OAST & HOOK

ELDER LAW NEWS

Legal power for seniors.

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LONG-TERM CARE INSURANCE – A KEY PART OF RETIREMENT PLANNING

A recent article in Financial Planning magazine described a risk management approach to evaluating the need for long-term care insurance. In "A New Take on Long-Term Care," author Roy C. Goldberg discusses long-term care insurance as an important element of financial planning for retirement.

People are living longer than ever before; with that longevity comes health concerns and an increasing challenge to pay for that care. The current healthcare system does not cover the cost of chronic illness, and long-term care insurance can fill that gap. This insurance can preserve the dignity and independence of seniors, and it can preserve their wealth for future generations. It can also alleviate the personal and financial stress on their children as these seniors age and can no longer care for themselves. As part of their overall financial plan, seniors need to be aware of inflation and its impact on retirement income, as well as the ever increasing cost of healthcare in retirement. Individuals can choose policy options that fit within their budgets; they can pay premiums until life (or until a claim is made), or they can use a "10-pay" approach. The 10-pay approach results in a paid-up policy in ten years, and if the policy is purchased through a business, the 10-pay approach has tax advantages. Seniors can compare the total payments made under the 10-pay approach to the cost of custodial care, and they can immediately see how having long-term care insurance can defray that cost. The question becomes a simple one: What assets would one have to liquidate to pay for long-term care? Seniors can shift the risk of outliving their assets to an insurance company, so long-term care insurance is a good risk management tool.

For owners of a C corporation, long-term care insurance is a solid tax-advantaged benefit, without any ERISA or discrimination issues. Business owners can create a qualified deferred compensation program using a long-term care insurance plan; they should use a 10-pay or pay-to-age 65 premium payment schedule and a vesting schedule. This could allow a business owner to offer a substantial benefit to an employee and spouse with a compound inflation factor. The business owner pays pennies on the dollar for the policies and receives an immediate income tax deduction. The premiums are completely tax deductible to the corporation, the premiums are not taxable income to the employee, and the benefits are tax-free to the employee. When the employee retires, or when the policy fully vests, the retiree receives a paid-up asset, and thus the retiree has shielded retirement income and assets from the risk of funding long-term care. For S corporations and limited liability companies, as pass-through entities, the income tax deduction is shown on Schedule C, and, therefore, it is not subject to the 7.5% floor for itemized medical expenses on Schedule A. The deductions do have age-based caps for pass-through entities, but the owners still enjoy a tax advantaged benefit.

For example, if a 50-year old couple acquired a 10-pay long-term care insurance policy ($6,300 per month benefit, 90-day elimination period, best health class, and 5% compound inflation rider), the C corporation could shield approximately $121,000 over ten years from taxable earnings. The employee has no taxable income from the insurance purchase and has an incentive to stay during the 10-pay period. At age 65, the paid-up policy provides a tax-free benefit of $1.85 million because of the 5% compound inflation rider. The total potential benefit in 2006 dollars is $900,000. The cost would be 6.5% of the assets protected after 15 years, and 3.1% of the assets protected after 30 years.

Individuals and business owners should evaluate long-term care insurance as an integral part of their personal financial planning for retirement as well as business planning. Oast & Hook provides its clients with an integrated planning approach that encompasses estate, financial, insurance, tax, and business planning.

Oast & Hook

Oast & Hook is an elder law firm. We represent older persons, disabled persons, their families, and their advocates. The practice of elder law includes estate planning, investment and insurance advice, estate and trust administration, powers of attorney, advance medical directives, titling of assets and designations of beneficiaries, guardianships, conservatorships, and public entitlements such as Medicaid, Medicare, Social Security, and SSI, disability planning, income tax planning and preparation, bill paying, account management and reporting, care management, and fiduciary services. We also handle litigation involving these issues, such as will contests and estate administration disputes. For more information about Oast & Hook, please visit our website at **www.oasthook.com**.

Oast & Hook is the Virginia member of the Special Needs Alliance, a nationwide network of disability attorneys. As members of this alliance, we assist personal injury attorneys in resolving their cases to enhance the judgments and awards of their disabled clients and to maintain the eligibility of these clients for SSI and Medicaid. We are experienced in protecting the public benefits of persons with special needs and in assisting with the management of their assets. For more information about the Special Needs Alliance, visit its website at **www.specialneedsalliance.com**.

Speakers

If you are interested in having an elder law attorney from Oast & Hook speak at an event, then please call Vivian Lane at 757-399-7506.

Distribution of This Newsletter

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