Grace Global Alliance

An Independent Association of Christian Churches & Ministers

Long Term Care Planning Tax Year 2017

Prepared for:

Grace Global Alliance
Ministers & Churches

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June 20, 2017

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Long-Term Care

Long-term care (LTC) is the term used to describe a variety of services in the area of health, personal care, and social needs of persons who are chronically disabled, ill or infirm. Depending on the needs of the individual, long-term care may include services such as nursing home care, assisted living, home health care, or adult day care.

Who Needs Long-Term Care?

The need for long-term care is generally defined by an individual's inability to perform the normal activities of daily living (ADL) such as bathing, dressing, eating, toileting, continence, and moving around. Conditions such as AIDS, spinal cord or head injuries, stroke, mental illness, Alzheimer's disease or other forms of dementia, or physical weakness and frailty due to advancing age can all result in the need for long-term care.

While the need for long-term care can occur at any age, older individuals are the typical recipients of such care.

Individuals with Disabilities, by Age[1]

Age Range	No Disability	With a Disability
5-17 Years	95%	5%
18-34 Years	94%	6%
35-64 Years	87%	13%
65-74 Years	74%	26%
75 Years and over	49%	51%

What Is The Cost of Long-Term Care?

Apart from the unpaid services of family and friends, long-term care is expensive. The following table lists national average costs (regional costs can vary widely) for typical long-term care services. One federal government study found that the "average length of time since admission for all current nursing home residents was 835 days."[2]

[1] Source: U.S. Census Bureau, 2013 American Community Survey 1-year estimates. Table B18101, sex by age by disability status for the civilian noninstitutionalized population 5 years and over, male and female.

[2] The National Nursing Home Survey: 2004 Overview. U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics.

Service	2015[1]
Assisted living facility	$3,600 per month($43,200 per year)
Nursing home (Private room)	$250 per day($91,250 per year)
Nursing home (Semi-private room)	$220 per day($80,300 per year)
Home health aide	$20 per hour
Homemaker/companion	$20 per hour

Paying for Long-Term Care – Personal Resources

Much long-term care is paid for from personal resources:

- Out-of-Pocket: Expenses paid from personal savings and investments.
- Reverse Mortgage: Certain homeowners may qualify for a reverse mortgage, allowing them to tap the equity in the home while retaining ownership.
- Accelerated Death Benefits: Certain life insurance policies provide for "accelerated death benefits" (also known as a living benefit) if the insured becomes terminally or chronically ill.
- Private Health Insurance: Some private health insurance policies cover a limited period of at-home or nursing home care, usually related to a covered illness or injury.
- Long-Term Care Insurance: Private insurance designed to pay for long-term care services, at home or in an institution, either skilled or unskilled. Benefits will vary from policy to policy.

Paying for Long-Term Care – Government Resources

Long-term care that is paid for by government comes from two primary sources:

- Medicare: Medicare is a health insurance program operated by the federal government. Benefits are available to qualifying individuals age 65 and older, certain disabled individuals under age 65, and those suffering from end-stage renal disease. A limited amount of nursing home care is available under Medicare Part A, Hospital

[1] Source: Genworth 2015 Cost of Care Survey.

Insurance. An unlimited amount of home health care is also available, if made under a physician's treatment plan.

- Medicaid: Medicaid is a welfare program funded by both federal and state governments, designed to provide health care for the truly impoverished. Eligibility for benefits under Medicaid is typically based on an individual's income and assets; eligibility rules vary by state.

In the past, some individuals have attempted to artificially qualify themselves for Medicaid by gifting or otherwise disposing of assets for less than fair market value. Sometimes known as "Medicaid spend-down", this strategy has been the subject of legislation such as the Omnibus Budget Reconciliation Act of 1993 (OBRA '93). Among other restrictions, OBRA '93 provided that gifts of assets within 36 months (60 months for certain trusts) before applying for Medicaid could delay benefit eligibility.

The Deficit Reduction Act of 2005 (DRA) further tightened the requirements to qualify for Medicaid by extending the "look-back" period for all gifts from 36 to 60 months. Under this law, the beginning of the ineligibility (or penalty) period was generally changed to the later of: (1) the date of the gift; or, (2) the date the individual would otherwise have qualified to receive Medicaid benefits. This legislation also clarified certain "spousal impoverishment" rules, while making it more difficult to use certain types of annuities as a means of transferring assets for less than fair market value.

Paying for Long-Term Care

Long-term care (LTC) is the term used to describe a variety of services in the areas of health, personal care, and social needs for individuals who are chronically disabled, ill, or infirm. LTC may include services such as skilled nursing home care, assisted living, home health care, or adult day care.

LTC in the United States today is, without doubt, expensive. In 2016, for example, the national median rate (regional costs can vary widely) for a semi-private room in a nursing home was $225 per *day*, just over $82,000 per year. This 2016 figure represents a five-year compound growth rate of 3.12%.[1]

How long do most people need LTC? One federal government study found that the "average length of time since admission for all current nursing home residents was 835 days."[2] Of course, not everyone will need LTC. And, in many cases, LTC will be needed for only a limited period of time. However long the need exists, for many individuals, paying for LTC can be a major challenge. Some resources which have been used to pay for LTC include:

Personal Resources

Method	How It Works	Pros	Cons
Personal assets	Assets that an individual (or a family) has managed to accumulate through work, savings and investment, or inheritance.	• Allowes you to choose when, where, and how you receive care. • No concerns about being healthy enough to qualify for LTC insurance or other types of insurance policies. • Funds not needed for LTC can be used for other purposes or left to family or friends at your death.	• Investment returns are variable and subject to both gain and loss. • May need to sell illiquid assets (such as the family home) to free-up the cash needed to pay LTC costs. • LTC expenses may exceed the amount of available assets.

[1] Source: The Genworth 2016 Cost of Care Summary, page 2. The five-year compound growth rate is based on surveys conducted from 2011-2016.

[2] The National Nursing Home Survey: 2004 Overview, U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics.

Personal Resources

Method	How It Works	Pros	Cons
Family caregiving	Family members provide the direct "hands-on" effort needed to care for the individual.	• No need to pay for care provided by family members. • Family support may also be available to meet other needs besides LTC. • To the extent that personal funds are not spent on LTC, they can be left to family or friends at your death.	• Family members may be unwilling or unable to provide the needed care. • Some family members may feel that the burden of providing care is unequally on their shoulders. • You must pay for care that family members cannot or are unable to provide.
Reverse mortgage	A special type of mortgage that allows a homeowner to convert a portion of his or her home equity into cash.[1]	• No income or medical requirements to qualify. • Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death.	• Owner must meet certain requirements to qualify.[2] • Funds from a reverse mortgage are "income" and could affect eligibility for Medicaid or other assistance programs. • LTC costs could exceed the cash received. • A borrower may be forced to sell the home to repay the loan.

[1] No loan payments are required as long as at least one borrower lives in the home. The outstanding loan balance, plus accrued interest and loan costs, is due when the last borrower sells the home, permanently leaves, dies, or fails to carry out a contractual obligation such as paying property tax when due.

[2] Generally, to qualify for a reverse mortgage the owner must be at least age 62, the home must be owner-occupied, and it must be the owner's principal residence. Not all types of home qualify. Only first mortgages are permitted; any other debt secured by the home must either be first paid off, or paid off with the proceeds from the reverse mortgage.

Insurance-Based Resources

Method	How It Works	Pros	Cons
Long-term care insurance	Private insurance designed to help pay for many types of LTC services.	• Provides a known benefit for a specified period of time. Benefits paid under a "tax qualified" LTC policy are generally received income tax free.[1] • Gives you more control over where, when, and how you receive care. • Funds not spent on LTC can be used for other purposes or left to family or friends.	• Insured must generally be healthy to qualify for the policy. • Continuing premiums required to keep the policy in force. • Premiums may increase over time, benefits may decrease, or both. • If the insured does not use the policy benefits, there is a sense the money was not well spent. • LTC costs could exceed policy coverage amount.
Life insurance policy surrender	A life insurance policy with accumulated cash values is "surrendered" to the life insurance company.	• Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death	• Cash surrender value is usually less than the policy's death benefit. • A portion of the proceeds from the sale may be taxable. • LTC costs could exceed the cash received.
Life settlement	The healthy owner of a life insurance policy sells it to a third party for a percentage of the death benefit.[2]	• Provides cash needed to pay for LTC. • Policy proceeds give you control over where, when, and how you receive care. • Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death.	• May be difficult to find a buyer. • You generally receive only a portion of the policy's death benefit. • A portion of the proceeds from the sale may be taxable. • LTC costs could exceed the cash received.

[1] The discussion here concerns federal income tax law. State or local income tax law may vary widely.

[2] Generally, a life settlement is considered only when the original purpose of buying the life insurance no longer exists.

Insurance-Based Resources

Method	How It Works	Pros	Cons
Viatical settlement	The owner of a life insurance policy who is either "terminally" or "critically" ill sells the policy to a third party for a percentage of the death benefit.	• Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • If certain requirements are met, proceeds of sale are not taxable. • Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death.	• May be difficult to find a buyer. • You generally receive only a portion of the policy's death benefit. • LTC costs could exceed the cash received.
Accelerated death benefit	Some life insurance policies will pay a portion of the death benefit if the insured becomes "terminally" ill.[1]	• Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death.	• You generally receive only a portion of the policy's death benefit. • LTC costs could exceed the cash received.
Borrow from accumulated cash values	Cash-value life policies typically allow the owner to borrow from the accumulated cash value, often at favorable interest rates.	• Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death.	• When death occurs, outstanding policy loans and interest will be subtracted from the face amount. • LTC costs could exceed the cash received.

[1] If certain requirements are met, the policy proceeds are received income-tax free.

Insurance-Based Resources

Method	How It Works	Pros	Cons
Life insurance-LTC combination policy	A life insurance policy that links a traditional cash-value life policy with a LTC benefit.	• Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • If LTC benefits are not needed, life insurance policy proceeds pass to named beneficiaries at your death.	• Insured may be required to qualify for the underlying life insurance policy. • Typically funded with a large, single premium payment. • Insured must be either "critically" ill or "terminally ill" to qualify for tax-free accelerated death benefit treatment.
Annuity-LTC combination contract	An annuity contract that links a traditional annuity with a LTC benefit.	• Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • If LTC benefits are not needed, annuity can provide additional retirement income or pass to named beneficiaries.	• Typically funded with large, single cash payment. • Accumulated values within the annuity are used first to fund LTC expenses. • Tax-free LTC distributions typically require that an individual be "chronically ill."

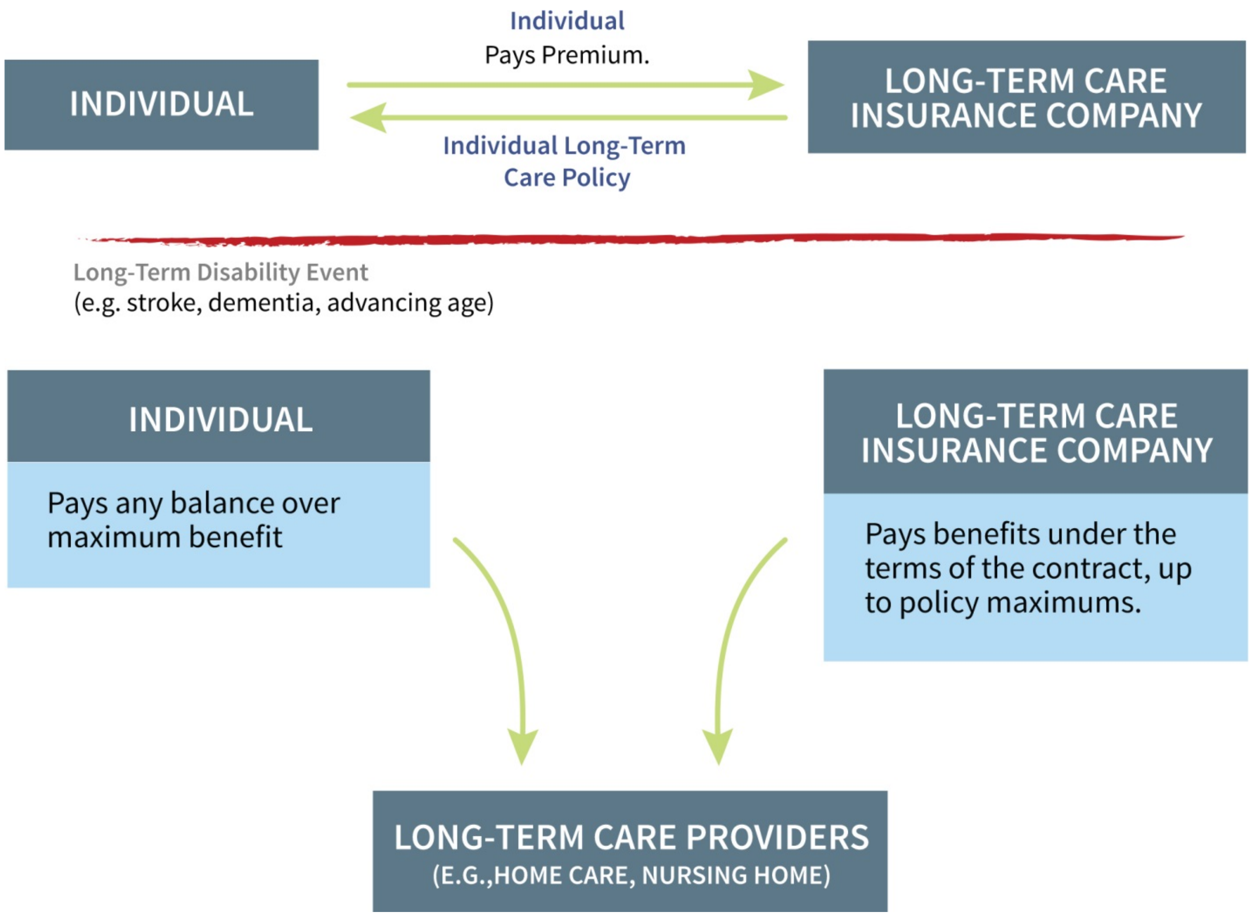
Government Resources

Method	How It Works	Pros	Cons
Medicare	A health insurance program operated by the federal government.	• Part A helps pay for a limited amount of skilled-nursing or home health care. • Part B covers doctor's services and certain medical services/supplies. • Part B home health care is available if not covered under Part A. • Part D can help pay for needed medications. • Supplemental (Medigap) policies can help meet some expenses not covered by Medicare.	• Part A skilled nursing facility care is limited to a maximum of 100 days. • Medicare does not pay for custodial care. • Individual is responsible for paying costs not covered by Medicare.
Medicaid	A federal-state program which provides medical care to those with very low resources and income.	• For qualifying individuals, Medicaid pays for LTC services at home, in the community, and in a nursing home.	• Individual must meet Medicaid standards for low income and resources. • Nursing home services usually limited to a Medicaid licensed facility with an available Medicaid bed. • State may seek post-death recovery of amounts paid for LTC.

Seek Professional Guidance

Finding adequate resources to pay for needed LTC services can be difficult. Failing to meet this need can result in essential care being unavailable or, when existing resources are exhausted, in an adverse change in the type or quality of care already being provided. For some individuals, the funds to pay for necessary care will come from multiple sources. The guidance of trained financial professionals can help in creating a program to meet this challenge.

How Individual LTC Insurance Works



Life Insurance – LTC Combination Policies

Providing for health care is a key part of retirement planning. For most Americans age 65 and over, the federal government's Medicare program, and its various components, provides most of the resources to take care of a typical retiree's health care needs.

One health care need that is only minimally covered by Medicare is that of long-term care (LTC). LTC is the term used to describe a variety of maintenance or "custodial" services required by individuals who are chronically disabled, ill, or infirm. Depending on individual needs, LTC may include nursing home care, assisted living, home health care, or adult day care.

Not everyone will need LTC in retirement. For those that do, LTC is expensive. In 2016, for example, the national median cost for a resident in an assisted living facility was $43,536 per year; the national median cost for a semi-private nursing home room was $82,125 per year.[1] The problem, then, is how to pay for an expensive need that may, or may not, occur.

One answer has been that of a stand-alone, long-term care insurance policy. Should the need arise, a LTC policy can furnish some or all of the resources needed to pay for care. LTC insurance can be expensive, however, and most policies allow for the possibility of future rate increases. Plus, if an individual uses few (or none) of a policy's benefits, there is a sense that the money was not well spent.

Life Insurance – LTC Combination Policies

One alternative to a traditional LTC insurance policy is that of a "combination" policy that links a cash-value life insurance policy with a tax-qualified, long-term care benefit. These combination policies take advantage of federal[2] income tax law which allows for payment of "accelerated death benefits," up to the policy's death benefit, should the insured need long-term care. If LTC services are required, the policy death benefit can be used to help pay these costs. If LTC services are not needed, or only a portion of the death benefit is used to pay LTC expenses, any remaining policy death benefit (less any policy loans) passes to beneficiaries named by the insured. Such a combination policy is most appropriate when there is a need for both life insurance and long-term care protection.

[1] Source: The Genworth 2016 Cost of Care Summary, page 2.

[2] The discussion here concerns federal income tax law. State of local income tax law may differ.

Life Insurance – LTC Combination Policies

- **Long-term care "riders":** In return for paying an additional premium, a "rider" can be added to a life insurance policy which allows the insurance carrier to advance the policy's death benefit to the insured, if long-term care is required. With some policies, a second rider can be added to increase the total dollar amount available to pay for LTC services, beyond the policy's original death benefit.

- **Benefit "triggers":** Under federal law, tax-free, accelerated death benefits can be paid from the policy when the insured is considered to be either "terminally ill" (death is expected within 24 months) or "chronically ill." For long-term care purposes,[1] an insured is considered to be chronically ill when he or she is either (1) expected to be unable to perform for 90 days two of six activities of daily living (eating, toileting, transferring, bathing, dressing, and maintaining continence), or (2) suffers from a cognitive impairment such as Alzheimer's, dementia, or Parkinson's disease. With some policies, a more restrictive definition requires the underlying chronic condition to be permanent.

- **Elimination period:** Once the insured is determined to qualify, long-term care payments can begin after a waiting, or "elimination" period, which can range from 60-100 days. The elimination period usually only has to be satisfied one time.

- **Monthly LTC benefit amount:** The monthly LTC benefit is a set percentage of the total death benefit, typically selected by the policy owner when the policy is purchased. The table below shows the payment amount and length of time for a hypothetical policy with a $100,000 death benefit:

Payout Percentage	Exemption Amount	Payout Length
1%	$1,000 per month	100 months
2%	$2,000 per month	50 months
3%	$3,000 per month	33 months
4%	$4,000 per month	25 months
5%	$5,000 per month	20 months

[1] See IRC. Sec. 7702(b).

Life Insurance – LTC Combination Policies

- **Effect of LTC payments on policy death benefit:** As LTC benefits are paid out, the policy's death benefit is reduced dollar-for-dollar.
- **Indemnity vs. actual expenses:** Some policies pay benefits on an *indemnity* or *cash* basis, meaning that once payments begin the monthly payment is the same regardless of the dollar amount of LTC expenses incurred. Policies that pay benefits on an *expense* basis pay the lesser of the monthly benefit or the actual LTC expenses incurred. If LTC expenses are less than the normal monthly payment, any unused balance is held over, potentially extending the benefit period.
- **Paying for the policy:** In many cases, a life insurance policy with LTC benefits is funded with a large, single premium. A few policies are paid through periodic premium payments. If appropriate, an existing cash-value life insurance may be exchanged tax-free for a new combination policy.
- **Underwriting:** Some policies, typically those funded with a large, single premium, use a streamlined, simplified underwriting process, with no medical exam. Other policies may require a medical exam and a complete health history.
- **Taxability of benefits:** Depending on the type of policy, long-term care benefits are received income-tax free under either IRC Sec. 101(g) or IRC Sec. 7702B.
- **Rate guarantees:** With many life insurance policies, because the death benefit is a pre-defined amount, the premiums are often guaranteed not to change. With a few types of life insurance, the premium rates may increase under certain conditions, but normally within a specified range.
- **Guaranteed return of premium:** Certain single-premium policies provide for a return of the premium paid (within a specified period of time) if the insured decides not to keep the policy. Life insurance policies which are paid for through periodic payments typically do not have this feature.
- **Residual death benefit:** In some instance, a policy may include a "residual" death benefit. If this feature is included, even though the policy's death benefits are exhausted through LTC benefit payments, the policy will still pay a small amount (typically 5% - 10% of the initial death benefit) at the insured's death. This benefit allows the survivors to pay for funeral and other final expenses.

Other Factors to Consider

There are a number of other factors to keep in mind when considering a life insurance-LTC combination policy:

- **Not considered state "partnership" LTC policies:** Life-insurance-LTC combination policies generally do not qualify as state "partnership" LTC policies. An insured individual with a partnership LTC policy can keep a much larger dollar amount of assets, while still qualifying for Medicaid, once the partnership LTC policy benefits are exhausted. Normally, an individual must be nearly destitute before Medicaid will pay for long-term care.
- **Effect of inflation:** Over time, the cost of LTC, like many other things that we buy, will increase. Since it may be many years in the future before long-term care is needed, consider a combination policy that offers a cost-of-living (COLI) rider. Without such a rider, there is a risk that a policy's LTC benefits will not keep up with increases in the cost of long-term care. Generally, once a policy is in force, the death benefit does not increase. Certain types of policies (variable life, variable universal life) have a death benefit that may increase, depending on investment results.
- **Most funded with a large, single premium:** Most life insurance-LTC combination policies are funded with a large, single premium payment. In many instances, a minimum of $25,000 - $75,000 is required to purchase a significant LTC benefit amount.
- **Is this the right tool?** A combination life insurance-LTC combination may not be the right tool if, for example, the insured is already covered by adequate life insurance. If there is a potential need for additional retirement income, a deferred annuity-LTC combination may be a better fit. For some individuals, a stand-alone LTC policy is more appropriate.

Seek Professional Guidance

One key part of a well-prepared retirement plan is looking ahead to the possible need for long-term care. The advice and guidance of trained financial and insurance professionals, in sorting out the various options for meeting this need, is strongly recommended.

Annuity – LTC Combination Contracts

Providing for health care is a key part of retirement planning. For most Americans age 65 and over, the federal government's Medicare program, and its various components, provides most of the resources to take care of a typical retiree's health care needs.

One health care need that is only minimally covered by Medicare is that of long-term care (LTC). LTC is the term used to describe a variety of maintenance or "custodial" services required by individuals who are chronically disabled, ill, or infirm. Depending on individual needs, LTC may include nursing home care, assisted living, home health care, or adult day care.

Not everyone will need LTC in retirement. For those that do, LTC is expensive. In 2016, for example, the national median cost for a resident in an assisted living facility was $43,536 per year; the national median cost for a semi-private nursing home room was $82,125 per year.[1] The problem, then, is how to plan for an expensive need that may, or may not, occur.

One answer has been that of a stand-alone, long-term care insurance policy. Should the need arise, a LTC policy can furnish some or all of the resources needed to pay for care. LTC insurance can be expensive, however, and most policies allow for the possibility of future rate increases. Plus, if an individual uses few (or none) of a policy's benefits, there is a sense that the money was not well spent.

Annuity – LTC Combination Contracts

One alternative to a stand-alone LTC insurance policy is a "combination" policy that links an annuity, typically a single-premium, deferred annuity, with a tax-qualified,[2] long-term care benefit. If LTC services are later needed, the accumulated value inside the annuity is withdrawn first to pay LTC expenses. If on-going LTC expenses exhaust the funds inside the annuity, additional, tax-qualified LTC coverage may be provided by the insurance company through a LTC "rider" to the base annuity. If LTC services are not needed, the annuity value can be used to either provide additional income, or, at the owner's death, can pass to named beneficiaries.

[1] Source: The Genworth 2016 Cost of Care Summary, page 2.

[2] The discussion here concerns federal income tax law. State or local income tax law may differ.

Annuity – Long-Term Care Combination Contracts

- **The long-term care "rider":** A long-term care "rider" to the annuity adds an insurer-provided layer of LTC benefits to those derived from the cash contributed by the annuity owner. The LTC rider could be paid for by periodic withdrawals from the annuity value. Such withdrawals are tax-free as a reduction in the annuity basis. The additional LTC benefit provided by the insurance company is often measured as a multiple (2x or 3x) of the single premium deposited by the annuity owner.

- **Taxability of LTC benefit:** Annuity-LTC contracts are generally structured to meet the requirements of the Internal Revenue Code (IRC) so that the LTC benefits received (both cash values withdrawn from the annuity and the benefits provided by the insurance company), are received income-tax free.

- **Paying for the contract:** In most cases, the annuity is purchased with a large, single-premium payment, for example a premium of $10,000 - $300,000. A few contracts allow for periodic payments into the annuity. As an alternative, if an individual has an existing cash-value life insurance policy or annuity contract, IRC Sec 1035 allows for the tax-free exchange of the existing policy or contract for a new life insurance policy or annuity contract with LTC benefits.

- **Benefit "triggers":** Tax-free LTC distributions generally require that an individual be "chronically ill." An individual is chronically ill when he or she is either (1) expected to be unable to perform for 90 days two of six activities of daily living (eating, toileting, transferring, bathing, dressing, and maintaining continence), or (2) suffers from a cognitive impairment such as Alzheimer's, dementia, or Parkinson's disease.[1]

- **Deferral period:** Most contracts specify that the LTC benefits cannot be paid from the contract for a specified number of years, known as the "deferral period." Typical deferral periods might range from two to six years.

- **Elimination period:** Once an individual is determined to qualify for LTC benefits (considered to be chronically ill), and assuming that the deferral period has expired, long-term care payments can begin after a waiting, or "elimination" period, which can range from 60-100 days.

[1] See IRC. Sec. 7702(b).

Annuity – Long-Term Care Combination Contracts

- **LTC Benefit period:** The annuity owner will select the period of time over which LTC benefits are to be paid, at the time the contract is purchased. Depending on the contract, the benefit period could extend from one to up to nine years. There may be separate benefit periods for benefits paid from the annuity value and the insurer-provided LTC benefits.

- **Monthly LTC benefit amount:** The monthly LTC benefit amount is generally a function of the total dollar amount of benefits available and the period of time selected by the annuity owner. The table below shows hypothetical, sample monthly payment amounts for various scenarios:

Single Premium Paid	Benefit Period	Leverage Factor	Maximum LTC Benefit	Monthly Maximum
$25,000	2 years (24 months)	2x	$50,000	$2,083
$25,000	2 years (24 months)	3x	$75,000	$3,125
$50,000	3 Years (36 months)	2x	$100,000	$2,777
$50,000	3 Years (36 months)	3x	$150,000	$4,166
$100,000	4 Years (48 months)	2x	$200,000	$4,166
$100,000	4 Years (48 months)	3x	$300,000	$6,250

- **Indemnity vs. actual expenses:** Some contracts pay benefits on an *indemnity* or *cash* basis, meaning that once payments begin, the monthly payment is the same regardless of the dollar amount of LTC expenses incurred. Contracts that pay benefits on an *expense* basis pay the <u>lesser</u> of the monthly benefit or the actual expenses incurred. If LTC expenses are less than the normal monthly payment, any unused balance is held over for future use, potentially extending the benefit period.

- **Underwriting:** Generally, annuity-LTC combination contracts, because they are frequently funded with a large, single premium, use a streamlined, simplified underwriting process, involving a telephone interview and a physician's statement.

Annuity – Long-Term Care Combination Contracts

Other Factors to Consider

There are a number of other factors to keep in mind when considering an annuity-LTC combination contract:

- **Not considered state "partnership" LTC policies:** Annuity-LTC combination contracts generally do not qualify as state "partnership" LTC policies. An insured individual with a partnership LTC policy can keep a much larger dollar amount of assets, while still qualifying for Medicaid, once the partnership LTC policy benefits are exhausted. Normally, an individual must be nearly destitute before Medicaid will pay for long-term care.

- **Effect of inflation:** Over time, the cost of LTC, like many other things that we buy, will increase. Since it may be many years in the future before long-term care is needed, consider a combination contract that offers a cost-of-living (COLI) rider. Without such a rider, there is a risk that the contract's LTC benefits will not keep pace with increases in the cost of long-term care.

- **Most funded with a large, single premium:** Most annuity-LTC combination policies are funded with a large, single premium payment. An individual may not have the resources to make such a large payment.

- **Is this the right tool?** An annuity-LTC combination contract may not be the right tool if, for example, the insured already has adequate retirement income. If there is a potential need for additional life insurance, a life insurance-LTC combination policy may be a better fit. For some individuals, a stand-alone LTC policy is more appropriate.

Seek Professional Guidance

One key part of a well-prepared retirement plan is looking ahead to the possible need for long-term care. The advice and guidance of trained financial and insurance professionals, in sorting out the various options for meeting this need, is strongly recommended.

Long-Term Care Partnership

Private insurance is one of a number of ways that individuals who require long-term care (LTC) are able to pay for the needed help. In 2011, for example, such private coverage provided 8.3% of the funds spent on nursing home care in the U. S. In contrast, Medicaid, the joint federal-state program that provides medical care for the impoverished of our nation, paid for 30.9% of the nation's nursing home care.[1]

Long-Term Care Partnership Program

In a LTC Partnership program, a state government and private health insurers work together to make available to residents of that state LTC insurance policies that are "linked" to Medicaid. If a buyer of a Partnership LTC policy later faces long-term care needs that exceed the policy's limits, he or she may apply for assistance from the state's Medicaid program under more relaxed eligibility rules. In what is termed an "asset disregard," the policy owner may keep a larger amount of assets than would normally be allowed under standard Medicaid rules. In many states, for example, an unmarried Medicaid applicant may keep only $2,000 of assets and his or her estate can be subject to a post-death recovery claim by the state.

These relaxed eligibility rules apply <u>only</u> to the amount of assets that an individual can retain; all other normal Medicaid qualification requirements apply.

Example: Susan, a single woman, purchases a Partnership LTC policy which provides benefits up to lifetime maximum of $100,000. She later receives benefits under the policy, up to the policy's maximum of $100,000. Susan continues to need care and she applies for, and is found to be eligible, for Medicaid. Because she had first received benefits through a Partnership LTC policy, she is allowed to retain $102,000 in assets and her state will not seek to recover that amount after her death. Susan would otherwise have been required to "spend-down" her assets until they totaled only $2,000.

The formula used to determine the amount of assets that a Medicaid beneficiary may keep varies from state to state. In the <u>dollar-for-dollar</u> formula, the amount of assets that may be retained is equal to the dollar amount of benefits received from the Partnership LTC policy.

[1] Source: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group; U.S. Bureau of the Census. National Health Expenditures: Selected Calendar Years 1970 – 2011.

In some states, a total asset protection formula is used; a purchaser of a Partnership LTC policy in these states effectively protects all of his or her assets when applying for Medicaid. Generally, Partnership LTC policies in total asset protection states are more comprehensive and cover a longer period of time. In a few states, consumers have a choice of which approach they wish to use.

In an effort to encourage individuals to purchase long-term care insurance, the U.S. Congress included in the Deficit Reduction Act of 2005 (DRA 2005), legislation to expand the long-term care insurance partnership program to all 50 states. Under earlier legislation, LTC Partnership programs had been operating in four states (California, Connecticut, Indiana, and New York) for a number of years. Long-Term Care Partnership

Partnership LTC Policy Qualifications

DRA 2005 established certain standards that all qualifying Partnership LTC policies must meet, including:

- **Insured a state resident:** The insured must be a resident of the state the policy was issued in at the time the coverage is effective. If the policy was received in exchange for a policy issued earlier, the insured must have met the residency requirements at the time the first policy was issued.
- **Tax qualified[1]:** Partnership LTC policies must meet the requirements of IRC Sec. 7702B(b). Under this federal tax code section, premiums paid for LTC policies are considered to be qualifying medical expenses for the Schedule A medical-expense itemized deduction.[2] Policy benefits are treated as "amounts received for personal injury and sickness," excludable from gross income.
- **Consumer Protection:** The policy must meet the requirements specified in the National Association of Insurance Commissioner's (NAIC) Long-Term Care Insurance Model Regulations and Long-Term Care Insurance Model Act (as adopted as of October 2000).

[1] The discussion here concerns federal income tax law. State or local law may differ.

[2] Beginning in 2013, the threshold for the federal Schedule A itemized deduction for unreimbursed medical expenses generally increased from 7.5% to 10.0% of Adjusted Gross Income (AGI). However, for the years 2013-2016, if either a taxpayer of spouse is age 65 before the end of the taxable year, the threshold will remain at 7.5% of AGI. State or local law may vary.

- **Inflation protection:** Partnership policies issued to individuals under age 76 must contain certain benefit inflation protection provisions.

Other Issues To Consider

- **Will you qualify for Medicaid?** Entitlement to Medicaid benefits is not automatic. In addition to certain asset level requirements, a state's Medicaid program will also impose income and functionality limits. Many individuals have too much income or are not "disabled" enough to qualify for Medicaid.
- **Availability:** Partnership LTC policies are available in most (but not all) states as well as the District of Columbia.
- **If you move to a different state:** States that have Partnership LTC programs are automatically considered to have "reciprocity" with each other and to honor the asset disregard earned under a policy purchased in a different state. However, a state can opt out of this requirement at any time.

Seek Professional Guidance

The medical, legal, tax, and investment aspects of planning for long-term care can be complex. The guidance of qualified professionals is highly recommended.

Long-Term Care Tax Issues

Federal law provides generally favorable tax treatment of the expenses connected with long-term care (LTC). However, a number of rules must be carefully followed in order to maximize these tax benefits.[1]

Key Definitions

- **Qualified LTC Services:** The necessary services required by a "chronically ill" individual, provided under a treatment plan prescribed by a licensed health care practitioner.
- **Chronically Ill Individual:** An individual unable to perform at least two of the activities of daily living (ADLs)[2] for at least 90 days, or who requires protective supervision because of severe cognitive impairment. Certification by a licensed health care practitioner within the previous 12 months is required.
- **Qualified LTC Policy:** A LTC policy that meets certain tax-related requirements under federal income tax laws.

Long-Term Care Expenses

Long-term care expenses are medical expenses: Unreimbursed amounts an individual pays for qualified LTC services, as well as premiums paid for qualified LTC policies, are included in the term "medical care." IRC Sec. 213(d)(1), as amended. For individual taxpayers, such expenses thus qualify for the medical expense itemized deduction. Qualifying medical expenses are deductible as an itemized deduction to the extent they exceed 10.0% of adjusted gross income (AGI).[3]

Current law limits the annual amount of LTC premiums that can be deducted, based on the age of the insured.

[1] The discussion here concerns federal income tax law; state or local law may vary.

[2] Such as bathing, dressing, eating, toileting, transferring, and continence.

[3] Beginning in 2013, the threshold for the itemized deduction for unreimbursed medical expenses generally increased to 10.0% of AGI. However, for the years 2013-2016, if either a taxpayer or spouse is age 65 before the end of the taxable year, the threshold remains 7.5% of AGI.

Age Before Close of Tax Year	2016 Limitation	2017 Limitation
40 or less	$390	$410
41 to 50	730	770
51 to 60	1,460	1,530
61 to 70	3,900	4,090
Over 70	4,870	5,110

These annual limitation amounts are subject to adjustment for inflation each year.

Long-Term Care Policy Benefits

Benefits excluded from income: Beginning with policies issued in 1997, benefits received under a qualified LTC contract are generally excluded from income as an amount "received for personal injury and sickness." (See IRC Sec. 7702B.) In order for benefits paid under a policy to be excluded from income, the policy must meet strict federal tax requirements to be a qualified contract. Further, benefits must be for services provided to a chronically ill individual. A limited grandfather clause applies to contracts in existence before 1997.

The exclusion from income is limited to the greater of $360 per day (calendar year 2017)[1], or total un-reimbursed LTC expenses actually incurred. The dollar limitation is subject to adjustment for inflation annually.

Other Tax Issues

- **Employees:** Generally, if an employer chooses to purchase tax-qualified long-term care insurance for an employee, neither the coverage provided nor the benefits paid (subject to the limitations described earlier) will be taxable to the employee. If certain requirements are met, self-employed individuals may also include themselves for such coverage.

- **Self-employed individuals:** Self-employed individuals are permitted to deduct qualifying health insurance premiums, including tax-qualified long-term care premiums, as an adjustment to gross income, rather than as an itemized deduction. This deduction is also generally available to general partners in a partnership, limited

[1] This amount was $340 in 2016.

partners in a partnership receiving guaranteed payments, and more than 2% owners of subchapter S corporations who receive wages from the corporation.

- **Combination contracts:** A “combination contract” is an annuity or life insurance contract that also provides qualified LTC coverage. Beginning in 2010, withdrawals from the cash value of either the annuity or life insurance portion of a combination contract to pay for the LTC coverage are generally not includable in income and no medical expense deduction is allowed for such expenditures. The LTC portion of the contract is treated as a separate contract and the amounts received are treated for federal income tax purposes as LTC insurance benefits.

Seek Professional Guidance

Federal, state, and local income tax law can be complex and confusing. The guidance and counsel of a qualified tax or other financial professional is highly recommended.

When the Parent Becomes the Child

Providing Care for Older Individuals

It should come as no surprise to anyone that we're living longer.[1] Over the recent past, medical science has defeated numerous diseases that once shortened the lives of many. These extra years are not without their problems; living longer allows people to come down with illnesses that, in years past, they would not have lived long enough to develop.

As a person ages, health problems can gradually become overwhelming, to the point where the individual is no longer capable of living independently or handling his or her personal affairs. Often, a child will then step in to "help out." Gradually, a role reversal takes place in which the child becomes the parent and the parent becomes the child.

Planning Ahead - If Possible

If possible, planning ahead makes the process easier. A child who is taking over a parent's situation will often be handed total responsibility for the parents' well being. To the extent that the parent is able, he or she must be kept involved. Some key areas include:

- **Finances:** Managing the parent's income, assets, and liabilities, paying the bills, and seeing that income tax returns are prepared.
- **Medical:** Understanding the parent's medical situation and history, insuring that needed medical care is provided, and dealing with required medication.
- **Benefits:** Making maximum use of any benefits that might be payable from former employers, Medicare, Medicaid, or the Veteran's Administration.
- **Key Documents:** To carry out the parent's wishes and legally act on the parent's behalf, an adult child will need key documents such as wills, trust documents, a durable power of attorney for health care, a general power of attorney, and a "living will" or advance health care directive.

[1] For example, a child born in the year 1940 had an average life expectancy of 62.9 years. However, for a child born in 2014, average life expectancy had increased to 78.8 years. Source: National Vital Statistics Reports, Volume 65, Number 4, Deaths: Final data for 2014, Table 8. June 30, 2016.

When to Intervene?

Very few of us want to intrude in our parents' lives. It is only when we begin to notice certain "things" about Mom and Dad that we begin to consider stepping in. Problems such as memory loss, dementia, diminished sight or hearing, incontinence, and falling are signs it's time to intervene. Two initial questions must be answered:

- **What needs to be done?** What is the appropriate level of care and/or type of living arrangement? Often, this question is answered in consultation with the parent's physician or with the help of a geriatric care manager.
- **Who will be in charge?** This task frequently falls to the child who is the closest, geographically, to the area where the parent resides. Sometimes, younger family members may decide to share the responsibilities. In other instances, a child with special skills or aptitudes may be chosen.

Care and Housing Options

Remaining in the family home is often the first choice of many elderly individuals. However, because the home is either unsafe or ill-suited to their needs, other options must be considered. The chart below lists a few of the alternatives:

Facility Type	Description	Advantages	Disadvantages
Senior Adult Condominiums	Similar to home ownership. Usually age restricted.	Living unit can often be matched to the individual's needs. Few maintenance or security concerns.	Individual must arrange for own healthcare and personal service needs. Rules may be restrictive. Costs may be high.
Senior Apartments	Apartment rental units. Often age restricted.	Individual can select a unit to meet needs. May have common services such as transportation, recreation, or meals.	Individual must be able to live safely and independently; must arrange for own healthcare and personal service needs.
Continuing Care Retirement Community	Provide a range of facilities, including independent living, assisted living, and nursing home care.	Different levels of services and living arrangements are available to meet an individual's needs as those needs change over time.	Usually expensive. Require a large initial entrance fee as well as monthly charges. If care provider is not financially strong, monies paid may be lost.

Facility Type	Description	Advantages	Disadvantages
Assisted Living	Rental of private rooms or apartments, with many services.	A wide range of personal services are provided, including laundry, meals, housekeeping, and 24 hour monitoring.	Individual must be able to move about and handle most of their own physical needs.
Nursing Home	Skilled nursing facility	Provide care for individuals who cannot live independently because of physical or mental impairments.	Can be quite expensive. Quality of care can vary.

Preparing for the End

Even longer lives eventually end. The caregiver's responsibilities in this final stage of life are just as important as in any other. One key goal is to honor the terms of the elderly individual's advance health care directive. A "Do Not Resuscitate" order may be required, when even heroic medical efforts serve no real purpose. You may have to arrange for hospice care when death is near. Allowing the elderly the opportunity for a death with dignity is as important as caring for them when they are alive.

Who Makes Medical Decisions When I Cannot?

Today's advanced medical technology allows physicians to keep a person "alive" in situations that formerly would have resulted in death. Individuals who do not wish their lives to be prolonged by such artificial techniques must plan ahead and put their desires in writing.

In the now famous case of Cruzan v. Dir. Mo. Dept. of Health, 110 S. Ct. 2841 1990, the U.S. Supreme Court held that a state may demand clear and convincing proof of a person's wish to refuse or withdraw medical support. Ms. Cruzan was an accident victim who had not made clear her desire to have medical support withdrawn. Because of this failure, she could have been kept alive, in a vegetative state, for years, at an estimated cost of $200,000 per year.

When Should Medical Treatment Be Withheld?

As the following examples are read, one might ask, "Would I want medical support withdrawn in this situation?"

- In a coma with no hope of recovery.
- In a coma with a small likelihood of recovery with permanent brain damage.
- Afflicted with brain damage or disease, severe in nature, and a terminal illness.
- Afflicted with brain damage or disease, severe in nature, but without terminal illness.

In these situations, and others, difficult decisions must be made as to the treatment to be provided or withheld (for example, artificial respiration, medicine, food, water, etc.).

When a patient is incapable of expressing his or her wishes, some other way must be found to guide the decision making process. The "living will" and "durable power of attorney for health care" (advance health care directives) are useful in this regard.

Living Will

Most states recognize some form of what has been called a "living will", or "directive to physicians." Such a document sets down in writing a person's wishes as to the type of medical treatment to be provided, or withheld, and the general circumstances under which the directive applies.

Durable Power of Attorney for Health Care

Many states also have provision for a durable power of attorney for health care, which allows an individual to appoint another person to make health care decisions for them if they became unable to do so. The agent is generally empowered to make decisions beyond end-of-life issues, such as admission to a nursing home, consent for surgical operations, and care in the event of senility or other disability.

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