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A long-term care plan for clients who have failed to plan

NOV 29, 2016 | BY CHRIS ORESTIS



Cash from a life settlement can be used to fund a long-term care benefit plan or a medically underwritten immediate annuity guaranteeing an income for life. (Photo: Thinkstock)

Most people believe they will never need long-term care. Or if they do, they believe they'll be able to cover the expense. So what can be done if you did not plan for the possibility, and you or your loved one is confronted with an unexpected need for long-term care?

Fortunately, solutions are available to help those who failed to plan. A fast-growing area of long-term care planning is "crisis management."

Strategies are available for financial and legal advisors to help families pay for the costs of long-term care. Among them: settling life insurance policy death benefits into a structured vehicle that will pay for the costs of senior retirement living and long-term care.

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Is a life insurance settlement right for your client?

Determining whether an insurance settlement is the right step for your client may be more difficult than you think.

care costs. Would you abandon your home without selling it after years of making mortgage payments?

Of course not. And no one should abandon a life insurance policy after years of making premium payments if a life settlement is available.

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To put this concept in perspective, understand that there are fewer than 10 million long-term care insurance policies in-force today. By comparison, there are over 100 million in-force life insurance policies. Seniors allow about \$100 billion worth of policies lapse or be surrendered annually.

In fact, 88 percent of life insurance policies sold will never pay out a death benefit because the owner will abandon it before they pass away. They do this without realizing it is their legal right to settle the policy while they are still alive for the present day value and receive a significant percentage of the death benefit as a cash-out payment.

After years of making premium payments, the owner of the policy can use it to help cover their retirement and long-term



An individual can enroll funds from a life settlement into a tax-free long-term care benefit plan that makes monthly payments to any preferred form of care. (Photo: Thinkstock)

Are you a solution provider?

Long-term care insurance is an excellent option for individuals young and healthy enough to qualify and who can afford to make premium payments for an undetermined number of years. There are also private-pay options for people who fail to plan and suddenly find they need to cover the expensive costs of senior living and long-term care.

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Any type of life insurance policy can be settled while the owner is still alive for a cash payment that will pay out the present-day value of the policy's death benefit. With this realization of funds from a "dead asset," a couple of options designed to protect and efficiently administer the money for long-term care expenses becomes possible.

An individual can enroll the funds into a tax-free long-term care benefit plan that makes monthly payments to any preferred form of care. A medically underwritten immediate

annuity will provide a guaranteed income stream to help cover retirement and long-term care expenses for life.

These options address the immediate need to fund retirement living and senior care expenses. In fact, the older and more impaired the insured's health condition, the more he or she will get when settling a policy and enrolling in either the benefit plan or the annuity.

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It is a morbid concept, but the older and sicker you are the more money you can get from a life settlement to help pay for long-term care costs. Long-term care insurance is purchased before a person needs senior care.

The younger and healthier people are when they purchase insurance, the lower the premium payments will be and the more option they'll have. A person who would qualify to purchase long-term care insurance would be too young and healthy to enroll in the long-term care benefit plan or the medically underwritten immediate annuity.

By comparison, a person who qualifies to convert a life insurance policy into a long-term care benefit plan or medically underwritten immediate annuity would be too old or sick to buy long-term care insurance. If a person owns long-term care insurance and life insurance they can convert the life policy into either option and use both together to make sure they maximize their senior care options.

Related: **Short-term care insurance gets its own regulator panel**



*Make sure clients understand all of their options when it comes to restructuring policies.
(Photo: iStock)*

Long-term care benefit plan

Case study

A woman had been researching assisted living communities for her mother. They had also been looking for financial assistance because the monthly costs were more than they could afford.

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The mother owned a life insurance policy and they had contacted the insurance company about accessing the accelerated death benefit. At fifty-five, she was afflicted with a rare, degenerative condition and could no longer care for herself.

But the insurer denied the claim. The assisted living community told them they could convert the policy instead into a long-term care benefit plan. The mother moved immediately into the community so that she could start receiving the care and support

she needed. The policy states the following:

- Gender/age: Female/55
- Policy size: \$200,000
- Policy conversion: \$119,000
- Monthly benefit: \$5,600
- Benefit duration: 20 months
- Funeral benefit: \$7,000

Advantages of an LTC benefit plan

The client can:

- spend down to Medicaid and set/adjust monthly payments at the level needed to cover private pay costs for as long as funds remain in the account;
- Secure cash for final expenses. All account funds go to the family if the death benefit retains a balance; and
- Preserve or delay liquidation of other assets and income.

Disadvantages of an LTC benefit plan

Policy owners sell the policy for its present value. They or the beneficiaries can no longer collect the death benefit.

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Talk with clients about the pros and cons of a medically underwritten annuity. (Photo: iStock)

Medically underwritten immediate annuity

Case study

A woman had a stroke a year ago, and is a diabetic who in recent months has taken several falls. Annual care and living expenses would be \$40,000 a year and are likely to increase over the next few years.

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In addition to a small pension and Social Security income, the woman has over \$325,000 in savings. Factoring in the \$40,000 per year needed to help pay for a current assisted living facility, she uses a portion of her savings to purchase a medically underwritten immediate annuity that guarantees a monthly income for life.

The contract stipulates the following:

- Gender/age: Female / 87
- Single premium: \$233,608
- First-year annualized income: \$40,000
- Annualized income growth rate: 4 percent
- Cumulative income year 5: \$212,365
- Cumulative income year 10: \$458,555

Advantages of a medically underwritten immediate annuity

The product can provide:

- A guaranteed monthly stream of income to supplement costs of living and care;
- Early death benefit protection;
- Enhanced death benefit and cost of living adjustment (COLA) riders;
- Stop-loss to preserve or delay need to liquidate other assets/income.

Disadvantages of a medically underwritten immediate annuity:

The annuitant can lose a portion of the initial premium principal if he or she dies earlier than expected.

Related: How to rescue seniors from lapsing life insurance policies



Settling a life insurance policy to fund a long-term care benefit plan or medically underwritten immediate annuity has grown into a mainstream and accepted financial solution for long-term care. (Photo: Thinkstock)

Conclusion

This is important because seniors have an overwhelming desire to remain independent, and do not want to become a burden on their family or a ward of the state by entering Medicaid. Unfortunately, the current system to fund long-term care has evolved into one that encourages seniors to impoverish themselves and move towards Medicaid as quickly as possible. For the wealthy, long-term care costs can be absorbed. For the poor and disabled, government subsidized care is available.

But what about the majority of unprepared Americans that need access to long-term care today? New approaches to fund long-term care must be embraced, and settling life insurance policies to fund a long-term care benefit plan or medically underwritten immediate annuity is an option that has grown into a mainstream and accepted financial solution for long-term care.

Chris Orestis, CSA, is the CEO of Life Care Funding and a 20-year veteran of both the insurance and long-term care industries. Read his full bio here.

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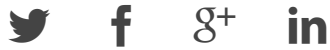
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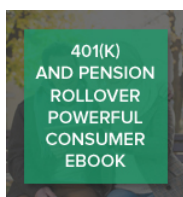
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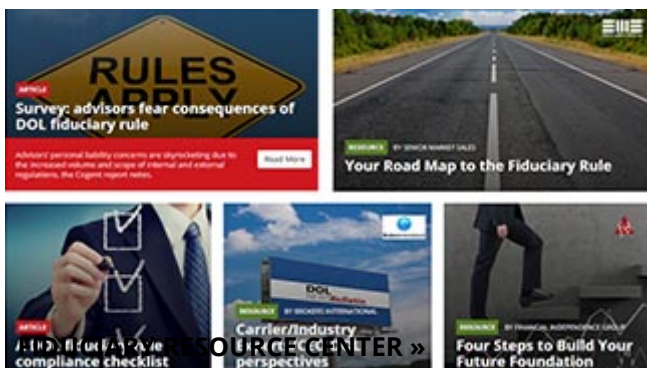
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