

A PRIMEDIA Publication

Trusts & Estates.

The Journal of Wealth Management for Estate-Planning Professionals Since 1904

April 2003



Who Needs LTCI?

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Who Needs LTCI?

Answer: Most people starting at 55 years old—even the wealthy. Still, some clients are better candidates for long-term-care insurance than others

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Wealthy seniors should purchase insurance to fund any long-term care they might—and most likely will—need in the future. They are ineligible for the federal assistance provided through the Medicaid program unless they give away the vast majority of their fortunes in a timely fashion. And, no matter how rich, they usually should not pay out of pocket, unnecessarily expending income and maybe even dipping into principal.

Statistics show that 60 percent of Americans will need long-term care at some point in their lives. For anyone between ages 65 and 80, the odds are 1 in 4 that he will need long-term care. For people over 80, the odds are 1 in 2.

The cost of long-term care is increasing at an alarming rate. Nursing homes average \$41,000 a year, with some costing well over \$120,00 a year. Home care averages \$12,000 a year, but can cost twice as much, depending on location.

The best time to purchase long-term care insurance (LTCI) is between ages 55 and 70. But policies are available even for those in their 80s. Of course the insurer will decide whether it is worth the risk to insure a particular person. The factors they will consider include the senior's current health condition, the stability of his health and his potential for needing long-term care in the future. But if a client is denied by one company, try again; carriers differ greatly.

What will this insurance cost? That depends on the insured's age and the type of coverage. Obviously, the cost increases with age-of-purchase. Cost also will increase with the addition of a rider for inflation. Whether or not to purchase this rider will depend upon the age of the insured as well as the amount of coverage being purchased and the cost of long-term care in the

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senior's community. (See "LTCI Lexicon," page 54, for health-care policy terms.) Aside from all these generalities, there are some specific concerns that make some seniors better candidates for LTCI than others:

• **LOW TOLERANCE TO RISK.**

This is the person who would be upset if he had to spend his income (or even worse, spend some of his principal) for long-term care.

• **INCREASE SENIOR'S ACCESS TO LONG-TERM CARE.**

I have seen seniors go without care if they have to pay for it out-of-pocket. This is true even if the senior can well afford to pay for such care. As most seniors stay at home and there is a high degree of likelihood that they will need care at some point in their lives, LTCI can cover the cost of necessary long-term care—and ensure the senior will access such care.

• **THE ECONOMIC BENEFIT.**

Advisors need to analyze whether the senior really will be economically better off by having the insurance if the need for care should arise. Here, we look at the potential for a "spend down" of income that would adversely impact the available funds for living expenses.

This can occur when the wealthy senior is heavily invested in low- or no-income producing investments or a business—for example, the senior whose assets are tied up in the family farm. It would be devastating to the senior if the family business had to be sold. But there may be insufficient income for the senior's living expenses without liquidating the investment or business.

We also must ask whether it is in the senior's value system to preserve principal and live off income. This is a very common mind-set among today's seniors, who lived through the Great Depression. The potential loss of income to pay for long-term care

makes this senior a candidate for the purchase of LTCI.

• **NEED TO PRESERVE ASSETS.**

Now let's compound the problem. The monthly cost of care exceeds the monthly income and creates a spend-down of principal. Over an extended period of time, there could be a depletion of asset holdings. In reality, this does not happen often with seniors of wealth, but very often that is what the senior fears will happen.

Notwithstanding, even the wealthy senior can have a legitimate need to preserve principal. We need to understand the senior's value system. Is his goal to preserve assets at all cost? Would he prefer to go without the luxuries of life in order to accumulate wealth? Perhaps there are other motives: to make sure there are sufficient assets to take care of a spouse or a child who is disabled or to leave the maximum inheritance to one's family.

MEDICAID

Should rich people turn to Medicaid instead of long-term care insurance? And is the Medicaid program a viable choice when it comes to financing long-term care?

The Medicaid program was introduced in 1965 as a health-care safety net for people who were in poverty. In 1988, under the Medicaid Catastrophic Coverage Act, Congress recognized that seniors of modest means had a need to access Medicaid to pay for long-term care (particularly, in a nursing-home setting). Hence, the Medicaid laws were changed to allow for Medicaid planning. Basically, seniors could divest themselves and access the Medicaid program after 30 months.

Pressures on the federal and state budgets led to a tightening up of the Medicaid eligibility rules under the Omnibus Reconciliation Act of 1993. The look-back rule for Medicaid eligibility was extended to 36 months,

COMPARING CARRIERS PLANS

A quick look at general plan outlines. Options are available and will affect cost.

CARRIER	JOHN HANCOCK	UNUM/PROVIDENT	GE FINANCIAL
Plan Name	Custom Care/Gold Coast Advantage	Advantage 1	Long-Term Care Choice
Elimination Period	90 Days	90 Days	90 or 100 Days
Nursing Home Daily Benefit	\$180	\$180	\$180
Home-Health-Care Daily Benefit	\$180	\$180	\$180
Benefit Period	5 years	6 years	6 years
Inflation Option	GPO	None	None
Maximum Benefit Paid	\$328,500	\$394,200	\$394,200
ANNUAL PREMIUM			
Age 55	\$1,015 - \$1,224	\$846 - 898	\$1,350 - \$1,512
Age 65	\$1,980 - \$2,448	\$1,844 - \$1,908	\$2,682 - \$3,006
Age 75	\$5,431 - \$6,588	\$4,839 - \$5,080	\$7,254 - \$8,136

Notes:

- Premiums are averaged for the following states: New York, California, Florida and Ohio.
- Premiums are based on the standard risk class when no discounts are applied. Clients may be eligible for discounts for preferred health status, marital status and group-sponsored plans.
- Rates were provided individually by each carrier.

SOURCE: Susan Sajiun-Fitzharris, president, United Benefit Consulting, Inc. Smithtown, N.Y.

and 60 months for certain trusts. This pressure to restrict Medicaid eligibility is again at the top of the list in Congress and for state legislators, as the government tries to balance the budget. President Bush has called for a complete overhaul of the Medicaid program as part of his 2003 budget. If his plan is approved, there could be significant cuts made in the Medicaid program, adversely affecting seniors.

So, should a senior of wealth consider Medicaid planning? The answer is "No." Purely from an economic standpoint, one can evaluate one's monthly income level against the cost of long-term care and other living expenses. For example, if the senior has \$10,000 per month of income, living expenses of \$5,000 and long-term care needs of \$3,000, then the senior would be in a position to privately pay for such care. In fact, based on the income level of the senior, he would not be able to receive Medicaid coverage. Would it make sense for the senior to divest himself of his assets and income by giving them away? Generally, it would not make sense to lose control over assets in a situation where the senior could afford the cost of care. In addition, depending on the size of the estate, there may be significant adverse estate- and gift-tax consequences.

There is a crossover point, however, when a senior with significant long-term care costs may consider Medicaid planning. For example, if the nursing-home costs \$12,000 per month (as is the case in certain parts of the country) and the senior has a monthly fixed income of \$3,000 and discretionary income of \$9,000, then with Medicaid planning, the senior would be able to receive Medicaid to pay for care less his monthly fixed income. Hence, one could protect some of the assets after a spend-down of some of the assets during the Medicaid-transfer penalty period. Again, what would the adverse tax consequences be? What if the majority of the senior's

wealth was in individual retirement accounts? Liquidating the account would create significant adverse income-tax consequences. Each situation needs to be evaluated on an individual basis before a determination can be made. But it will be the rare exception when the wealthy senior should consider Medicaid planning.

FOOTING THE BILL

Using the same example: If the senior has the means to pay for long-term care from income, then generally the senior would be better off paying from his own funds. Medicaid will likely be unavailable, and even if available, the senior will likely receive a higher quality of care when paying privately. The senior also will have more control over the level of care and the providers of that care.

But what if the senior needs to dip into principal? Should this alter his thinking on whether to pay privately? For example, what if the senior has \$5 million but is cash poor, with monthly income of only \$3,000? Suppose the senior who has early-stage Alzheimer's and a life expectancy of more than 15 years enters a nursing-home costing \$7,000 per month. Clearly, the senior can liquidate some of his principal to then be utilized to supplement his income for the payment of his care. The senior would not be impoverished by this cost of care.

Let's try a different example. (You know where I'm going.) There are situations where the spend-down of principal could impact the senior's economic quality of life. Now we need to understand the senior's value system. Is it preservation of assets at all cost?

THE MAJOR OBSTACLE

After all is said and done, the major obstacle to purchasing LTCI is the client's hope that he will not need long-term care. It is not pleasant to tell him otherwise, but good advisors will say that the potential risk warrants the expense. ■

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