LONG TERM CARE STRATEGY

Don’t be Scared be Prepared

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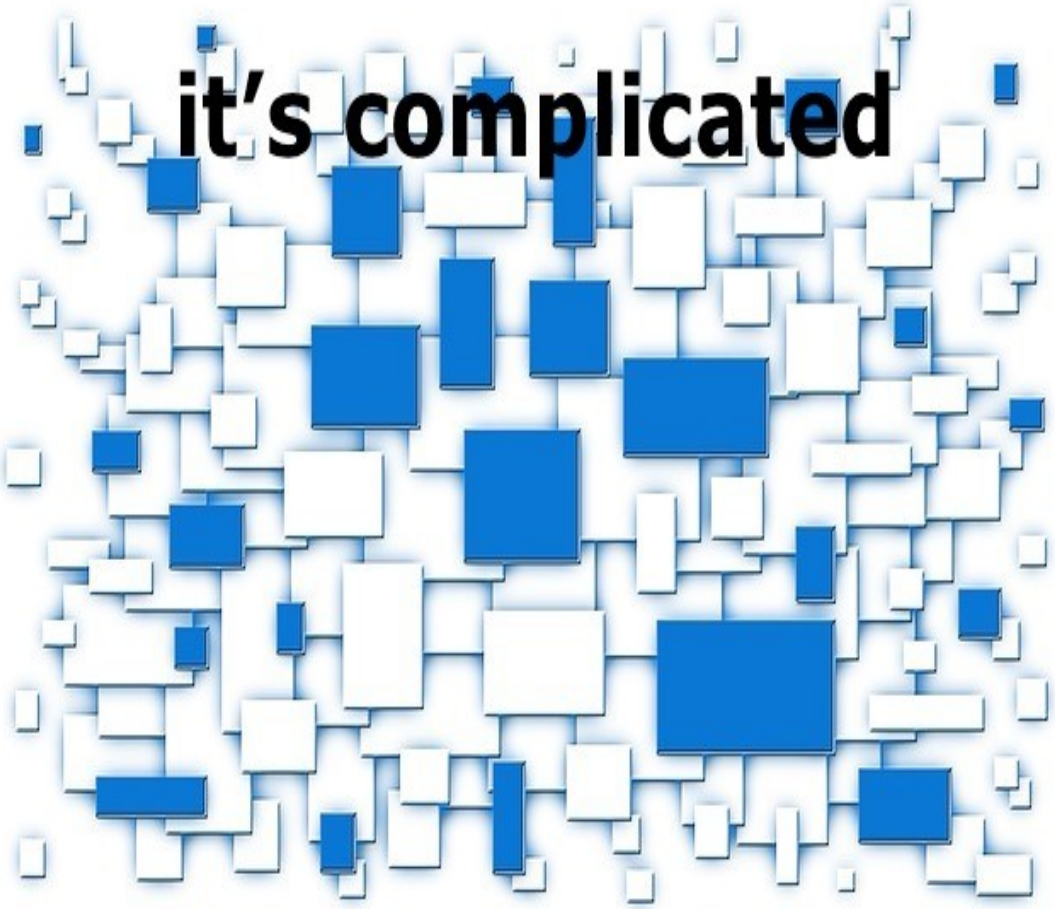
The Scope of this Presentation

Long Term Care Strategy is complicated, including issues such as

- Where you choose to live. (Most Seniors want to age in place at home according to recent AARP studies)
- What your financial resources are.
- Whether or not you have a spouse.
- Your relationship with your family.
- Your desire to leave an estate to your family.
- Your current and future health.
- There is no one size fits all solution.
- **Inflation for LTC services is a critical issue.**
- **All of these issues and more will determine the costs of long term care**.
- This presentation is designed to be a basic summary of this complex issues.



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About this Presentation

- This presentation was developed to explore some of the strategies for paying Long Term Care Cost.
- Most of my knowledge comes from my 40 plus years experience in Medicare, health insurance, and senior issues.
- However, during the research and development of this presentation, it became apparent that Long Term Care insurance solutions may not be the best alternatives for everyone
- Therefore, although insurance solutions for Long Term Care Financing will be discussed, other non-insurance solutions such as Medicaid will also be briefly described.
- **Please note that professionals in such areas as Elder Care Law and Real Estate may be needed for in-depth information and consultation for non-insurance solutions**.
- Finally, Long Term Care financial strategies can combine insurance and non-insurance solutions.

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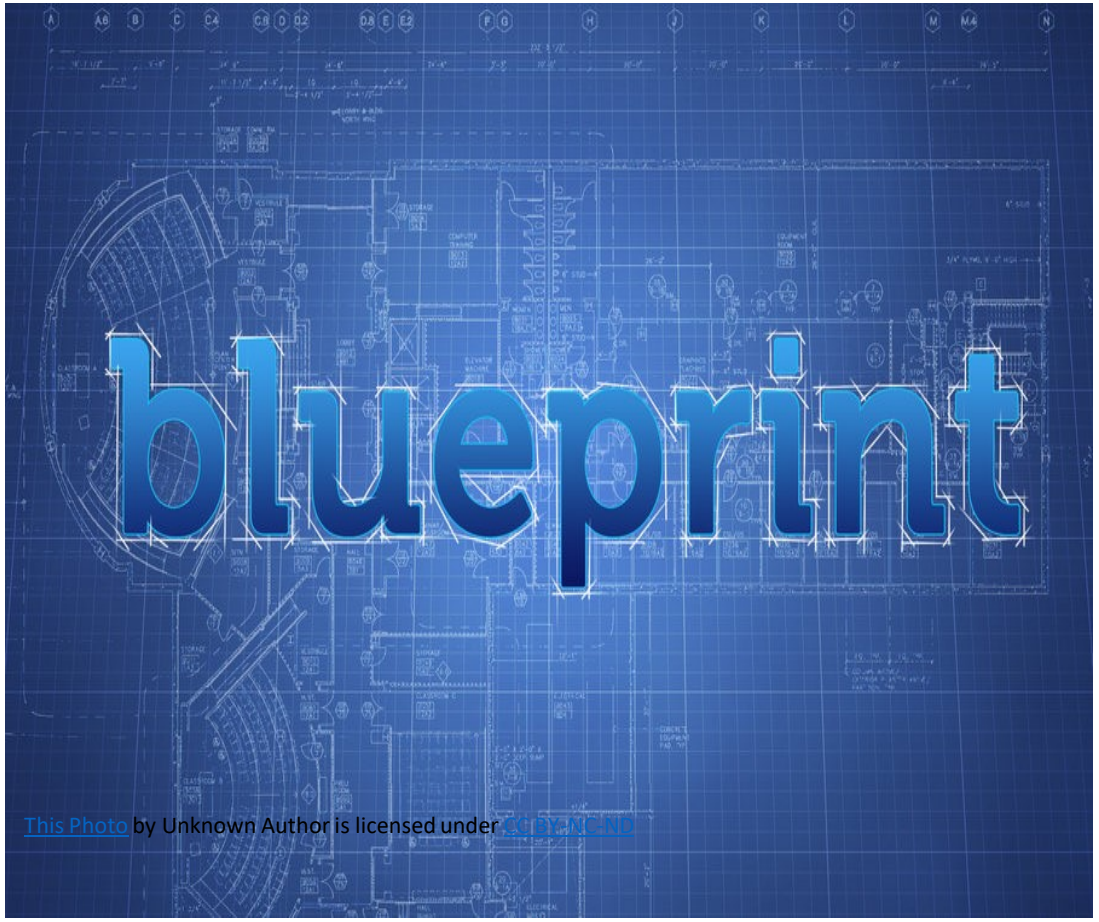
How this Presentation is Constructed



- Basic background on Long Term Care.
- Insurance Based Long Term Care Cost Solutions.
- Your Home as a Solution for Long Term Care Costs
- Government programs such as Medicaid and PACE.
- A brief discussion on Elder Care Medicaid Planning.
- Hypothetical Long Term Care Strategy Examples.

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Basic Background on Long Term Care

- What is Long Term Care?
- How much does Long Term Care Cost?
- What are your chances of needing Long Term Care?

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What is a Long Term Care (General Description)?

Qualifying Conditions

- The inability to do two or more of the Activities of Daily Living (ADL's) eating, dressing, bathing, toileting, transferring (i.e., walking), and continence.
- Or mental impairment such as Alzheimer's disease.

Types of Long Term Care Services

- Home Health Aides
- Skilled Nursing Facility Care
- Assisted Living Facility Care
- Group Homes
- Adult Day Care
- Nursing Home (Custodial) Care

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How much does Long Term Care Cost?
(Example 2018 Genworth Annual Long Term Care Costs-Michigan)
Do you have sufficient assets to cover these costs?

- **Home Maker - $50,336** **(44 hours/week for 52 weeks)**
- **Home Health Aides- $52,264** **(44 hours/week for 52 weeks)**
- **Adult Day Care - $20,800** **(5 days/week for 52 weeks)**
- **Assisted Living - $46,200** **(12 months, private, 1 BR)**
- **Nursing Home - $109,500** **(Private, 365 days)**

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What are your chances of needing Long Term Care?

- 70% of people turning 65 will need Long Term Care (1)
- The average period of care for men age 65 who need Long Term Care is 2.2 years for men. (2)
- The average period of care women age 65 who need Long Term Care is 3.7 years for women. (2)
- Within these averages, about 65% of people will receive home care for an average of two years (3)
- Within these averages, about 37% will need institutional care. (3)

Key Takeaways

- The probability of needing some type of Long Term Care is great.
- 2/3 of Long Term Care recipients will receive home care for an average of 2 years.
- More than 1/3 of Long Term Care recipients will need institutional care.

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What are your chances of needing Long Term Care foot notes

- (1) U.S. Dept of Health and Human Services “Who Needs Care Accessed June 2015.
- (2) U.S. News and World Report Phillip Moeller “ What you Need to Know About Long-Term Care Feb 19, 2013, extracted from the National Clearing House for Long Term Care, part of the U.S. Dept. of Health and Human Services.
- (3) U.S. News and World Report Phillip Moeller “What you Need to Know About Long-Term Care February 19, 2013, extracted The American Association of Long Term Care.

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Insurance Based Long Term Care Costs Solutions

- **Long Term Care Insurance.**
- **Long Term Care Insurance Partnership Plans.**
- **Life Insurance with Long Term Care Riders.**
- **Hybrid Long Term Care Life Insurance and Annuity Products.**
- **Short Term Care Insurance.**

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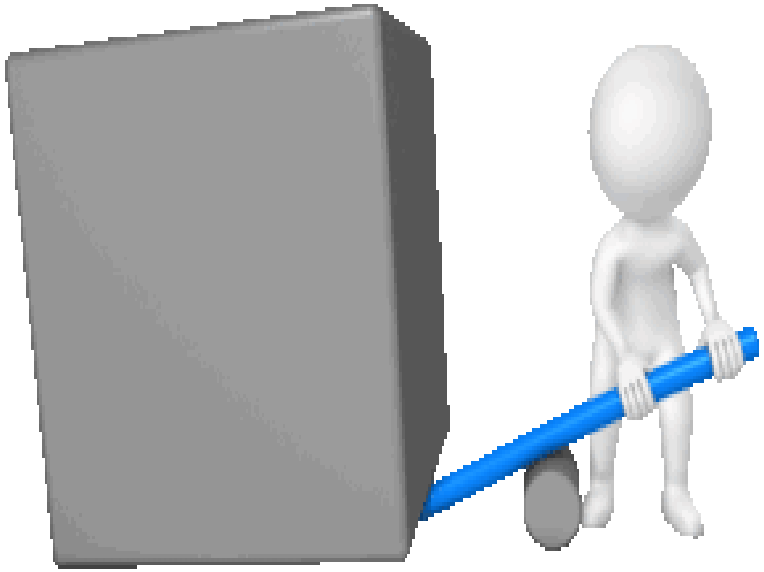
Insurance options are all about Financial Leverage

- If you don't have enough financial assets to cover Long Term Care (LTC) Costs and if you don't want to be totally dependent on Government programs, you need to leverage the assets you have to cover as much potential LTC costs as possible.
- Some examples, which will be detailed in later slides are as follows
- A LTC insurance monthly premium of $300 per month could provide $300,000 of LTC protection, at certain ages.
- A $191,000 single premium for a Universal Life Policy, paid at age 65 could provide $565,000 in LTC benefits at age 75 or a $237,000 Death Benefit if LTC benefits are never needed.
- The more money you put up front, the easier it is to obtain LTC protection, with Short Term Care being the exception.
- Upfront money can be obtained by repositioning financial assets that you don't depend on for income or by fully and/or partially converting existing life insurance or annuities that you aren't counting on for income (1035 Exchanges).



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What is Long Term Care (LTC) Insurance?

- Most LTC plans pay for all types of LTC costs, i.e., home care, assisted living, nursing home care, etc.
- Most LTC policies have life time dollar or year maximums.
- Most LTC policies have monthly and/or daily limits.
- Typically they have a waiting period before benefits start.
- LTC policies cannot be canceled, except for non-payment of premiums.
- However, LTC premiums will usually rise as policyholders age.
- Rate increases could vary significantly by company, so evaluating a company's financial position is important.
- LTC policies are medically underwritten and it will be difficult to be accepted if you have health issues.
- Like Auto Insurance, there is no policy equity, BUT return of premium options available.
- LTC policies provide the most benefits for the premium dollar (maximum leverage).
- LTC policies provide a pool of money if you have insufficient financial assets.

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What is a Long Term Care (LTC) Partnership Plan?

- A LTC Partnership Plan is a special type of Long Term Care Insurance offered by many Long Term Care Insurers partnering with most states, including MI.
- “Asset Disregard” provision allows policyholders to protect financial assets in an amount equal to long term care benefits paid under a LTC Partnership program.
- For example, if an LTC Partnership plan pays $50,000 in LTC benefits, then the $50,000 will be disregarded (protected) for community spouse or family, when assets are considered for eligibility for State Medicaid benefits.
- State Medicaid programs typically only allow applicants to have $2,000 for most types of financial assets to qualify for Medicaid.
- State LTC Partnership programs always include inflation protection provisions, which provides value, but be more expensive than policies without it.
- Most other provisions are the same as other LTC Insurance and on a “apples to apples” basis cost about the same as other LTC policies.

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What is Life Insurance with Long Term Care Riders?

- **Permanent Life Insurance builds cash value.**
- **Beneficiary will get face amount of the policy if in force upon death or the surrender value if cashed in before death.**
- **Long Term care rider will pay up to the face amount if beneficiary cannot perform usually 2 or more Activities of Daily Living.**
- **LTC benefits paid will reduce the face amount of death benefit.**
- **Less rigorous medical underwriting.**
- **May need large face amounts of life insurance to meet LTC costs.**
- **Monthly premiums rather than upfront payment can be used.**
- **Provides a pool of cash if you have insufficient financial assets.**
- **If Long Term Care Benefits are not used, the face amount will be payable upon the policyholder's passing or the cash value will be available before one's passing.**
- **Term Life Insurance convertible to permanent insurance is also available.**

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What are Hybrid Long Term Care Life Insurance and Annuity Products?

- **A combination of life insurance or an annuity to pay for long term care and other purposes.**
- **Payment is usually required up front.**
- **However, some policies now allow paying in installments, i.e., over 10-20 years.**
- **If sufficient assets are available, they can be repositioned for a hybrid Long Term Care product.**
- **Some hybrid policies now cover both spouses.**
- **Hybrids typically provide long term care benefits at some multiple of the life insurance face amount, i.e., LTC benefits may be two or three times the life insurance face amount.**
- **Hybrids therefore, increase long term care protection leverage.**
- **There are a wide variety of hybrid products with many different types, terms and provisions.**

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What is Short Term Care Insurance?

- Typically provides coverage for 1 year or less.
- Typically provides benefits of $100-$200 a day.
- May cover nursing home, Assisted Living, or Home Health Care.
- More liberal underwriting.
- Less expensive.
- Short Term Care Insurance could cover Long Term care episodes that are less than a year.
- Short Term Care Insurance could delay having to apply for Medicaid immediately.
- Provides good financial leverage for a short period of time.

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SPECIAL NOTE TO NCRO MEMBERS

- **Health Retirement Account (HRA)**
- Your HRA, administered by WageWorks can be used to pay for Long Term Care (LTC) expenses.
- Check with Wage Works for further details and/or questions.
- **Your Retirement Health Care Account (RHCA),** administered by Merrill Lynch can also be used to pay for LTC expenses.
- **Contributions to the Retiree Health Care Account (RHCA),** which you may have been made while employed by FCA, are held by Merrill Lynch and can be invested in a variety of funds. Once you retire you can draw on these funds tax free, to reimburse yourself for premiums and eligible medical expenses.
- Please contact Merrill Lynch about any account questions and WageWorks for further details of eligible reimbursements.

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How you can use the equity from your home to pay for or mitigate Long Term Care Costs

- Selling your home and moving to a lesser cost home to create savings for potential long term care costs, reduce maintenance costs, or for senior home modifications.
- Moving to a lower cost location and/or where you have more family support.
- Selling any vacation or second homes.
- Selling your house and using some or all of the proceeds for upfront costs for progressive care facilities or assisted living facilities.
- Nursing homes typically charge as services are used, so they may not require large upfront funds.
- Reverse mortgages to modify home for senior living requirements and/or pay for LTC home care costs.

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How can Home Equity fund upfront Progressive Continuous Care Senior Facility Costs?

- Progressive Continuous Care Facilities have independent, assisted living, and nursing home facilities.
- Residents can progress to different types of care, as needed.
- There may be different costs for different levels of care, i.e., independent vs. assisted living.
- Progressive Continuous Care facilities often require up front payments.
- Home equity from sale of existing home could help to fund these upfront costs.
- Costs and quality of facilities could vary widely depending on location and other factors.
- Some Assisted Living will require upfront payments, while nursing homes typically bill as services are used.
- Since Residents are tied to Progressive Care communities, they need to carefully evaluate the quality of life, quality of care, and financial stability of the community.

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What is a Reverse Mortgage?

- **Loan based on the owners home equity.**
- **Borrower receives lump sum or monthly payments.**
- **The amount owed can never exceed the home's value, regardless of how long the loan is outstanding or how much interest is accrued.**
- **Must be age 62 or older to qualify.**
- **Must be FHA approved.**
- **As long as one borrower lives in the home nothing needs to be repaid, BUT THE REVERSE MORTGAGE MUST BE IN THE NAME OF BOTH SPOUSES**
- **Loan will be repaid when or all borrowers leave the home, i.e., surviving spouse passes away, or moves to a retirement or care facility.**
- **Higher closing fees**
- **Borrower(s) responsible for property taxes**
- **Terms and conditions vary**
- **Could provide funds to pay for at home Long Term Care costs.**

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Government Programs for Long Term Care

- What are Medicaid Long Term Care Benefits?
- How are assets considered for Medicaid Long Term Care?
- What is a Program of All-Inclusive Care for the Elderly (PACE)?
- Note - Medicare has very limited coverage for Long Term Care (i.e., Post hospital confinements and Hospice coverage. Some Medicare Advantage Plans now offer limited home care benefits).

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What are Medicaid Long Term Care Benefits?

- Medicaid Plans are administered by each State and are heavily funded in part by the Federal government.
- Eligibility Requirements are State specific.
- Most states use Activities of Daily Living (ADL's) and/or mental impairment to establish eligibility.
- Over 30% of Federal Medicaid funding is allocated to Medicaid Long Term Care Benefits.
- Medicaid was designed for very low income beneficiaries, so middle income beneficiaries must drop to a low income and asset level to qualify for Medicaid Long Term Care benefits.
- **Medicaid Long Term Care applicants must meet Income and Asset Limits to qualify**
- $9,007 Medicaid Beneficiary annual Income Limit 2018.
- $2,000 individual, $3,000 couple asset limit (with exceptions described on next slide).
- Medicaid pays for Nursing Home and Skilled Nursing Home Care.
- May also cover some Assisted Living (**but not Room and Board**), Adult Day Care, and Home Health Care under Home and Community Based Service Waivers.
- Not all health care facilities accept Medicaid and/or may limit the amount of Medicaid residents accepted.
- Assisted Living residence charges are usually **NOT** payable by Medicaid.

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How are Assets Considered for Medicaid Long Term Care?

Exempt Assets are NOT included in the Medicaid Asset limits such as

- $2,000 or less in cash for a single person.
- Personal effects and household goods.
- Home equity up to $585,000 in most states, if a spouse, disabled dependents, and certain others reside in the home.
- One vehicle if used for recipient's medical care, employment, or modified for disability.
- Burial spaces and irrevocable pre-paid burial trust up to $11,072.
- Life insurance with a face value of $1,500 or less, although only the cash value amount is Not exempted.
- Joint bank account, if co-owner contributes an equal or greater amount
- Real estate or other tangible assets, if you attempted to sell at fair market value for at least a month.
- **Community Spouse Resource Allowance (CSRA), half of the countable assets up to $126,420, for non-institutionalized spouse. (The CSRA enables the spouse to pay bills to maintain the house or other usage**) – NOTE if institutionalized spouse is not in a nursing home, state rules need to be checked.
- Assets transferred **more than 60 months (claw back period)** prior to the Medicaid application.
- **Financial assets up to the benefits paid by a State partnership Long Term Care Insurance Plan.**
- **Assets INCLUDE the recipient's, the community spouse, and their combined assets.**
- **ALL OTHER ASSETS NOT EXEMPTED MUST BE SPENT DOWN TO QUALIFY FOR MEDICAID.**

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What is a Program of All-Inclusive Care for the Elderly (PACE)?

- A PACE program provides comprehensive medical and social services to frail seniors who need a nursing home level of care, but who choose to and are **capable of, living in the community**, usually with the assistance of family.
- PACE provides the same care and services provided by Medicare.
- In addition, services usually associated with long home care such as social services, transportation, adult day care, and counseling are covered.
- A team of medical and other professionals coordinate and provide comprehensive care
- PACE participants do not pay co-pay or deductibles, but non-Medicaid participants may pay a monthly premium.
- Many PACE members have Dementia.
- PACE programs are available in SE MI and many areas, but are not available in every State and Community.
- To find out if a PACE program is available where you live, check out the following website:
- https://www.medicare.gov/your-medicare-costs/get-help-paying-costs/pace

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Elder Law Medicaid Planning

- With the complexity of Medicaid, another approach is to use an Elder Law Attorney to develop a strategy to maximize Medicaid benefits and minimize the loss of financial assets.
- This usually involves converting or moving financial assets to qualify for Medicaid.
- The Legal vehicles include:
  1. ***Medicaid Compliant Single Premium Annuity*** – Converts non-exempt financial assets to an income stream for the community spouse.
  2. ***Asset Protection Trust*** – Vehicle to transfer financial assets, before the five year claw-back period to reduce assets, in order to qualify for Medicaid.
  3. ***Care Giver Agreement*** – An agreement to compensate Care Givers for specific services. A lump sum payment can be calculated and funded by non-exempt financial assets.
  4. ***Lady Bird Deeds*** – After the passing of the community spouse the Medicare beneficiaries home goes through probate and can be claimed by State Medicaid. Under a Lady Bird Deed the home can be left to a designated beneficiary such as a family member, without going through probate.
- ***An Elder Care Attorney is needed with these approaches and when the goal is to pay for Long Term care expenses, primarily with Medicaid.***

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NCRO MEMBERS – NEED LEGAL HELP?

- The Hyatt Legal Plan, offered to NCRO members Elder Law legal services, such as Medicaid assistance, Nursing Home Agreements, and wills.
- NCRO members can enroll in this plan during the annual FCA enrollment in the fall.
- Costs are $20.50/mo. or $246/yr.
- Further details can be found at www.metlife.com/mybenefits or by calling (800) 438-6388

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What are some Strategic Observations for Long Term Care Strategy?

There are five critical decision factors for Long Term Care:

- Where you choose to live
- The level of your caregiver support
- The extent you plan to use Medicaid, your own assets , and/or Long Term Care Insurance Solutions to pay for your Long Term Care Benefits
- Your financial assets and income
- Your health

Some totally hypothetical strategies are shown on he following slides.

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Example #1 -- Long Term Care Strategy – Stay at home, possibly eventually turning to Medicaid

Scenario

- Couple with $50,000 retirement income, $150,000 home equity, 401K and other investments of $100,000.
- Grown daughter and son, who visit frequently, live nearby.
- Neither have serious health conditions.
- Would like to stay in their home as long as possible.

Strategy

- Earmark funds from investment to make their home as senior friendly as possible, i.e., stairlifts, hand rails, etc.
- Discuss the possibility of having one or more of their children acting as care givers, with assistance from Medicaid or other resources.
- Creating a Lady Bird Trust to transfer the house to their care giver children after their passing, as some compensation for their care giving.
- Consider a care giver agreement as partial compensation for their children care givers and as a way to reduce non-exempt Medicaid assets
- Purchase a short term policy to give them some breathing room before actually creating the Lady Bird Trust and care giver agreement and possibly avoid having to apply for Medicaid.
- Use short term care benefits and investments as long as possible.
- Use Medicaid once short term care end and investments are exhausted.

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Example #2 – Long Term Care Strategy – Transfer Substantial Assets before Claw Back

Scenario

- Couple with $150,000 mostly investment income, $350,000 home equity, $1,000,000 IRA and other investments
- Two grown sons who live in different parts of the country
- Both in fair health, but Alzheimer's disease runs in the family
- Open to residing in a Nursing Home or Memory Care unit, if necessary

Strategy

- Couple wants to leave most of their assets to their family and other charitable causes
- Since asset preservation is a major goal they establish an asset protection trust early in their retirement to avoid the Medicaid 5 year claw back period
- Most of their assets are transferred to the Trust, which **they do not control**
- Transferring assets and income to the Trusts will speed up Medicaid qualification
- Arrangements made for the Trust to pay income to the couple until one or both of the couple require long term care

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Example #3 – Long Term Care Strategy – a Reverse Mortgage to stay at home and an Asset Trust to Compensate their Care Giver

Scenario

- Couple with $50,000 in retirement income, $500,000 in home equity, $100,000 in financial assets
- Grown son lives nearby and has his own large home
- One spouse with heart condition, but not disabled

Strategy

- The couple earmarks some of their asset to make their home as senior friendly as possible
- If and when one or both of them needs LTC services, they will use a reverse mortgage (which they have thoroughly researched) to pay for their in home LTC services.
- If they exhaust their reverse mortgage funds, they will apply for Medicaid in-home services, since they can stay in their home until the last one passes or has to live in a nursing home.
- Their son has agreed to be their care coordinator with the actual care giving services, provided by home care services.
- An Asset Trust is set early in their retirement to compensate their Care Giver son.
- If needed a Reverse Mortgage is obtained to finance home care.

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Example #4 – Long Term Care Strategy – Single Woman wants to move in with her daughter

Scenario

- Woman has $40,000 retirement income, $160,000 home equity, $20,000 financial assets
- Has a grown daughter, who asked her to live with her
- In good health
- She would be happy living with her daughter, but she doesn't want her daughter to be burdened by her potential LTC costs, and would also like to leave an inheritance for her daughter to help compensate her.

Strategy

- Woman sells her house and moves in with her daughter
- Using some of the home equity, she purchases a Long Term Care partnership program with $100,000 in benefits
- If her LTC expenses exceed $100,000, she can apply for Medicaid
- Since she has a Long Term Care partnership program, she can exclude the $100,000 of LTC benefits paid, giving her a $100,000 inheritance for her daughter

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Example #5 – Long Term Care Strategy – Progressive Continuous Care Facilities

Scenario

- Couple with $90,000 retirement income, $600,000 in home equity, $300,000 in 401K and other financial assets
- A grown son and daughter living in other states
- Both in fair health
- Couple would like to live independently with minimal burden to their children

Strategy

- Couple decide to sell their home and use most of their home equity for an entry fee into a progressive continuous senior facility
- If their health status changes, they can progress to the next level of care, i.e., going from independent living to assisted living.
- Depending on the facility, there may or may not be an additional cost for progressing to a higher level of care.
- The Facility provides Care Giver services.

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Example #6 – Long Term Care Strategy – Hybrid Life/Long Term Care (LTC) Insurance

Scenario

- Couple has $120,000 retirement income, $300,000 home equity, and $600,000 in IRA and other investments
- Grown Daughter living nearby and grown son in another state.
- Both in good health
- Would prefer staying in current home
- Would like to leave an inheritance for family

Strategy

- **Each** spouse purchases a Hybrid Life/LTC policy, which provides $200,000 death benefit and $500,000 LTC.
- Purchase funded by selling or repositioning existing financial assets to make a single premium purchase of each Hybrid Life/LTC policy.
- LTC benefits could be used for LTC home care or facilities.
- If LTC Benefits are never needed $200,000 death benefits will be paid to the beneficiaries.

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Example #7 – Long Term Care Strategy – Long Term Care Insurance and Life Insurance with a Long Term Care Rider

Scenario

- Couple with $100,000 retirement income, $300,000 home equity, and $350,000 in other financial assets
- Two grown sons in different cities
- One spouse is very healthy, while the other has a manageable heart condition
- They would prefer to stay at home.

Strategy

- Healthy spouse purchases a LTC Insurance policy at age 59, which provides $500,000 in benefits, payable in monthly premiums
- The spouse with the heart condition purchase a $150,000 Life Insurance policy with a LTC rider, which converts the $150,000 death benefit to $150,000 of LTC benefits, payable by monthly premium.
- The spouse with the heart condition therefore has a $150,000 of Life Insurance and $350,000 of other financial assets combined to create a $500,000 reserve for LTC expenses.

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Example #8 – Long Term Care Strategy – Medicaid Compliant Single Premium Annuities

Scenario (Medically Needy States Only)

- Couple has retirement income of $75,000, $200,000 in home equity, and financial assets of $500,000.
- They have no children.
- One spouse has been diagnosed for a condition, which will require a nursing home care for the rest of his life.
- The nursing home costs will exceed all of their financial resources, making Medicaid the only alternative.
- Under Medicaid rules, the $400,000 in financial assets would have to be "spent down" to $126,420 before qualifying for Medicaid.
- Under Medicaid rules the maximum income for the non-institutionalized spouse would be $36,276, which is about half of their current income.
- Is there a way to convert the financial assets to income to qualify for Medicaid and provide more income to the non-institutionalized spouse?

Strategy

- A Medicaid Compliant Single Premium Annuity is purchased for $374,580 ($500,000 assets - $126,420) (Medicaid asset limit for non-institutionalized spouse), making the institutionalized spouse eligible for Medicaid and provides additional annuity income for the non-institutionalized spouse.

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Don’t put your head in the sand – Make a Plan!

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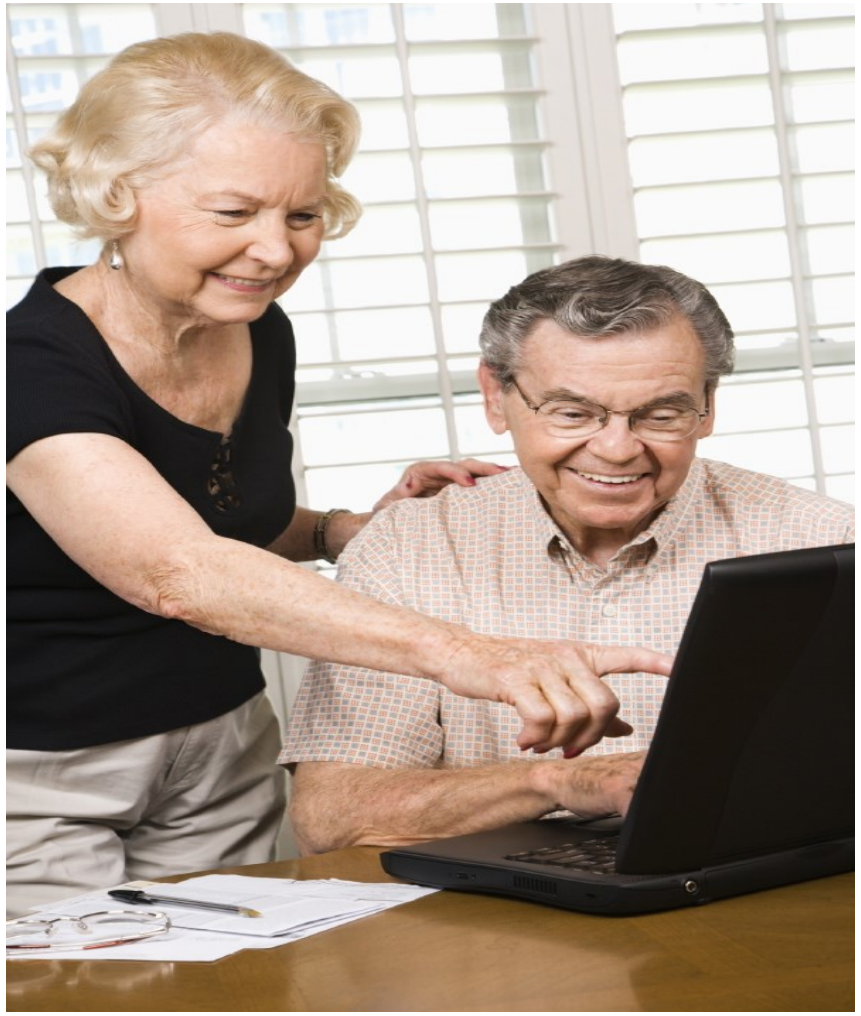

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We hope to hear from you!