



PAYING FOR LONG-TERM CARE

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A study by the U.S. Department of Health and Human Services indicates that anyone who reaches the age of 65 has a greater than 40% chance of needing long-term care (LTC) in the future. Nursing home costs range from \$40,000 to \$80,000 per year, depending on location and level of service. Who pays the expense?

A widespread misconception is that Medicare will pay. Medicare covers only acute, short-term care immediately after a hospital stay. Even then, just the first 20 days are covered in full. The next 80 days require that the individual pay the first \$101.50 per day, with Medicare picking up the balance.

Medicaid and charity pay about 40% of custodial care. If you have savings, you will be required to deplete them and become impoverished before Medicaid will begin to cover the cost. In fact, more than half of those who need long-term care will use up their entire savings within one year.

Statistics show that at least 42% of long-term care costs must be paid from individual resources. Unfortunately, few of us are anticipating this financial need. Long-term care is the only major catastrophic event for which we have no insurance. The American Council of Life Insurers states that less than 10% of our elderly own an LTC policy. Yet, the probability of needing LTC insurance is much greater than the likelihood of being in a car accident, an event for which almost everyone is insured.

If you are over 50, it is time for you to consider purchasing a LTC policy. The older you are when you insure yourself, the higher the premium will be. In addition, being diagnosed with a chronic disease may cause the insurance company to deny coverage to you.

When considering LTC insurance, there are several features to consider.

- **Inflation protection.** Because the policy may be purchased 10 to 20 years before coverage is needed, inflation protection is vital. Insurance providing a \$210 per day benefit today will be woefully inadequate in 20 years. Compound inflation protection – where the inflation allowance compounds annually – is best. If you need the insurance, you need compound inflation protection.

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- **Continuous premium payment vs. limited payment plans.** With continuous premium policies, holders pay the premium forever. The policy cannot be canceled except for non-payment of premiums. The premium is not fixed – the insurance company can increase the premium on an entire class of policies. Policyholders pay fixed premiums for a set period in a limited payment plan – usually until age 65. These policies are more expensive, but the no-cancel feature and the fixed premium payment make them attractive to many people.
- **Expense reimbursement or indemnity-based benefit plan.** Under the expense reimbursement plan, you will pay the LTC costs, and present them to the insurance company for reimbursement. The indemnity-based benefit plan fixes the monthly benefit in advance, and requires no invoice for payment. Instead, the physician issues a statement declaring the need for LTC.

Premiums paid for LTC insurance are deductible as an individual medical expense. Your deductible amount depends on your age and the actual premium paid.

Business owners can deduct as a business expense the premium paid for employees, and it is not income to employees. A C corporation can deduct the cost of premiums even when paid only for owners, managers and their spouses.

Self-employed persons, partners, members of a Limited Liability Company, and 2% or greater shareholders in an S corporation do not fare quite that well. Only 70% of personal LTC premiums can be deducted as a business expense in 2002, with the remaining 30% deductible as a medical expense on schedule A. The situation does improve in 2003 when 100% of the premium is deductible.

Because each person's situation is different, you should consult a financial advisor to assist you in choosing a plan that protects your assets at the minimum cost. But, while careful investigation in choosing an LTC policy is important, waiting until a crisis occurs means making decisions under pressure. Therefore, any action taken now is likely to be better than none at all.

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