

*A Quarterly Update on Long-Term Health Care*

# It's A Wonderful Life



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## LONG-TERM CARE PROTECTION FOR AN AGING AMERICA

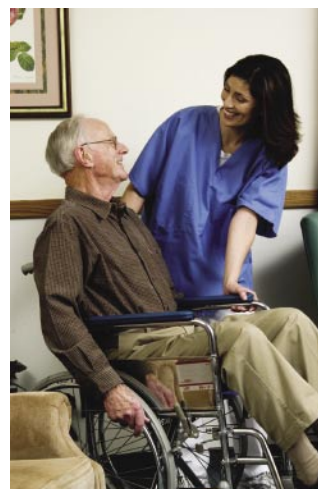
According to statistics from a study entitled “Beyond 50: A Report to the Nation on Trends in Health Security” by the American Association of Retired Persons (AARP, 2003), of those age 50 and up, approximately one out of five report that either they or their spouses provide care for an impaired relative or friend. Over 50% of caregivers fulfill these duties for five or more years, and the average amount of time spent on such care is over 20 hours per week. To compound the challenge, a greater number of people age 50 to 64 have no insurance compared to past generations.

With nursing home costs now averaging upwards of \$55,000 annually, according to the AARP, individuals may quickly run through both their income and their savings if they require an extended nursing home stay. Even home-based care provided by an aide three times a week can run \$1,300 a month, and if skilled nursing care is necessary, the tab can be much greater (AARP, 2001).

### *Your Options*

Medicare covers long-term care, but it usually provides only very limited coverage (up to 100 days of skilled care). If your annual income meets certain government eligibility standards and you have little savings, you may qualify for Medicaid, which will cover nursing home expenses.

For everyone else, the widespread need for long-term care in nursing homes and group residences has spurred many insurance companies to begin offering a relatively new type of coverage: **long-term care insurance**. In practice, however, buying long-term care insurance is often not high on people’s lists of priorities. Unfortunately, the worst time to start shopping for it is when you *need* it.



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## TAX BREAKS FOR LONG-TERM CARE INSURANCE

As the American population ages, and longevity increases, the need for long-term care will grow. As people get older, assistance may be necessary for daily activities or medical needs. The good news is, if in the future a **long-term care (LTC) insurance** policyholder needs outside help, he or she will have the ability to choose how to receive care.

Health care costs continue to rise, and one financial tool that can help families pay for medical care for a lengthy period is long-term care insurance. It is often impractical for adult children who are in the middle of their careers or raising children to become full-time caregivers to their parents or other loved ones. Long-term care insurance can help pay for nursing home stays, assisted living, or in-home care. In addition, the government offers deductions to encourage the American public to buy long-term care policies. With the future of public assistance programs questionable, the government seems to be sending the message that the public must take control of its future care. With the offered deductions, you may realize that long-term care insurance is more affordable than you thought.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) provided that long-term care insurance contracts should generally receive the same favorable income tax treatment (within prescribed limits) as accident and health insurance contracts. As life expectancies increase, planning for long-term care becomes more a matter of *when* rather than *if*. The incentives in HIPAA help to remove some of the uncertainty surrounding long-term care policies and enhance their attractiveness. Here are some key points pertaining to long-term care policies:

- Like premiums for regular health insurance, **premiums** for qualified long-term care policies can be deducted as a medical expense, subject to the general 7.5% of **adjusted gross income (AGI)** floor for medical expenses. However, the amount that qualifies for the medical expense deduction will be *limited* according to the *age* of the insured. The qualified deduction, to be indexed for inflation in future years, is subject to the following annual limits in 2006:

Age Before Close of Tax Year	Deduction Limitation
40 or less	\$280
41 to 50	\$530
51 to 60	\$1,060
61 to 70	\$2,830
More than 70	\$3,530

Source: Internal Revenue Service (IRS), 2006

- Long-term care expenses unreimbursed by insurance will be deductible as medical expenses (subject to the 7.5% of AGI floor). These expenses are not deductible if a relative provides the services, unless the relative is *licensed* to provide such services.
- Long-term care coverage cannot be paid for through an employer-sponsored **flexible spending arrangement (FSA)**. If an employer does provide long-term care coverage under a **cafeteria plan**, the premiums for such coverage will be included in the employee's income. This legislation sends a strong signal that the government is not going to pay for long-term care, but it will provide *tax incentives* for individuals to assume responsibility for their own coverage. ○

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By then, either you or your family members may not qualify, or if qualifying is not the issue, the premiums can be prohibitive.

Long-term care encompasses three distinct types of care:

- **Skilled care**, which is 24-hour-a-day care by a registered nurse under a doctor's supervision;
- **Intermediate care**, which is occasional nursing and rehabilitative care under the supervision of medical personnel; and
- **Custodial care** or help with personal needs such as cooking and bathing. In-home assistance with daily activities is considered long-term care and is becoming increasingly prevalent.

### *Buyer Beware*

Long-term care insurance pays a predetermined daily benefit for any or all of the basic types of long-term care. The cost of a policy varies with the daily benefit amount you choose and the deductible or "elimination period"—the number of days you must be in a facility before payments begin. One common choice is an elimination period of six months or less.



You may wish to consider looking for a policy that pays a high daily benefit. The best plans pay most, or all, of the average

daily room rate of a nursing home in an individual's geographic area. To allow for increasing nursing home costs, consider an **inflation protection option**. A 30-day to 45-day grace period to pay premiums before benefits are terminated is an important feature as well.

When analyzing a particular insurance plan, check that *all* levels of care, not just skilled nursing care, are covered. Inquire whether a facility must be Medicare-approved in order for you to qualify for benefits. Some insurance companies may insist that you stay at a designated facility. Others may permit you to stay at the facility of your choice, as long as it meets established guidelines. Still other companies may pre-certify the facility you select before you buy the policy.

Check the policy for "organic mental condition" coverage. This generally includes Alzheimer's disease, but you should consider asking for a **rider** to that effect if it is not explicitly stated. Most policies will not cover pre-existing illnesses if they are identified within six months of the start date. If you are already disabled or use a wheelchair or walker, it may be difficult to get long-term care insurance. Make certain your policy is automatically renewable and investigate coverage that is conditional on prior hospitalization or pre-existing conditions.

### *Securing Your Peace of Mind*

If you have substantial income and assets to protect, you and your family may be well served by purchasing long-term care insurance coverage. Otherwise, you may be fully liable for the costs of your long-term care, which could lead to ultimately depleting not only your retirement income, but also your life savings. ○

## HEALTH NEWS

### *Tea—Drink to Health*

For many cultures over many centuries, tea has provided a measure of comfort, status, society, and art. According to legend, more than 5,000 years ago the Chinese emperor, Shen Nung, declared that drinking water must be boiled for sanitation. One day when his servants were preparing his water, leaves from a nearby bush fell in, and tea was born. Centuries later, Anna, the Duchess of Bedford, sought a way to bridge the morning and evening meal. An afternoon tea served with sandwiches and sweets fit the bill among ladies of society.

Today, tea is more commonly viewed as a source of comfort than fashion. And increasingly, its medicinal properties are making headlines. Flavonoids, compounds found in tea, are thought to work as antioxidants, which help neutralize free radicals. Scientists think that over the years free radicals cause physical damage to the body and promote certain diseases.

A vast number of studies have been conducted in recent years to examine the effects of tea on various physical conditions. The results have been astounding. Based on research, tea consumption has shown indicators of reducing the risk of heart disease, stroke, heart attacks, and cancer. Tea has also been shown to improve oral and bone health, as well as boost the immune system. However, in May 2006, the Food and Drug Administration reported that after reviewing over 100 studies, it could not find evidence of tea's health benefits.

Fact or theory, fashion statement or source of comfort, tea will continue to be a drink of choice. More than 5,000 years of consumption have ensured that tea is a ritual of life.

### *Tips for Osteoporosis Prevention*

According to *U.S. News & World Report*, osteoporosis is a condition that currently affects over 24 million women in the United States. Compared to men, women are four times more likely to be afflicted with the disease, which is the cause of 1.5 million bone fractures annually (*U.S. News & World Report*, 2006).

Osteoporosis is a disease which causes loss of bone mass and leads to bone fractures or breaks, loss of height, and sometimes curvature of the spine. The human body gets the calcium it needs by breaking down and rebuilding bones. This process strengthens healthy bones, but for those with osteoporosis, this process causes an increase in the size and number of holes in bone tissue. The result is weakened bones susceptible to breakage.

Fortunately, preventative measures can be taken to decrease the chances of developing osteoporosis. Exercise is essential to bone health. Activities such as walking, jogging, hiking, and stair climbing are all weight-bearing exercises that aid in promoting bone strength.

Smoking has been shown to decrease bone density. Research indicates that those who quit smoking can decrease these effects. Calcium is also essential to bone health. Vitamin D helps the body absorb calcium. It can easily be absorbed into the body by sunlight.

Osteoporosis is a progressive and debilitating disease. Evaluate your risk factors and take the precautions above. Your mobility and vitality in your older years may depend upon it.