BMO Harris Financial Advisors

Long-term care...new solutions, new ideas

Retirement is something many of us strive for during our working years. The best part of retirement is the time it gives us to do the things we want to do, such as traveling, spending more time with family and friends, and giving time to charities.

So, we start by putting together a plan to help make sure we have the income to cover our expenses, income to enjoy our lives and enough assets to avoid outliving our savings.

There are two pieces that need to be considered in a retirement plan which are often overlooked: an adequate retirement income stream and retirement income protection. One of the most devastating situations that can destroy a retirement plan is the need for long-term care services, either for yourself or your spouse, and not having enough income to pay for these additional expenses.

Professional, long-term care is expensive, but sometimes necessary. Most families would like to believe they could take care of a spouse or parent if he/she needed care. Unfortunately, many times families find they can't perform the physical tasks of caring for a loved one, are unable to because of their own personal obligations, such as raising their family, or may not be emotionally prepared for that responsibility.

Long-term care benefits can offset the costs of professional caregivers. This allows families to keep assets that might otherwise be used to fund these services, thus reducing financial stress so they can focus on their own personal needs. It allows the family to help a loved one with things such as grocery shopping, watching a movie or having a conversation, instead of focusing on the physical needs associated with long-term care. This lets the family make the most of the time they have together.

Long-term care insurance protection can be a good way to help pay for a family member's needs. Today, long-term care insurance policies provide coverage for home health care, assisted living facilities, Alzheimer's facilities, adult day care and nursing home care. And, there are several ways to design your protection.

A traditional insurance policy

A traditional long-term care insurance policy is one choice to consider. This is the option most familiar to people—you pay a premium and if you have a need for long-term care services in the future, it pays benefits. Such coverage is less expensive for those who buy a policy while they're in their 40s or 50s. However, if you wait until your 60s or 70s, experts say you may spend 40 to 50 percent more.

When considering long-term care coverage, remember the price of professional care can vary by region. Investigate the cost of homecare, assisted living and residential nursing care in the area where you will retire. You will also need to determine the benefit period, or the number of years for which your policy will cover care, and your elimination period, which is similar to a deductible.

Finally, you will need to decide what form future payments will take, including:

1. A **reimbursement policy** pays for the costs of care up to your maximum daily benefit, using any extra money to extend your coverage period.
2. An **indemnity policy** writes you a check for your maximum daily benefit, regardless of how much you're actually spending. You use the extra money however you like—to pay a family member for help, for instance.

Life insurance with living benefits for long-term care

Though a standard long-term care policy is a good option for many, some people may prefer other ways of designing protection. A life insurance product with living benefits for long-term care is one such option.

These can either be purchased on a single life basis, or for two insured's. Usually, these are purchased using a lump sum amount but can also be funded over a 10–20 year period.

If, for example, a husband and wife (both age 65) placed a lump sum amount of $150,000 into one of these types of polices, the policy could provide them with:

1. A total LTC and death benefit pool of $256,344*
2. Monthly benefit of $5,127 per person*
3. 50 months of shared coverage*
4. $1,417 annual premium for lifetime coverage without inflation*

*Note: All illustrations vary depending on the individual. This is for illustration purposes only.

These policies also offer riders that extend the long-term care coverage for as long as either insured needed long-term care, beyond the value of the death benefit. A 5 percent compound inflation protection benefit on the monthly amount can also be added.

Some policies offer residual benefits to heirs, even if they use the entire death benefit for long-term care expenses, as well as a return of premium guarantee for those who may want to cancel their policy. This type of option appeals to those who may not want to pay an ongoing insurance premium and would like some benefits for their family in case they, themselves, never needed it.

Today, your financial advisor has more than the traditional insurance policy as a way to protect your assets against the cost associated with long-term care. Because of recent tax law changes, they have more options available to meet your individual need(s).

Tax qualified long-term care annuities

Effective January 2010, a tax law change under the Pension Protection Act gave investors another choice for funding long-term care and long-term care coverage. This act allows cash value withdrawals from **specific annuity contracts** to pay for qualifying long-term care expenses or to pay qualified long-term care insurance premiums, and will not be considered taxable income, even if it comes from the tax-deferred growth in the annuity contract.

The annuities affected by this tax law change include those funded with after-tax dollars, or those using an income-tax-free exchange from a non-IRA annuity into a qualified long-term care annuity. In addition, some of these annuities offer a continuation of benefits feature that extends the long-term care benefits beyond the annuity value (up to nine additional years). If the annuity is not used for long-term care, then the heirs will inherit the annuity and will have to pay income taxes on the tax-deferred again.

These annuities must include inflation protection options, have a long-term care claims department and meet all other requirements of the Health Insurance Portability and Accountability Act (HIPAA). While few companies currently offer products that meet these standards, we're pleased to be working with one of the few companies that do.

Planning for long-term care doesn't need to overwhelm you. As you can see, there are several different options to help you afford the potentially heavy burden of long-term care expenses. Talk with your BMO Harris Financial Advisor, who can review your current financial plan and work with you to determine the best option to help you fund these types of expenses.