for her mother, and it appears that at least one child will "need" the funds from the Story Estate as they are dead set on "making it" as a song writer and their income is spotty to say the least. The Estate Attorney recommends that the Storys speak with an Insurance Broker the firm has worked with in the past about Long Term Care Insurance.

After a thorough review of the Storys financial picture the Insurance Broker recommends a Hybrid Life Insurance Long Term Care Policy. The policy operates like a Cash Value Life Insurance Policy; however, the Cash Value can be used and is set up to be used to pay for Long Term Care Expenses if they are needed. If they are not, the Life Insurance pays a Death Benefit. The Insurance Broker also recommends using the existing funds in the Life Insurance Policies that the business is bonusing them to pay for the new Hybrid Policies so in this case the new coverage cost the Storys no new out of pocket premium.

The scenario above is a simplified version of a complex problem, addressing the needs around Long Term Care. Key to the case though is recognizing that the Long Term Care coverage the Storys bought was purchased for the same reason the Life Insurance for Estate Taxes was purchased, to protect the money they've earned through the years to pass it on their children. The Life Insurance guarded against losing it to taxes, the Long Term Care Coverage guards against losing it to paying Home Health Care Providers and Nursing Homes. Long Term Care Policies have changed, The 2012 American Taxpayer Relief Act changed Estate Planning, Hybrid Life/Long Term Care Policies can in some cases bring the changes together to benefit the consumer.

