Clearasil, McDonalds and Long Term Care Insurance

Slide #2

- How many of you plan to retire?
- How many of you believe your retirement will last longer than your parents' retirement?
- How many of you are looking forward to the early years of your retirement?
- How many of you are somewhat concerned about the later years of your retirement?
- How many of you want to spend the last several years of your life in a nursing home?

Slides #3, 4 and 5 Illustrations

Consider the advent of:

Slide #6

- Baby food, formulas, and strollers when we were infants.
- Animated films, Disney Land and Disney World as we grew up.
- Disposable diapers, car seats, daycare, and Sesame Street when we began to have our own children.

Slide #7

- Clearasil, McDonalds, American Bandstand, and transistor radios when we were teenagers.
- The internet, cell phones, Palms and Blackberries, CD's and DVD's used to increase our knowledge, productivity, ability to communicate, and provide entertainment during our limited leisure time.

Slide #8

- Time shares, CD players in cars, proliferation of organized sports for both boys and girls, and the family van as our children grew.
- 401K's, 403B's, Roth IRA's as we earned money and wanted more control over how to save it for retirement.

Slide #9

- The golf boom, the booming vacation home market, day trading, proliferation of vacation options, including: eco-vacations, active vacations, and cruise ships as our expendable income exploded.

Slide #10

- A new retirement paradigm, college for seniors, Continuing Care Retirement Communities, Assisted Living Facilities, and Long Term Care Insurance as we begin to plan for the later years of our lives.
- What's next?

Slide #11

"Pops told me to putt to the picture." Tiger Woods

What is the future? What's next?

Slide #12

Not our parent's retirement!

Old Paradigm of Retirement Planning
Slide #13

- At retirement you needed enough in your retirement fund (defined benefit plan as opposed to a defined contribution plan) + social security to fund 70% of your pre-retirement income for life (usually until the mid 70s).

What's Wrong with that Paradigm
Slide #14

- Pre 09/11/2001 people began retiring early, often as early as age 50.
- Some of those early retirees did so based on their stock portfolios at the time. Most of those portfolios are today a fraction of what they expected them to be.
- The slow cruise was too slow and too lazy and too boring for many retirees.

Slide #15

- Retirees continued to live beyond mid 70s, often into the late 80s or 90s. That's why so many baby-boomers who are turning 60 are still caring for their parents and in-laws
- 70% of pre-retirement income was frequently not enough to fund what retirees really wanted for their retirement, particularly in the early years.

Slide #16

- Health care issues, particularly the need for long term (or chronic) care, forced them to use large portions of what had been planned for other things.
- The Acute Health Care model (Health Insurance, Medicare, Medicare Supplement, and Medicaid) did not and do not address the fact that people are living longer and are likely to need care for longer periods of time.

Slide #17

- Because people are living longer more and more care needs needed to be addressed at home. Today's retirees want to avoid nursing homes at all cost.

The New Retirement Paradigm: The Cyclic Life Plan (Ken Dychtwald) or Lifestyle Approach
Slide #18

- Reinventing ourselves at some age, usually in our 50s and often continuing into our 70s

Slide #19

- Working at something that is fun, enjoyable, produces an income, provides us more flexibility and usually, but not always, less income than what we earned prior to our reinvention.
- Actively retired: With more time for family, friends, travel, entertainment, education and other pursuits.

Slide #20

- Taking flying lessons, riding motorcycles, taking up hang-gliding – for many of us golf is simply too slow and too sedentary.
- Spending more money to support our retirement than we spent to support our pre-retirement lifestyle.
- Likely to live into our 90s, if we are already in our 60s.
- Not living through a linear retirement, but rather a cyclical retirement:

Three Phases of New Retirement Paradigm
Slide #21

- Active Phase or Power Years (Ken Dychtwald)
- Slowing Down Phase
- Passive Phase

Slide #22
How does the New Retirement Paradigm Change Financial Planning?

- Dramatically
- Requires the pre-funding of chronic care needs that are likely to happen in the later years of retirement.

Slide #23

- Peter Kemper and Associates, published in Inquiry, claims that 58% of men and 79% of women who are alive at 65 will need some care during their lifetime and 28% of women will need more than 5 years of care.
- Greatest Risk: Living too long, needing care and either outliving your money or having to spend huge portions of the next generations' inheritance on your care.

Long Term Care Planning
Slide #24

- Myth of the ceiling: ("My client has ___ million dollars of assets so he does not need long term care insurance.")

The Myth of the Ceiling – What's wrong with it?
Slide #25

- Assumes that the only reason people purchase Long Term Care Insurance is financial.
- We also do not want our children, as one of my clients told me, "to decide between their children's inheritance and my care."

Slide #26

- "The Age of Dissonance: Stop Spending My Inheritance."

Slide #27

- Numbers simply do not compute**.**

Slide #28

- Long-Term Care Insurance vs. Self Funding Illustration

Slide #29

- Should I Self-Insure? Illustration

Slide #30

- Should I Self-Insure? Illustration

Slide #31

- Taxes paid on the dollars needed to fund the care, which if self-funded is paid for in pre-tax dollars, may exceed the premiums paid in to a long term care policy for 20 or more years.

Slide #32

- LTC Premiums or Taxes: Which is More Expensive? Illustration

Slide #33

- Is there any other risk as significant as the risk of needing long term care that advisors continuously advise their affluent clients to ignore?

The Myth of the Floor – What's wrong with it?
Slide #34

- Myth of the floor ("My client has limited assets and will qualify for Medicaid.")
- Assumes that our clients don't need long term care insurance because Medicaid will fund their need.

Slide #35

- "Do you want to spend the last years of your life in a nursing home?"
- "Yes"?
- Medicaid, with rare exception, only funds care in Medicaid-approved nursing homes.

Slide #36

- How many of your less affluent clients have children who are more affluent than their parents? Do these children worry about their parents?
- Do they want to put them in a nursing home when they need care?

Slide #37

- How many of your less affluent clients have illiquid assets, particularly land? Do they want this land to be liquidated to pay for their care costs?
- Do their children want this land to be liquidated?
- How hard is it to qualify for Medicaid today?

Medicaid following the Deficit Reduction Act of 2005
Slide #38

What is Medicaid?

- A jointly funded and administered federal and state health-care plan for people who cannot afford to pay for their own care.
- Considered "payer of last resort."
- Single largest payer of chronic care costs: 38% (2005).
- Not an entitlement program.
- Laws, including Deficit Reduction Act (2005), have been passed in an attempt to close loop holes and decrease Medicaid spending.

Medicaid as Differentiated from Medicare
Slide #39

"Medicaid is, and always has been, a program to provide basic health coverage to people who do not have sufficient income or resources to provide for themselves. When affluent individuals use Medicaid qualifying trusts and similar 'techniques' to qualify for the program, they are diverting scarce federal and state resources from low-income elderly and disabled individuals and poor women and children." House Committee on Energy and Commerce, 1985

Medicare is:
Slide #40

- A health care entitlement program covering most US citizens over age 65 and those who have qualified for SS disability for at least 2 years.
  - Part A – Hospitalization
  - Part B – Medical
  - Part D – Prescription Drugs

Slide #41

- Part A may cover rehabilitative, Skilled Nursing Care for up to 100 days if the patient:
  - Was hospitalized for at least 3 nights
  - Is in a skilled facility for the same medical reason as the hospitalization
  - Is rehabilitating
- Medicare does not pay for Custodial Care (Most LTC is custodial.)

The Use of LTCi as a Medicaid Planning Tool
Slide #42

- Deficit Reduction Act of 2005 (PL 109-171) changed the rules for Medicaid Planning.
- Eliminated 3-year look-back period, allowing only a 5-year look-back period.
  - Penalty Period start date is when the individual begins receiving nursing home care.
  - These rule changes affect the design of LTCi policy benefits.
    - A 3-year benefit period is no longer adequate to protect assets; a year or 6-year benefit period is needed.
    - Assets must be transferred at the time a claim is made on the long term care policy.

Slide #43

- It increases the retirement benefit by the total of the "pool of money."
- Here's an example:
  - $300 Daily Benefit
  - 10-Year Benefit Period
  - 5% Compound Inflation Increase Rider
  - Pool of Money for Executive and Spouse in 2006 dollars = $300 x 365 x 10 x 2 = $2,190,000

Slide #44

- This amount does not need to be set aside to provide for care no and in the future.
- Industry as "mis-sold" the product. It has been sold from the perspective of what could happen if you do not own the product. Even its name, long term care, presents a negative image.

Slide #45

- Do you remember what 401Ks and 403Ks were originally called?
- Salary reduction plan.

Slide #46

- Most of us don't want to think about long term care, nor do we want to plan for it.
- By not planning, we are actually planning to self fund or allow Medicaid to fund our care.
- Discussing Long Term Care may be the last taboo.

Slide #47

- We need to reframe the discussion away from the grim realties of the current chronic care model, to responding to these questions.
  - ➢ What are your dreams for your retirement?
  - ➢ How will you protect your retirement income from living too long and the rising cost of health care?
  - ➢ What do you want your legacy to be?
  - ➢ How will you protect this legacy from living too long and the rising cost of health care?
  - ➢ Where do you want to spend the final years of your life? Who do you want to make this decision?
  - ➢ What lifestyle do you envision for your children and grandchildren?
  - ➢ How will you or your spouse needing care affect their lifestyle?

What Should My Clients Look for in a Long Term Care Insurance Policy?

Slide #48

- An advisor: CLTC, CASL, LTCP, CSA
- A long term care policy from an insurance company with high financial ratings, a good track record for paying claims, fair pricing and premium stability, and a long term commitment to the product.
- Benefits that meet their needs and fits their pocketbook now and in the future: a daily benefit that is appropriate given the current cost of care and a benefit period that covers their greatest risk.

Slide #49

- Benefit triggers that are worded as follows: "Hands-on or Stand-by assistance with two of six activities of daily living." Substantial supervision to protect the insured from threats to health and safety due to a severe cognitive impairment.
- Home care benefits that allow for care from professional home care agencies and independent care providers.
- In most cases, a 5% compound inflation rider to keep the benefits up with the rising cost of care.
- Opportunity to "upgrade" the benefits overtime without penalty (more important the younger the client).

Slide #50

- Certainly no later than when they begin planning for their retirement or the distribution of their estate.
- Insurance requires insurability.
- Earlier if there is a family history of chronic diseases, if there is a chronically ill or disabled family member for whom he/she will be responsible, if her/his profession precludes the purchase of Disability Income Insurance, or if she/he participates in dangerous avocations. Long Term Care Insurance can be purchased as early as age 18.

Difficulty for the Advisor:

Slide # 51

- Finding a balance between meeting care needs in way client wants to receive care and the premium on the LTCi policy.
- Most individuals and families do not want to transfer assets earlier than is necessary and many prefer to wait until entering a Nursing Home, this often is not soon enough.

Slide #52

- Individuals accessing benefits on long term care contracts typically use the benefits at home prior to entering a nursing home (80% of claims are Home Care claims).
- Individuals who own LTCi policies typically move into Nursing Homes only when their care needs become so extensive that they can no longer be served at home or in Assisted Living facilities or they have run out of LTCi benefits (their care has exceeded their benefit period and/or they have totally depleted their pool of money).

Is there any good news in the Deficit Reduction Act of 2005? Possibly!
Slide #53

- The Deficit Reduction Act of 2005 lifts the moratorium for state LTCi partnership plans (currently available in California, Connecticut, Indiana, and NY).
- Typically these plans allow individuals to purchase fewer benefits on LTCi policies and protect a greater percentage of their assets.
- Example of how a Partnership Plan works:
  - Current protected assets for a couple in state A = $100,000
  - Benefit Account Value of this couple's LTCi policy = $200 DB x 365 x 5-year BP = $365,000.
  - Total protected assets following the purchase of LTCi = $455,000.

In Conclusion
Slide #54

- Most of us and virtually all of our clients expect to retire one day.
- Our retirement will not be our parents' retirement and, for most of us, we can expect a longer retirement than our parents and our grandparents expected.
- Although we may not know the answer to "what's next?", most of us have images of what the early years of our retirement will look like; and most of the images are pleasant.

Slide #55

- We would prefer not to think of the later years of our retirement and when we do most of the images are unpleasant.
- None of us want to spend the final years of our lives in a nursing home and we tend to avoid discussing that by making comments such as: "simply shoot me first" or "give me an overdose of pills." Almost all of us what to remain home among the people we love.