A Quarterly Update on Long-Term Health Care

It's A Wonderful Life

From the Desk of:

Robert J. Sweiss
CSA, CLTC, CEA

4849 W. 85th Street
Burbank, IL 60459
Phone: (708) 499-6060
Fax: (708) 499-6565
rjs@robertsweiss.net

Beyond Retirement Planning: Preparing for Long-Term Care

Most people are aware of the importance of planning for retirement. Building financial stability in one's retirement years means accumulating sufficient assets and savings to maintain one's accustomed lifestyle. A general rule of thumb is that retirees will have an annual need of 60–80% of their former incomes.

Ultimately, your accumulated retirement funds should be able to support your lifestyle goals. However, many people do not consider their financial needs in the event they become incapable of taking care of themselves or living on their own and need **long-term care (LTC)**. Although it is an unpleasant thought, it is quite likely that you or someone you love will eventually need physical or medical assistance.

When a person is unable to perform two out of six **activities of daily living (ADLs)**, assistance is typically considered necessary. ADLs involve eating, dressing, independent toileting, continence, moving about the house, and bathing. With increased longevity, more and more seniors may find that they need long-term care. But who will pay for the services they will require? Many people incorrectly assume that **Medicare** and **Medicaid** cover long-term care. In truth, Medicare will generally only offer temporary assistance, and Medicaid, which varies by state, may require that you pay out of pocket and exhaust your assets in order to meet low income qualifications.

Sometimes parents assume their children will take care of them in their old age, and although children may well have the desire to do as much as they can, certain factors will need to be realistically considered. Will your children have the strength, time, and financial freedom to give you the care you need? Do they possess the medical training that may be necessary? As you plan, it is important to consider your family medical history, evaluate your personal health risks, and honestly assess whether your children would be able to take care of you. Unless funding long-term care is incorporated into planning, far too many people will need to find alternative ways to receive care and pay medical bills. Remember, the only viable source of government aid requires you to spend down your assets to

continued on page [2]

Volume VI, Issue 2

continued from page [1]

Beyond Retirement Planning: Preparing for Long-Term Care

the point where you are impoverished according to state standards and, therefore, eligible for public assistance.

To illustrate the challenges, here are some alternative methods of financing long-term care. While these resources are invaluable if no other options exist, they may not be preferable and could be avoided altogether with advance planning.

Personal Savings. This category includes accumulated wealth, such as retirement accounts or savings. If your funds are sufficient to cover the necessary expenses, then you may be ahead of the game. However, if you hope to bequeath assets to your heirs, this option could greatly affect your wishes.

Real Estate. If necessary, property can always be sold, but this is obviously a last resort. Real estate is a relatively illiquid asset, and forced sales can have negative financial and emotional consequences.

Cash Value Life Insurance. These policies offer cash values that can be tapped into during your lifetime. To do so requires either borrowing against the policy value or canceling the policy altogether. Tapping into a policy's equity will affect the amount that is paid to heirs and could have tax consequences. If the policy is canceled, it may not be renewable.

Since these options may be less than ideal, consider **long-term care (LTC) insurance**. Policies vary, but in general, they provide a daily, set amount of coverage that can be used in a number of ways. Should you come to need daily assistance, long-term care insurance can help cover the expenses of nursing homes, assisted living facilities, or even home health care. You may find this financial assistance offers you the freedom to remain independent and increases your options for care.

With long-term care insurance, you can minimize the financial risk of extended care and relieve the burden of uncertainty from family members. In fact, the government is so aware of the need for these policies that many federal employees are being offered the opportunity to purchase long-term care insurance. Furthermore, if you purchase a "qualified" policy, premium payments may be eligible for tax deductions.

Planning for retirement should not end after long-anticipated trips and adventures are scheduled or taken. Instead, in order to formulate a complete financial strategy, long-term care planning must be incorporated. Protect your entire future and that of your family, and prepare for the possibility of long-term care. ❍

Survivorship Life—A Win-Win Proposal

One of the more flexible and creative products in the insurance arena is **survivorship life insurance**. Often referred to as ***last-to-die*** or ***second-to-die*** life insurance, this coverage insures *two* individuals but provides only one death benefit payable at the death of the second insured. In some instances, especially when the insured individuals are nearing retirement, it may be less expensive than a single life insurance policy on one individual.

Cost savings are made possible because the insurance risk is spread over the life expectancy of *two* lives rather than one. In fact, two individuals often can be insured even if one is medically "uninsurable," thus providing added security and planning potential for otherwise difficult situations.

continued on page [3]

continued from page [2]

Survivorship Life—A Win-Win Proposal

Benefits for Estate Planning

The advent of survivorship life insurance has created several exciting personal planning opportunities, the most popular of which is the funding for payment of anticipated estate taxes. Even with the appropriate wills, trusts, and property ownership designations, married individuals who properly balance their estates are still subject to estate tax on assets exceeding the **applicable exclusion amount** of $2,000,000 per person in 2006. In this type of situation, a survivorship life insurance policy can be an integral part of an estate plan.

Let's take the hypothetical example of Jane and Rick Sanderson. Jane and Rick are both sixty years of age and have three adult children. The Sandersons have updated and signed the appropriate legal documents (**wills**, **trusts**, etc.,) and repositioned their asset ownership to maximize their individual applicable exclusion amounts. Thus, the potential exists for $4,000,000 in 2006 to pass to their heirs free of estate taxes. However, the remainder of their assets may incur as much as a 46% federal estate tax.

One solution to this problem would be to create an **irrevocable trust** to purchase a survivorship life insurance policy on their lives. The trust will own and be the beneficiary of the policy, thus allowing the policy proceeds to pass to the trust beneficiaries (the Sandersons' children) estate tax free. The Sandersons ***gift*** the policy premiums to the trust using their **annual gift tax exclusions** of $12,000 (indexed for inflation) per person per donee for 2006. In order to qualify for the annual exclusion, the trust contains **Crummey withdrawal powers**.

Enhance Charitable Gifting

Even if an individual does not foresee any estate tax problems, survivorship life insurance can be a dynamic method used to enhance any gifting program. Suppose the Sandersons' net assets total $600,000 and they have little concern about estate taxes. However, they make an annual gift of $5,000 to a favorite local charity. Rather than gifting $5,000 in cash to the charity every year, the Sandersons may choose to leverage their gift and pay the premium on a survivorship life insurance policy. This insurance gifting program is arranged so the charity is the owner and beneficiary of the new survivorship life policy. The Sandersons will then receive an annual charitable deduction for their generous gift, and the charity will ultimately receive a life insurance death benefit.

Maintaining Business Continuity

In a more advanced use, survivorship life insurance can be effective in helping to ensure continuity in a **closely-held** business. For instance, passing a family-owned business of substantial value to heirs may be hampered by potentially hefty estate taxes that, in some instances, may require a forced sale of the business in order to raise the necessary cash to pay the taxes. A survivorship life insurance policy can be purchased on the lives of the owner and his or her spouse, with the death benefit providing cash to help meet estate tax obligations and help keep the business in the family.

The many uses of survivorship coverage can result in a "win-win" situation for the insured individuals and their families. Whether you have an estate tax problem or wish to leverage the value of a gift to your favorite charity, a survivorship policy can help provide a relatively high benefit for a minimal cost. A consultation with your insurance professional can best determine how a survivorship life insurance policy can fit into *your* overall financial program. ❍

Health News

Diabetic Deaths Increase

Recently, a team from the Albert Einstein College of Medicine in New York City completed a study that determined advancements in preventing deaths from heart disease may be overridden by dramatic increases in diabetes related deaths. The team studied the death records of New York City residents age 35 and up from 1989–1991 and 1999–2001. In that time frame, death by stroke, cancer, and others declined, while deaths from diabetes rose 61%. Furthermore, diabetics who suffered heart attacks increased from 2,951 to 6,048.

Dr. Michael Alderman, senior author of the study, said, “Diabetes has reached epidemic proportions in the U.S. and the leading cause of death among people with diabetes is coronary heart disease.” Lead author, Dr. Jing Fang, further stated, “Over the past 30 years, the U.S. has achieved dramatic reductions in illness and deaths from coronary artery disease. But if this upsurge in diabetes-associated deaths and illnesses continues, it may put an end to the progress we’ve made in combating illness and death from coronary artery disease.”
(Source: *Diabetes*, February 2006)

Regulate Your Cholesterol Levels

According to the U.S. National Institutes of Health, the level of cholesterol in your blood is a strong indicator of the risk of heart disease. High levels of cholesterol mean that hardening of the arteries will be likely. This condition can cause blockage in blood flow, which can result in a heart attack. You can have your cholesterol checked with an easy blood test. If cholesterol levels are determined to be too high, diet and exercise may help. In addition, certain prescriptions are well suited for those with cholesterol problems.
(Source: National Institutes of Health, 2006)

Asthma Medication May Be Weight-Biased

The results of a recent study sponsored by Merck & Co. have indicated that certain asthma medications work better according to an individual’s weight. The *European Respiratory Journal* reports that researchers’ analysis of 3,073 moderate asthmatics indicated that those of average weight may be best suited for an inhaled steroid, beclomethasone, while overweight asthmatics tended to respond better to montelukast sodium (Singulair). Dr. Marc Peters-Golden, author of the study, reported, “It is increasingly recognized that obese people are more prone to develop asthma, but there is no information about whether obesity influences people’s responses to particular asthma medications. Our findings are the first to suggest the possibility that obesity might be a factor that influences how well asthmatics respond to particular medications.”
(Source: *European Respiratory Journal*, 2006)