THE LONG-TERM CARE INSURANCE LANDSCAPE HAS EVOLVED – IT'S TIME TO REVISIT YOUR OPTIONS

Commerce Brokerage Services Financial Advisor Chris Ward was recently honored by One America Insurance Company for his industry-leading knowledge in providing long-term care (LTC) solutions to clients. As products have evolved, Chris found that the changing insurance landscape allowed him to present fresh concepts that helped prospective LTC purchasers find more affordable options. He shares some of his perspective in this Q&A.

Q. FOR MANY, DISCUSSING LONG-TERM CARE IS AN EMOTIONALLY CHARGED SUBJECT – HOW DO YOU GET PEOPLE TO TAKE A STEP BACK AND RECONSIDER THEIR ALTERNATIVES?

A. We all know an extended health care event won't happen to us, right? But, what if it does? Taking the time to play out this scenario for each client is critical to raising awareness. We thoroughly review a client's financial picture and identify which investments might have to be liquidated if he or she were suddenly forced to cover an extended health care event. Doing this exercise prompts a prospective LTC purchaser to more realistically visualize the possibilities. Our next step is to talk about ways to prevent or minimize the impact of such an event.

Q. WHAT ABOUT THOSE WHO CAN "SELF-INSURE?"

A. Many clients have the financial resources to self-insure. However, having the ability to absorb such a financial event and planning for it are two different things. We help clients find a more efficient means to self-insure rather than just assuming the entire risk themselves. For instance, just because a client could pay cash for a house, it doesn't necessarily mean he or she should structure the purchase that way. Or in the case of a business owner who could pay cash for a piece of machinery, he or she might instead elect to borrow money for the purchase. These clients understand the advantages of using financial leverage. By repositioning a portion of their assets, they may be able to shelter a larger portion of their nest egg from a potentially catastrophic type of extended care event.

WHAT IS LONG-TERM CARE?

Long-term care refers to the ongoing services and support needed by people who have chronic health conditions or disabilities. There are three levels of long-term care:

- Skilled care: Generally round-the-clock care that's given by professional health care providers such as nurses, therapists, or aides under a doctor's supervision.
- Intermediate care: Also provided by professional health care providers but on a less frequent basis than skilled care.
- Custodial care: Personal care that's often given by family caregivers, nurses' aides, or home health workers who provide assistance with what are called "activities of daily living" such as bathing, eating, and dressing.[**]

Q. SO WHAT ARE PEOPLE OVERLOOKING WHEN IT COMES TO THEIR LONG-TERM CARE OPTIONS?

A. There have been a lot of product enhancements and new tax laws that give clients fresh concepts to consider when addressing LTC coverage. Depending on the client's existing assets and needs, we are now able to take a holistic approach to LTC planning. Using existing assets to pick up LTC coverage, such as from the cash value within a life insurance policy or a non-qualified annuity, can be viable solutions. Often these products have outlived their original purpose and can be advantageously repositioned to pick up coverage that was previously unaddressed.

Q. HOW WOULD AN ANNUITY FIT INTO LTC COVERAGE?

A. Thanks to the 2006 Pension Protection Act (PPA),* Congress granted some latitude in how an annuity can be treated with respect to LTC coverage. A further stipulation of that Act, which became effective four years after the bill's passage, allowed clients to exchange a non-qualified annuity into a PPA-compliant annuity. This is done via

a "1035 exchange," a tax code provision that allows a transfer of funds to a new policy while maintaining their tax deferral. By repositioning a non-qualified annuity into a PPA-compliant annuity, the taxation of the distributions is set to distribute the cost basis first and then gains. What this means to you is that if the distributions are used for qualified long-term care expenses, they distribute tax free. There are several versions of these types of products so it is always best to consult with your advisor about your specific situation.

Q. WHAT IF I DON'T HAVE A LIFE INSURANCE POLICY OR ANNUITY I CAN LEVERAGE? CAN YOU GIVE US A REAL-LIFE EXAMPLE OF HOW ONE MIGHT POSITION LTC COVERAGE?

A. There are many ways to build a long-term care plan. Two common scenarios might include one single premium option or 10 annual premium payments. Here is how we might prepare those two options for a couple, both age 60.

- One single premium of $209,335 would buy the couple a $250,000 Survivorship Whole Life policy. Each client could spend up to $5,000 per month, if needed, for qualified long-term care services. The benefits paid out would reduce the death benefit during their lifetimes. Once the death benefit had been depleted there is a continuation of benefits that would kick in and provide lifetime benefits for both insureds and have a 5% inflation adjustment each year.

- Ten-annual premium payments of $24,975 would buy the same coverage as described above.

All clients have a unique financial situation making it important to design a customized recommendation for each client's scenario.

Q. HOW CAN I BEGIN TO PUT A STRATEGY IN PLACE?

A. It is certainly optimal for everyone to have some form of LTC plan. Whether to self-insure or find more efficient, tax-advantaged ways to do so, developing a plan is imperative. Having a plan in place will give peace of mind as well as help loved ones or care takers know how to proceed should that client need care but be unable to help make those decisions. LTC policies are complex instruments; it is best to consult with an advisor or insurance professional to determine which may be best suited for your needs. I am available here at Commerce Brokerage Services, Inc., to address any general or specific questions. You can reach me at 314-746-8780 or by email at chris.ward@commercebank.com.

* The Pension Protection Act (PPA) was passed by Congress in 2006 and became effective in 2010. The law provides tax advantages for consumers who wish to purchase a long-term care policy using a non-qualified annuity policy. The provision in the I.R.S tax code allowing for this is called a 1035 tax free exchange. Consumers can use this provision in different ways to purchase a long-term care policy with an annuity on a tax advantaged basis.

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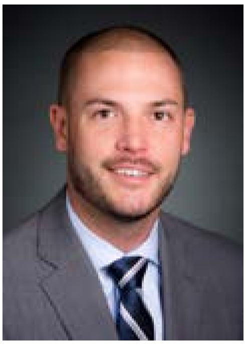

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Chris is a financial advisor with Commerce Brokerage Services, Inc. He joined Commerce in 2010 to help clients define their financial goals, develop a strategy to make them a reality, and measure their progress along the way. Chris has 10 years' experience helping clients take a holistic approach to their financial life. He educates his clients about life insurance, annuities, and long-term care, and he specializes in financial planning and risk management. He holds a bachelor of science degree in psychology from Saint Louis University.