



Should you have long-term care insurance?

Providing for your future health care needs is an important part of estate planning. The high cost of long-term care (LTC) – such as an assisted living facility or home health care – can quickly erode your estate, eating up wealth you intended to pass to your heirs.

The cost of LTC is staggering, and Medicare and other government programs provide little, if any, assistance. Recent studies estimate that the national average cost of nursing-home care is more than \$66,000 per year for a semiprivate room and more than \$75,000 for a private room. In addition, for those who choose to stay at home, licensed in-home health care can exceed \$200,000 per year.

And it's not just *your* health you need to worry about. LTC expenses for a parent or spouse can rapidly deplete assets you were counting on to finance a comfortable retirement and provide for your family. One effective way to protect yourself and your family against these risks is to obtain LTC insurance.

LTC insurance 101

LTC insurance won't pay your medical bills or replace lost income – those are jobs for health and disability insurance – and an LTC policy isn't a substitute for those types of insurance. Also, LTC insurance won't pay the cost of a retirement facility that provides a residence and activities for people who are able to live independently.

What LTC insurance does cover are services that help people with “activities of daily living” which will be specifically defined by the policy. These activities typically include eating, bathing, dressing, using the bathroom, and, if applicable, transferring from a wheelchair as necessary. These services may be provided by a skilled nursing facility, an assisted living facility or a home care provider.

Each LTC policy is different, so familiarize yourself with their terms, conditions and features. Be sure you know a policy's benefit amounts, covered services and term (five years is typical). Most LTC policies are reimbursement arrangements, meaning the benefits are based on your actual expenses. Less common indemnity or “per diem” policies provide you with a stated amount per day regardless of your actual expenses.

An LTC policy defines the conditions that trigger the payment of benefits. Is it based on an inability to perform certain activities of daily living (ADLs) without substantial assistance? If so, how are ADLs defined, and how many activities must be impaired before you're entitled to benefits? How does the policy define substantial assistance? Is a physician's certificate required?

Most policies have an elimination period, which requires you to wait a specified amount of time after care begins (30, 60, 90 or 120 days, for example) before benefits are paid. Electing a longer elimination period will help lower the policy's cost.

Reduce the policy's premium

To minimize the cost of LTC insurance, you may buy a tax-qualified policy. If a policy is tax qualified, a portion of your premium payments is, at least potentially, tax deductible. And, any benefits you receive are tax free. To qualify, the policy must:

- Be guaranteed renewable and noncancelable regardless of your health (provided you pay the premiums),
- Not delay coverage of pre-existing conditions for more than six months,
- Not condition eligibility on prior hospitalization,
- Not exclude coverage based on a diagnosis of Alzheimer's disease, dementia, or similar conditions or illnesses, and
- Require you to obtain a certification from a licensed health care practitioner stating that you're either unable to perform at least two of six ADLs or you have a severe cognitive impairment and that this disability has lasted or is expected to last at least 90 days.

The income tax deduction is limited. You may deduct your premiums as medical expenses, but only up to a specified amount. (See "LTC insurance personal premium deduction for 2007" below.) Medical expenses are deductible only if you itemize and then only to the extent they exceed 7.5% of your adjusted gross income (AGI).

If, however, you purchase the policy through your C corporation (or an S corporation of which you own less than 2%), the company is eligible to deduct 100% of the premiums.

Review your options

LTC insurance can be a valuable tool for protecting your wealth against health risks and preserving your estate for your family. To determine whether LTC insurance is right for you, consider its cost as well as other alternatives, such as life insurance, personal savings or the availability of family members to provide care.

LTC insurance personal premium deduction for 2007

Insured's age at close of tax year	Eligible premium deduction
40 or younger	\$ 290
41 to 50	\$ 550
51 to 60	\$1,110
61 to 70	\$2,950
71 or older	\$3,680

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