Life & Health Insurance Advisor

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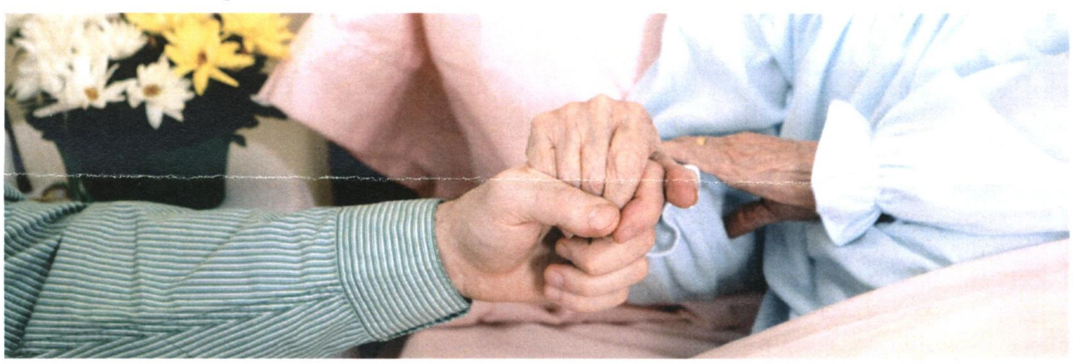
Long-Term Care December 2010 Volume 3 • Number 12

How to Get Long-Term Care Coverage Without Buying an LTC Policy

By 2050, the number of Americans using paid long-term care services will double to 27 million people, estimates the non-profit Family Caregiver Alliance. Despite the fact that people who reach age 65 will likely have a 40 percent chance of entering a nursing home, only a small fraction of adults over the age of 50 have bought a long-term care insurance (LTCI) policy. For those individuals who just can't bring themselves to buy LTCI, insurers offer a new option.



For some reason, a majority of individuals can't bring themselves to buy insurance to protect their family from the financial burdens of long-term care. Maybe it's denial—nobody likes to consider the possibility of poor health. Or maybe it's just reluctance to spend money on a product they might never need. But by the same logic, you wouldn't buy homeowners insurance, since most policyholders never file a claim.

To answer this need, insurers have begun offering long-term care riders on life insurance policies and annuities. While only 7 percent of men and 9 percent of women over the age of 55 have long-term care insurance, 70 percent of U.S. households have a life insurance policy; 44 percent have an individual life insurance policy. *(Source: LIMRA's 2010 Life Insurance Ownership Study.)* A long-term care rider adds this valuable coverage to your life insurance policy or annuity for an additional premium, which is usually less than the cost of a stand-alone LTC policy.

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This Just In…

If you want to retire early, work for a large employer. Large employers are far more likely to offer health benefits to early retirees, found a recent survey of private-sector employers by the Employee Benefits Research Institute. Overall, 11.2 percent of private sector employers offered early retiree health benefits. But among those with 1,000 or more workers, 34.5 percent did. Among employers with 100-999 employees, the percentage dropped to 7.5 percent. Only 2.4 percent of employers with 25-99 employees, 1.6 percent of employers with 10-24 employees, and 1.2 percent of employers with fewer than 10 employees offered early retiree health benefits.

Retirees who lack employer-provided health benefits and don't qualify for Medicare have a few options: 1) Obtain dependent coverage under a spouse's plan, if possible. 2) Buy COBRA continuation coverage, if eligible. You can typically keep COBRA coverage for up to 18 months after the "qualifying event" (retirement), although other qualifying events could extend eligibility up to 36 months. Employers can charge COBRA beneficiaries up to 102 percent of the premium, so if your employer has been subsidizing premiums, prepare for sticker shock. 3) Buy insurance on the individual market. We can help you explore your options.

Why Annuitize Your Retirement Funds?

Americans have a $6.6 trillion retirement income deficit. Yes, you read that right. That's trillion, with a "t." This figure comes from the non-partisan Center for Retirement Research at Boston College, which calculated the gap between what Americans currently have in retirement savings plus the projected value of their pensions versus what they should have to maintain their standard of living in retirement.

For the study, the Center took a conservative approach, looking only at adults in the peak earning years, between 32 and 64. It assumed people will continue to work and accumulate savings and retirement benefits until age 65, which is later than most people currently retire. It also took into account all major sources of retirement income and assets: traditional pension plans, 401(k)-style plans, Social Security, other savings and home equity.

But the lack of savings isn't the only problem Americans face. The Center recently stated, "The main focus these days is ensuring that retirees have a large enough nest egg. However, to achieve real security in retirement, households need to get as much as possible out of their nest eggs in the draw-down period."

A generation ago, most employers had defined benefit plans, which provided retirees a set monthly benefit for life. Today, your employer is more likely to offer a defined contribution plan, such as a 401(k). When you retire, you can take your plan's proceeds as a lump sum or annuitize them. The approach you take can have a critical effect on your retirement income security.

The Profit Sharing/401k Council of America (PSCA) testified to the Senate in September that most retirement plan participants take retirement distributions in lump sum form. Fewer than 1 percent of defined contribution plan participants select an annuity distribution option when one is offered.

This concerns many experts, particularly in light of recent volatility in stock markets. In testimony to the Senate in October, Phyllis Borzi, assistant secretary of labor and head of the Employee Benefits Security Administration (EBSA) said, "The Administration is interested in helping Americans manage their retirement savings to last a lifetime.... We are exploring proposals that promote the availability of forms of lifetime income for workers who want access to these products. These products transform savings into future income, reducing the risks that retirees will outlive their savings or that their living standards will be eroded by investment losses or inflation."

In other words, the government is interested in increasing opportunities for workers to annuitize their retirement savings. By converting retirement plan assets into an annuity, an individual can guarantee income for life. When you annuitize a retirement plan, you convert all or a portion of the principal into an annuity. An annuity is a contract with an insurance company. In return for your payment, the insurer agrees to pay you a set monthly benefit for the term of the annuity. Annuities will pay benefits for a specified period of time, which can be a set number of years, your lifetime, or the lifetimes of you and your spouse.

Benefits of Annuitizing

But annuities often get a bad rap from financial planners. What kind of evidence points to the benefits of annuitizing?

The National Retirement Risk Index (NRRI), released by the Center for Retirement Research in October, found that households that annuitized their retirement funds had a lower risk of being unable to maintain their pre-retirement standard of living than those that did not. Specifically, the NRRI found that 51 percent of households at all income levels were at risk if they annuitized, versus 53 percent that planned to draw down 4 percent of their funds annually, and 60 percent of those that planned to live off the interest on their retirement funds. Interestingly, this held true across all income levels. Even among high-income households, those that failed to annuitize had a higher risk of being unable to maintain their standard of living during retirement.

According to the Center for Retirement Research, "Annuities guarantee that retirees do not outlive their savings. In addition, an inflation-indexed annuity protects a household's purchasing power against inflation. Finally, annuities provide more monthly income than other approaches, such as the '4-percent rule' or living off the interest on assets." In light of recent downturns in the stock market and other investments, annuitizing at least a portion of your retirement funds could guarantee a more secure retirement. For more information on annuitizing your retirement funds, please contact us.

LTC—*continued from Page 1*

To get combined life/LTC coverage, you must start with any type of permanent life insurance—whether whole life, universal life or variable life—or a deferred or immediate annuity. This approach works best when you have a life policy with a large face amount or an annuity that has built a substantial value, to ensure you have enough funds available to meet your long-term care needs.

If you need to use your long-term care benefits, the rider gives you access to your policy proceeds before you would normally receive them. Under a life insurance policy, it pays a fixed percentage of the policy's death benefit in long-term care benefits each month—usually between 2 and 5 percent. Most life insurance policies limit the amount of the policy's face value that you can withdraw for long-term care needs at 50 percent.

With an annuity, the rider waives the surrender charge typically imposed on accelerated withdrawals when you access your accumulated value to pay for long-term care costs. The amounts you withdraw for long-term care costs will reduce the funds eventually available for your retirement income or your beneficiaries.

Adding LTC coverage to your life or annuity policy might cost less than buying a stand-alone LTC policy. However, this approach has several disadvantages. First, a rider typically provides very basic coverage, so you can't take advantage of features available under a stand-alone long-term care insurance policy. These could include such valuable features as inflation protection, return-of-premium options, benefits for in-home care, and more. Second, an extended illness or disability could exhaust your benefits. With a stand-alone LTC policy, you can buy inflation protection, which will increase the maximum monthly benefit available. Third, using your life or annuity policy for long-term care coverage will reduce the amount available for death benefits or eventual annuity payments. This could leave your heirs short of funds in the event of your untimely death, or leave you with inadequate income in retirement. Finally, long-term care premiums might be partially tax-deductible, while life insurance and annuity premiums are not.

So, before buying a long-term care rider for your life insurance policy or annuity, carefully consider your options and your financial goals. A stand-alone policy will generally provide better coverage and allow you to leave your life and annuity benefits intact for their intended purpose. However, if you buy a stand-alone LTC policy with a short (less than five years) benefit term, buying a long-term care rider for your life or annuity policy can provide valuable back-up coverage if you need it.

To discuss your long-term care and other financial planning needs, please call us.

Maximum LTC Premium Deductible as Medical Expense by Age Before Close of Taxable Year

00-40	$340
41-50	$640
51-60	$1,270
61-70	$3,390

Source: IRS Revenue Procedure 2010-40

HSAs— *continued from Page 4*

account, which remains yours even if you change jobs or retire.

- Your funds accumulate year to year. Unlike FSAs, HSAs have no "use it or lose it" provisions.
- You can invest your HSA funds into a variety of investment vehicles; funds grow tax-free.
- Even though you can no longer make contributions to an HSA after enrolling in Medicare, you can use funds in your HSA to pay eligible healthcare costs, even Medicare premiums.
- You can make a one-time transfer from your IRA into an HSA, subject to contribution limits applicable for the year of the transfer.
- Withdrawals from HSAs are exempt from federal income taxes if used for qualified medical expenses.

Disadvantages

- HSAs require enrollment in a high-deductible health plan, which has higher out-of-pocket expenses than other types of plans. Individuals unaccustomed to budgeting for routine healthcare, such as doctor visits and prescription drugs, could be in for sticker shock. However, relatively healthy individuals who are good at budgeting could end up ahead of the game after a few years due to the growth of their HSA account.
- HSA funds must be used for qualified healthcare expenses only. If you withdraw funds and do not use them for qualified medical expenses, the money will be included in gross income on your federal income tax form and subject to an additional 10 percent penalty tax. The penalty will be waived in cases of disability or death and for individuals age 65 or older.

If you'd like to discuss whether a Health Savings Account makes sense for your family, please contact us. We can help you compare HSA-qualified high-deductible health plans.

HSAs: Paying Benefits Now and in the Future

Unlike most medical plans, which cover you for only the policy term, a Health Savings Account can pay your medical expenses now and in the future.

No doubt you've heard of Health Savings Accounts (HSAs). But have you considered whether an HSA, paired with a high-deductible health plan (HDHP), might be the best health insurance option for your family?

Premiums for a high-deductible health plan (HDHP) in the individual market ranged from $1,326 to $4,408, depending on age, in 2010. This compares favorably to premiums for other types of health policies. Add in the savings component of the HSA and a healthy individual could save thousands. Here's what else you need to know:

Eligibility requirements

- You must be enrolled in a high-deductible health plan (HDHP) that does not cover first dollar medical expenses (except for preventive care). Your HDHP can be an HMO, PPO or indemnity plan, as long as it meets the requirements.
- You cannot have any other health insurance. This includes flexible spending accounts (FSAs) or health reimbursement arrangements (HRAs) that provide medical coverage, unless these accounts restrict reimbursement to certain permitted benefits such as vision, dental or preventive care benefits. Owning other types of policies that provide limited health benefits for specific purposes, such as auto policies, accidental death and disability policies and long-term care policies, does not preclude eligibility.
- You cannot be enrolled in Medicare and you cannot have received VA benefits in the last three months.
- You cannot be claimed as a dependent on someone else's tax return. This means children cannot establish their own HSAs; however, spouses can establish their own HSAs, if eligible.

Advantages

- There is no income limit on who may contribute to an HSA.
- Even those without an income (such as a stay-at-home spouse or retiree not yet eligible for Medicare) can contribute to an HSA.
- Employers can also contribute to your account; if an employer makes a contribution, it is excluded from your income and wages.
- Contributions you make are an "above the line" deduction.
- You control your account. Unlike employment-based healthcare accounts, such as FSAs or HRAs, you control your

HSAs—continued on Page 3

The Documents You Need...And Where to Store Them

If your home office is overflowing with paper, you're not alone. The following list of essential documents and where experts recommend storing them will help you make sure you and your family members can access important documents when you most need them.

In your safe deposit box

- ❑ Birth certificates
- ❑ Certificates of deposit
- ❑ Citizenship and naturalization papers
- ❑ Copy of financial notebook
- ❑ Death certificates
- ❑ Education degrees
- ❑ IRA papers
- ❑ Legal agreements
- ❑ Marriage/divorce documents
- ❑ Military discharge papers
- ❑ Property bills of sale
- ❑ Property deeds
- ❑ Personal property appraisals
- ❑ Personal property inventory and pictures
- ❑ Stock and bond certificates
- ❑ Vehicle titles

In a fireproof box at home

- ❑ Financial power of attorney
- ❑ Insurance policies
- ❑ Living will
- ❑ Medical power of attorney
- ❑ Property tax receipts
- ❑ Trust documents
- ❑ Product warranties
- ❑ Wills

Copies with your attorney, relative, friend or agent

- ❑ Burial instructions
- ❑ Financial plan
- ❑ Financial power of attorney
- ❑ Medical power of attorney
- ❑ Living will
- ❑ Trust documents
- ❑ Wills