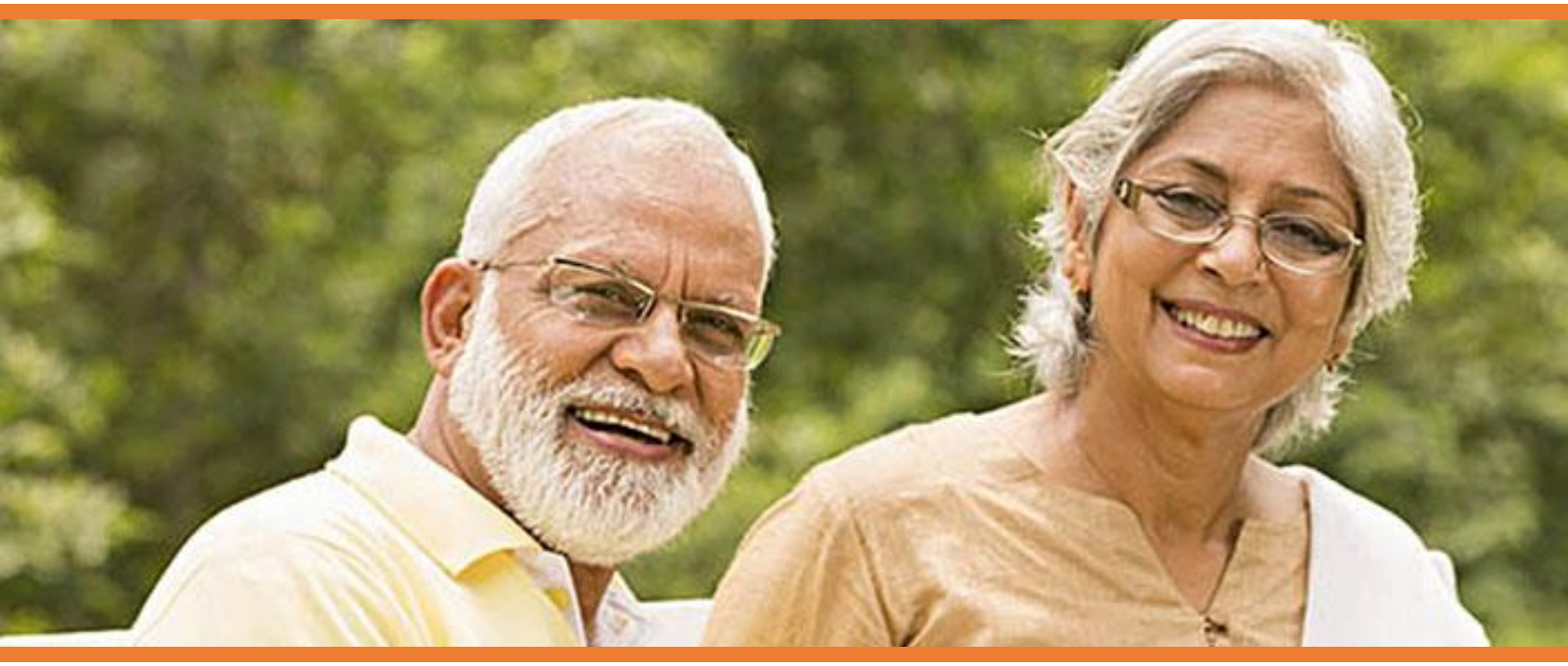
The Long-Term Care Solution For Americans with Assets



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Introduction

This document discusses solutions for addressing how to insure or protect against the very high cost of long-term care services should you need them at a future time.

***Importantly*, it is not, and is not intended to be, a comprehensive primer on all aspects of long-term care, nor is it intended to provide every possible detail about the potential insurance solutions that are discussed; to do so would render this document to a degree of complexity that would make it essentially un-readable to the average person.**

Rather, it is intended to provide those that are seeking alternatives to self-insuring or purchasing traditional long-term care insurance with a solid overview and understanding of how an asset-based solution can be of value to those persons with significant assets.

Fully detailed explanations, illustrations, and materials regarding the asset-based solution are provided during the course of in-person consultations.

Americans with significant assets have **three choices** for addressing potential **long-term care** costs and expenses.

Medicare provides limited benefits under certain circumstances, and even then only for a maximum of 100 days.

Assistance programs such as Medicaid require you to be effectively impoverished in order to qualify for the government to pay for care expenses.

Those with assets have three options for paying for very expensive potential future long-term care expenses:

Self-Insure (No Insurance)

You pay the full cost from your savings.

Traditional Insurance Policy

You pay premiums for a policy that will cover all or part of the cost.

Asset-Based Insurance

You reposition assets to a policy that limits your exposure and triples the asset if care is needed.

There are pros and cons to each of these choices.

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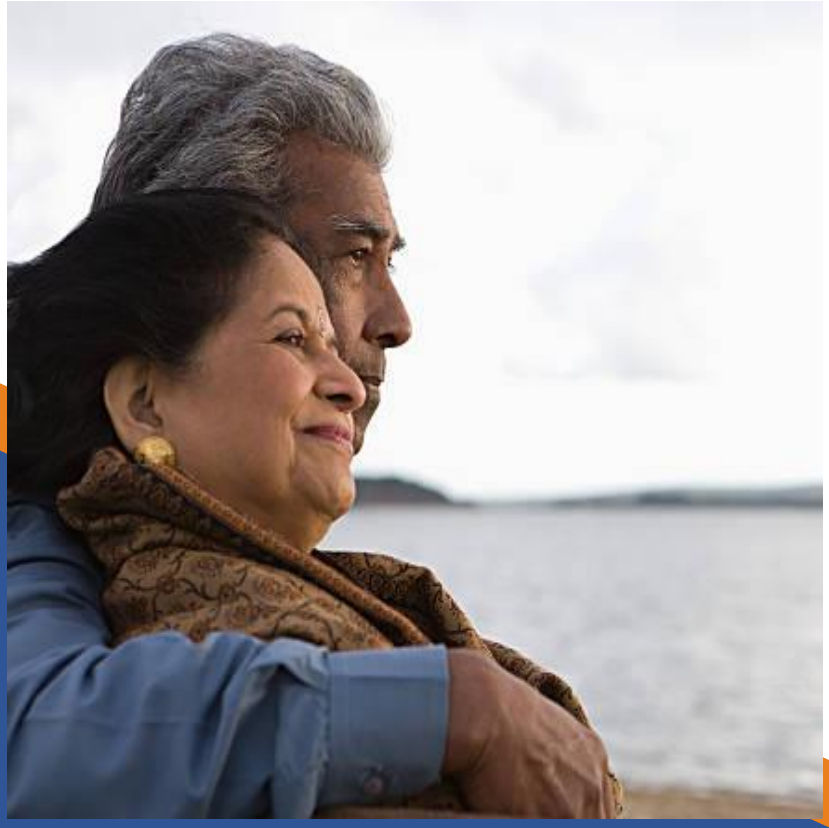
Many with assets choose to self-insure. **If they need care in the future then they plan to pay for care using their savings. This can be an expensive risk as the cost of care is quite high.**

National Median Costs for Care:

- **A Home Health Aide currently incurs a median annual cost of $61,776 per year[1]; 3 years of care now would cost $185,328, and 5 years would cost $308,880.**
  - **With 3% inflation, in 10 years that 5-year cost would be $403,000.**
- **An Assisted Living Apartment currently incurs a median annual cost of $54,000 per year[1]; 3 years of care now would cost $162,000, and 5 years would cost $270,000.**
  - **With 3% inflation, in 10 years that 5-year cost would be $352,289.**

1. Genworth Cost of Care Survey 2021. www. Genworth.com/aging-and-you/finances/cost-of-care.html



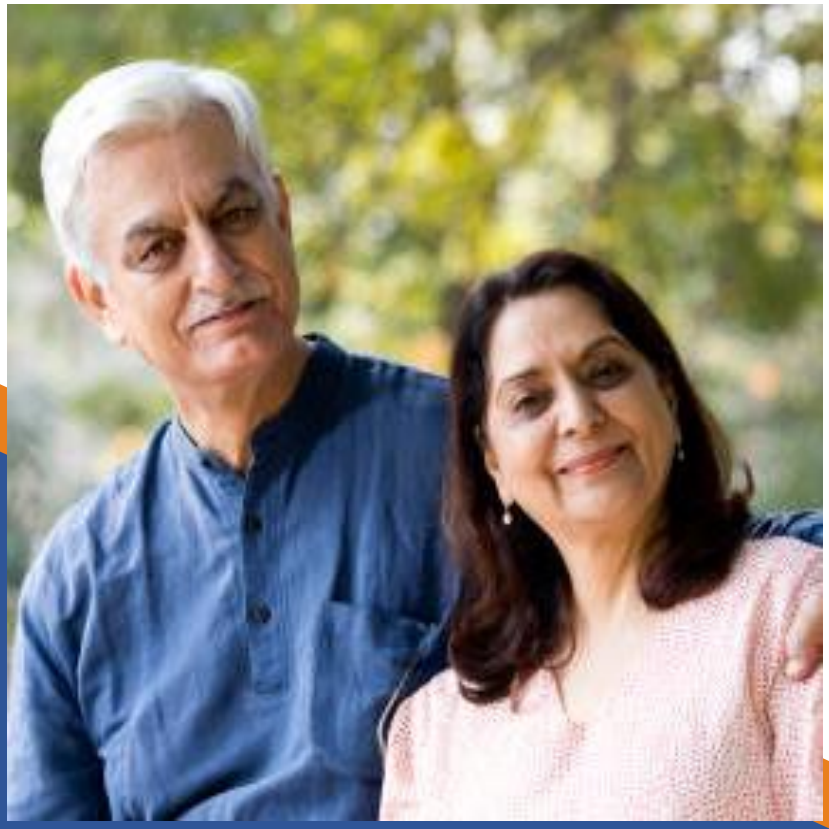
Others choose a traditional insurance policy. **A traditional long-term care insurance policy provides comprehensive coverage if you need care in the future, but the premiums are expensive.**

As example a couple, both aged 65, annual premiums could easily be $8,567. **This premium would provide a total "benefit" pool of $547,000 for five years of coverage.** This premium cost could be higher or lower depending upon your health and other factors, but it is a pretty good overall example.

Over 20 years, that would total over $170,000 paid in premiums (assuming there were no premium increases over time). If you do end-up needing $400,000+ of care, that's not bad deal.

If you never need care, **that's a lot of money that ultimately benefitted neither you nor your children or estate.**

2. EssentialLTC – California, issued by National Guardian Life Insurance Company. $300 Daily benefit, total Benefit Pool $547,500. 5 year Benefit Period. No inflation rider, 90 Service Day Elimination Period, Preferred Rate Class. Quoted June 2022.



What if instead, that $170,000 paid over 20 year for traditional insurance premiums was used differently?

Asset-based long-term care insurance is attractive to many people with significant savings. **It is a means of partially self-insuring, limiting your risk while providing significant protection if you need care… and a benefit to your family if you never need care. With an asset-based solution, you reposition a single-sum premium to a specialty type of annuity that offers:**

- ***Competitive and tax-deferred annual interest*** ***earnings on the money you allocate to your "old age care." You also have access to your money if needed.***
- ***If you need care in the future,*** ***the long-term care value available is increased by 300% of your single-sum premium to provide a total pool of money to pay for care, and withdrawals for qualified expenses are tax-free.***
- ***If you never need care****, then your account value remains your asset; you can pass it to heirs, withdraw it, or convert to an income stream.*

Asset-Based Example:

Ashish and Veena

Both age 65

Ashish and Veena want to minimize the impact upon their assets if they need care services in the future; they want to leave as large a legacy as possible to their children.

Ashish and Veena reposition $170,000 to the asset-based solution.
The $170,000 account value earns annual 3.75% tax-deferred interest[3].

Initial Account Value Earning Annual Tax-Deferred Interest

$170,000

In the future, they will either need care or they will not need care.
Let's fast forward 20 years (age 85).

If they never need care in the future, their account value remains in their estate and passes to their children.

If they need care in the future the care value is increased by 300% of the initial $170,000 single-sum premium.

If they don't need care:

$262,931[3]

Account value remaining in estate.

If they need care:

$602,931

Available to Pay Care Costs

Their cost over 20 years for the additional $340,000 for care costs if they need care?
$63,871[4]

3. Assumes 3.75% annual interest every year, which is not guaranteed. Rates as of June 2022 are 3.75% for premiums up to $199,999, and 4.00% for premium of $200,000 or more, and are subject to change. Rates are declared and renewed at each policy anniversary. Minimum guaranteed interest rate is 1.00% for first 9 contract years, and 0.10% thereafter.

4. $0.00125 per $1 of Contract Value per month. Fee varies by age of insured and can vary based upon credited interest rate affect upon Account Value growth. Fee is waived upon commencing withdrawals to pay for long-term care expenses

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Asset-Based Example:

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Both age 65

Ashish and Veena want to minimize the impact upon their assets if they need care services in the future; they want to leave as large a legacy as possible to their children.

The essential difference between purchasing a traditional insurance policy or using the asset-based solution is *what happens if care is not needed.*

With the traditional long-term care insurance policy, total premiums paid over 20 years are $170,000 (assuming no premium increases).

- ***If care is never needed*, the $170,000 in total premiums is lost; there is no benefit to Ashish or Veena, nor to their estate.**

With the asset-based solution, they earned tax-deferred interest on their $170,000 single-sum premium.

- ***If care is never needed*, after 20 years their account value grew to $262,931 (net of fees paid) and that money remains part of their estate.**

Both choices are good solutions and will provide significant protection should either need future care.

At Prudent Prospera Planning, we believe that the asset-based solution is generally the best choice for clients with significant assets who want to limit their risk of self-insuring.

Common Questions Regarding the Asset-Based Solution

Q: ***Are the annual interest earnings taxable every year?***

A: **Only if you withdraw the earnings for reasons other than paying for qualified care expenses. Interest earnings are tax-deferred.**

Q: ***Are withdrawals for qualified care expenses taxable?***

A: **No. Withdrawals for qualified long-term care expenses, including interest earned on the single-sum premium, are not subject to taxation.**

Q: ***What is the least and most single-sum premium I can use?***

A: **The minimum varies by state, and the maximum is $500,000. If you choose the asset-based solution it is important to ensure that the single-sum premium is enough to provide a meaningful care benefit, so we generally recommend no less than $100,000 be allocated.**

Q: ***If I or my spouse need care, how does the benefit work?***

A: **Let's use easy numbers and assume your premium is $100,000 and your Account Value is $100,000 when you need care; your Total Benefit would be $300,000 ($100,000 + $200,000 Extended Benefit). Withdrawals for care expenses first come from the $100,000 Account Value, and then from the $200,000 additional benefit. Using this simple example, if you needed $300,000 worth of long-term care, your "self-Insured" cost would be $100,000.**

Q: ***Is there a fee for the Extended Benefit?***

A: **Yes. The fee is based upon your age and is related to your Account Value. The fee is significantly less than the premiums for a traditional long-term care insurance policy.**

Atul C. Dubal, CFP®

Final Thoughts

Friends, long-term Care is not a "place", it is a life event. Statistically, if you reach age 65, there is a 70% chance that you will need some form of long-term care assistance. ***If you do need care in the future, it will be expensive.***

You owe it to yourself and your family to explore your options for protection against potential long-term care expenses. *The cost of waiting can be high*; *the older you get, the cost of insuring for long-term care grows, as does the likelihood that you may develop health conditions that prevent you from obtaining long-term care insurance.*

W**e can help you figure it out.** Our team has the experience, expertise, and passion to find the right solution for you. ***Contact us today.***

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