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INSIDE THIS ISSUE

- The Dos and Don'ts of Long-Term Care Insurance
- Ask Allie
- Announcement

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THE DOS AND DON'TS OF LONG-TERM CARE INSURANCE BY: KEVIN SHEA, CFP®, CPA

As baby boomers approach retirement, their parents are now at an age where they may need additional health assistance or skilled nursing care. As they help their parents with these life transitions, baby boomers and succeeding generations are beginning to understand the importance of planning for this stage of life with long-term care insurance as an important tool.

The term "long-term care" generally refers to assistance in the home, an assisted living facility, or nursing home. Long-term care insurance pays a daily or monthly benefit to chronically ill individuals who cannot perform two out of six activities of daily living (i.e., bathing, dressing, eating, transferring, toileting, continence), or who have a severe cognitive impairment, such as Alzheimer's disease or other form of dementia.

Individuals planning for the cost of long-term care needs have four general options to consider:

1. Save additional personal funds to pay for the care when needed or hope what has been saved will be enough;
2. Plan in advance to qualify for public benefits such as Medicaid or the Department of Veterans Affairs improved pension benefit;
3. Hope that the federal government will change course and design a long-term care program that fills the gaps in Medicare and Medicaid; and
4. Purchase a long-term care insurance policy through an employer or private company.

The fourth option, purchasing a long-term care insurance policy, gives families the peace of mind of knowing that money is specifically set aside for the purpose of long-term care. If an individual is considering the purchase of long-term care insurance, then the individual should consider the following Dos and Don'ts:

DON'T wait too long to purchase a policy. With an estimated 50% risk of needing care, age should not be a consideration when purchasing insurance. Forty percent of all long term care expenses are incurred by people ages 18 to 64 years. Additionally, by the time many people decide to purchase long-term care insurance, they no longer qualify for this insurance because of health conditions.

DO purchase a sufficient daily benefit. In Virginia, a semi-private room currently averages \$170 per day. A policy with inadequate benefits will require the use of personal funds to fill in the gaps or trying to qualify for public benefits in the future.

DO understand the "waiver of premium" feature. Typically, once the insured is receiving benefits from the insurance company, the premiums on the policy are "waived." If recovery is made and the insured is no longer eligible for benefits, then the premiums will resume.

DO consider policies with an inflation rider. The cost of long-term care insurance continues to increase faster than inflation. With the most recent studies showing the cost of care rising 7% annually, insurance companies are offering policies with riders that provide inflation protection. Whether to use simple or compounded inflation protection can usually be determined based on the age of the purchaser.

DO consider purchasing a "paid up" policy. Because a policy's premiums may rise, consider purchasing a "paid up" policy that no longer requires a premium once the insured reaches a certain age or after a given number of years.

DON'T forget to notify your tax preparer. All, or a portion, of your premium may be tax deductible. For an individual who itemizes tax deductions, medical expenses are deductible if they exceed 7.5% of the individual's adjusted gross income. Currently, the portion of the long-term care insurance premium that is deductible is determined by the age of the insured:

<u>Age</u>	<u>Amount Deductible</u>
40 and under	\$320
41 to 50	\$600
51 to 60	\$1,190
61 to 70	\$3,180
70 and over	\$3,980

DO consider, if you are a business owner, using your company's checkbook to pay the premiums. Greater tax benefits are given to business owners. The premiums paid by C-corporations for their employees or an employee's spouse or dependents, are fully deductible as a business expense. The tax treatment for owners of S-corporations is favorable but slightly more complex than that of C-corporations. The premium is reported as additional compensation to the shareholder, but not subject to FICA or Medicare. The shareholder is then able to deduct the premium to arrive at the shareholder's adjusted gross income. The S-corporation is able to take a deduction as a compensation expense. This benefit is not subject to the nondiscrimination rules, even though the premiums are deductible.

DON'T worry about unused policy benefits. One of the biggest concerns about buying coverage is the thought of dying and never needing the policy benefits. With some companies, individuals can purchase a "return of premium" rider which, upon death of the insured prior to the age of 65 years, pays back premiums on most policies after ten years of policy ownership, less any benefits paid.

These are just a few factors to consider when selecting long-term care insurance. Given the sector's complex laws and frequent regulatory changes, it's best to work with a financial planning professional experienced in the field. Choosing the right policy can reduce family stress and give you greater control over your future care.

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The attorneys at Oast & Hook can assist clients with their estate, insurance, financial, long-term care, veterans' benefits and special needs planning issues. Oast & Hook wishes all of its readers who are veterans a special Veterans Day on Wednesday, November 11th. Oast & Hook is grateful to all of you for your service to our country.

Ask Allie

O&H: Allie, do you have any tips for families that have older pets?

Allie: Sure! Prevention is at the top of the list when it comes to pet health. The American Veterinary Medical Association (AVMA) reminds families that on average, pets age seven times faster than humans. By the age of seven years, most pets are regarded as senior or geriatric. The AVMA recommends twice-a-year physical exams for pets age seven years and older. Your veterinarian should perform a thorough "head-to-tail" exam, and can, if necessary, include special diagnostics such as a blood pressure check, eye pressure check, and EKG. Other more routine tests can include a complete blood workup, chest X-rays and urinalysis, which should be done even if your pet is not experiencing any obvious problems. As with humans, the earlier a problem is detected, the better chance your veterinarian will have of treating the problem so your pet will have a longer and healthier life. Your pets should also be checked for intestinal parasites that can cause problems if transmitted to young children or humans with compromised immune systems. Routine, thorough exams will keep us healthy, and can keep our human families healthy and happy as well. You can find more information at the AVMA website at www.avma.org. Hmmm...time to find mom and play....Or is it time for a nap?

Announcement

Oast & Hook is sponsoring a "Shred Day" from 9:00 a.m. to noon, Saturday, November 14th. Stealth Shredding will park one of its trucks at Oast & Hook's Virginia Beach office located at 295 Bendix Road, and you will be able to bring your personal records to be shredded at no cost. If you have any questions or comments about Oast & Hook's November 14th Shred Day, then please phone Jen Lantz at 757-399-7506.