

BILL LOSEY, CFP<sup>®</sup>, CSA, *America's Retirement Strategist™*



# LONG-TERM CARE PLANNING 101



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## Bill Losey, CFP®, CSA America's Retirement Strategist™



Bill Losey, CFP®, CSA, America's Retirement Strategist™, has nearly 20 years experience in the financial services industry and is a Certified Financial Planner™ practitioner, a Certified Senior Advisor and Certified RSP-Trained Retirement Coach. He is Founder of [National Retirement Planning Month](#), and publishes [Retirement Intelligence™™](#), an award-winning newsletter that reaches over 5,000 subscribers worldwide.

As a qualified professional in the areas of retirement strategies and investment alternatives, Bill has been interviewed on the CBS Radio Network, CNNfn, FOX's "Hannity & Colmes", Bloomberg Business Radio, RNN-TV, and over 100 radio stations nationwide. He is a former guest host of "Money Matters", a daily personal finance radio program simulcast throughout NY, NJ and CT, and formerly a financial commentator for RNN-TV and guest host of the "Issues on Aging" radio program in PA.

Bill was recently interviewed on the "Leading Experts" television program and currently writes a weekly column in *The Saratogian* called "Making Work Optional". He has also appeared in *Financial Planning*, *Inside Information*, *Triathlete*, *Senior Market Advisor*, *Reach!*, *Violet for Women*, *Boom News*, *The Albany Times-Union*, *The Saratoga Business Journal*, *The Capital District Business Review* and *The Chronicle of Higher Education*. Bill's first book, [101 Stock Market Guarantees](#), was published in 2004. His next book, ***Retire in a Weekend! The Baby Boomer's Guide To Making Work Optional***, will be released in November 2007.

In his leisure time, Billy, as his friends call him, loves to sing. He is an accomplished vocalist and has performed the National Anthem at Madison Square Garden, the Pepsi Arena and other sporting venues. His love of singing and knowledge of money, combined with his witty sense of humor and desire to fight financial illiteracy, come full circle with his development of hilarious financial-related song parodies found at [www.PerfectHarMoney.com](http://www.PerfectHarMoney.com).

Bill is a graduate of Marist College and obtained his certification in financial planning from The College for Financial Planning in Denver. He is a member of the Financial Planning Association, the Society of Certified Senior Advisors and the National Ethics Bureau. Active in his community, Bill coaches youth soccer and basketball, and has volunteered to help raise money for Special Olympics, March of Dimes, Make-A-Wish Foundation and the American Heart Association. He has been married for nearly 20 years to his wife Tori. Together they have 3 sons, 2 dogs, 1 hamster and 6 fish.

## Begin Transcript

Bill: Today is Friday, September 28, 2007. Good morning, everybody. Thank you so much for joining me for another Retirement Intelligence™ teleseminar. Today is entitled “Long-Term Care Planning 101.”

I publish *Retirement Intelligence™*, a free, weekly award-winning newsletter that’s delivered to 5,000 people worldwide each week via email.

If you’re not a subscriber, I encourage you to start your free subscription. You can visit my website at [www.MyRetirementSuccess.com](http://www.MyRetirementSuccess.com).

I’m also the author of a new book, *Retire in a Weekend! The Baby Boomers Guide to Making Work Optional*. If you have ever wondered if you have enough money to retire, how long it will last, how much you can take out and/or the best way to invest your money, you can purchase *Retire in a Weekend!* by visiting my book website, [www.RetireInAWeekend.com](http://www.RetireInAWeekend.com).

Finally, for those of you looking to establish a relationship with a trusted financial advisor, my company is an independent, registered investment advisory firm headquartered just outside historic Saratoga Springs in upstate New York.

I cater to discerning women and couples nationwide who demand objective retirement planning, fee-based investment-management services, attention to detail and impeccable service. We do have a limited number of new client openings so if you’re interested, please call me personally toll free at 866-786-2521.

My guest today is Steve Nussbaum. Steve is a recognized expert on long-term care financial planning and long-term care insurance in New York State. He’s president of Nussbaum Long-Term Care Planning and Insurance.

Steve has conducted long-term care seminars for about a dozen years or longer. He worked with New York State Partnership for Long-Term Care. He was also involved with the design and implementation of this program. From 1996 to 1998, Steve was one of the Partnership's lead researchers, evaluators, report writers and seminar speakers.

As an independent long-term care insurance consultant and licensed agent, Steven helps thousands of New Yorkers and people nationwide protect their financial resources from the cost of long-term care. Steve, welcome to the program this morning.

Steve: Thank you very much, Bill. It's great to be here.

Bill: There are literally thousands of people looking into buying and comparing long-term care plans. People want it but aren't sure what or how much to get. They're certainly confused by the myriad choices and companies out there. What is long-term care?

Steve: Long-term care, as distinguished from regular medical or acute care, simply refers to a set of services for chronically disabled people, usually either in nursing homes, their own homes, assisted living facilities or adult daycare centers that cater to their particular needs and help them to get around when they need some kind of assistance or equipment.

Bill: What is the difference between a nursing home, an adult daycare center and an assisted living facility?

Steve: A nursing home is a medical facility. It generally caters, especially today, to people who are truly chronically disabled, usually with additional skilled-care needs.

Assisted living facilities are residential facilities that have cropped up since the mid '80s. They're very nice places to live in. They're residences. They also provide a wide array of care, depending on what needs you have.

Adult daycare is like day camp in comparison. You might go there from 8:30 to 5:00, so your caregiver can do his or her normal

routine, then pick you up at the end of the day and still have a partial life.

Bill: How do the typical costs compare between those three?

Steve: The cost of a nursing home varies widely. In the Capital District area, it's an average of \$300 a day, \$90,000 a year. In more rural areas, you might go down to \$6,500 to \$8,000 a month. Down on Long Island, it's \$400 and up a day or \$120,000 a year.

Assisted living facilities can generally run anywhere from 70% to 85% of what nursing homes cost, usually depending on how much care you need.

Adult daycare has a wide variability. It can go anywhere from \$75 to \$250 a day.

Bill: In the news, one of the things we always hear about is the cost of inflation and cost of living. There's a lot of talk about it now because the Federal Reserve is thinking about reducing interest rates if inflation doesn't overheat.

Don't long-term care, health and medical costs usually far exceed the regular cost of inflation?

Steve: Almost always. We have had periods of time where the Consumer Price Index went up at a faster rate than medical inflation.

Medical and long-term care inflation has always been at least 5% a year. You know a lot more about this than I. Over the last dozen years, the Consumer Price Index has gone up maybe 2.5% to 3% a year.

The industry wide standard and conventional standard is, whatever you might expect to pay today, you can expect that to go up by 5% a year compounded.

Bill: If somebody were contemplating a long-term care insurance policy today at 55 or 60 years old but doesn't need to tap into it for maybe 20 years, what would the projected cost of care be at that point?

Steve: You can do your own math on this. Every 14 years, it will double. You can apply that. Otherwise, I'll have to use my slide rule.

Built-in 5% compound inflation protection is one of the only components of a good long-term care insurance policy that I almost always insist that my clients get.

As we'll probably talk about later on, there are a lot of choices that can be made. There's a large continuum of daily benefits, deductibles and coverage terms.

The one almost immutable aspect of a good long-term care insurance policy is to make sure that whatever daily benefit you start out with will go up at 5% a year compounded automatically.

Bill: One of the biggest things I always see as a financial planner is that long-term care is an issue that either people don't want to talk about or, if they talk about it, they always complain about the cost and whether or not they think they will really need it.

Can you share with us what the costs and odds are of the main financial catastrophes and how that compares to long-term care?

Steve: Back in the 1930s, people felt the same way about regular health insurance, which is one of the reasons the Franklin Delano Roosevelt administration started to put all of these tax incentives into the code.

Once upon a time, you could actually deduct your health insurance premium from your taxes. Of course, you can't do that anymore, but it's one of the ways the government was trying to create incentives for people to get into even regular health insurance. Now that's second nature. We don't even think twice.

As far as long-term care, we're at a stage now where people are coming more and more out of the closet about this. I actually hear people in conversations about dealing with it. It won't be long before long-term care insurance is treated with the same respect as regular health insurance is now.

Bill: It's fitting that we're having this discussion this morning. About 45 minutes before we started this teleseminar, I got a phone call from one of my clients.

About 18 months ago, I sat down and had a gigantic pow-wow with him about long-term care insurance. He ultimately decided that he felt he could self-insure and pay for it out of his own pocket. Yesterday, he was diagnosed with prostate cancer. It's kind of scary.

People say, "I may never need long-term care insurance, so why the heck should I buy it?" How does that compare to something like the potential of losing your home or an auto accident?

Steve: The odds are irrelevant. The reason we buy insurance is because we're trying to hedge against the possibility that an event could occur that could take a big toll on our financial circumstances.

That's why we have insurance for our houses, even though in the Northeast the probability that you'll have a total claim on your house is about 1 in 1,200.

We have auto insurance. Yes, it's mandatory, but only up to a very small extent. Most people have much more auto insurance than is required by the New York State Department of Insurance, yet there's only a 1 in 240 chance that you'll have a major auto accident that would be entirely your fault and cost you at least \$100,000.

When we talk about long-term care, I'm getting rid of all the short-termers like the post-acute rehabilitation patients who just go into the nursing home or home-care situation for a couple weeks after being in the hospital. I'm talking about real chronic disabilities.

The probability that, between now and the time a person dies, they will have a long-term care episode lasting somewhere between one and three years is about 1 out of 6. The probability that they'll have a very disastrous long-term care episode lasting more than three years is about 1 in 13.

I could plow you with a lot of statistics, but the bottom line is that the lifetime probability of having a long-term care episode that could cost you a lot of money is about 100 times greater than the likelihood that you'll ever need to invoke your homeowners insurance or auto insurance.

Overall, people never buy insurance because they want to use it or expect to use it. That doesn't make any sense. You buy insurance so that if you do suffer that dreaded event, whether it's your house burning down, a car accident or a long-term care episode, you won't spend the rest of your life paying for it out-of-pocket.

**Bill:** Let's talk about the three ways to pay for it. Obviously, long-term care insurance is one. Out-of-pocket is the other. What is your opinion on that?

**Steve:** Out-of-pocket is a decision that people can make if they're informed and are willing to spend \$4,000 to \$8,000 a month without having a significant impact on their standard of living, lifestyle, financial security, desire to leave bequests or financial independence.

If you suddenly have to draw down \$100,000 in a year that you didn't expect to have to pay, that money has to come from somewhere. It usually won't be money you have under the mattress.

There are people whose best strategy would be to decide to pay completely out-of-pocket. If you're one of those people who has so much money or just doesn't care what happens to your money and the impact that it might have on your loving family, then you are legitimately in a position to self-insure if you're willing to spend \$4,000 to \$8,000 out-of-pocket in today's dollars,.

**Bill:** Is there a general rule of thumb? If you have X amount of assets or more, you should pay out-of-pocket and self-insure if something were to happen?

**Steve:** I believe there is no rule of thumb. A rule of thumb is a child's way of getting out of having to make a tough decision. There is no single

level of assets above or below which it's right to plan or not plan to have long-term care insurance.

One of the things you have to bring to the plate is a person's preferences, risk aversion and goals. You could have two people who have exactly the same financial circumstances, and they would make two completely different decisions on long-term care because they have different outlooks on life.

**Bill:** Another option is Medicaid. What is your feeling about that to pay for long-term care?

**Steve:** As you know, I worked for the New York State Medicare program for almost 30 years of my life. I know quite a bit about the program and spent a lot of time talking about Medicaid at my seminars.

Medicaid is a federal/state welfare program. In this state, we also include our counties so that the bill shows up in our property taxes. It's a great program to help poor people pay for their medical bills such as doctors, hospitals, labs, clinics, emergency rooms and even prescription drugs.

It's a terrible program for middle-class people. They not only have to spend down to very low levels of assets and income but also, for all practical purposes, Medicaid is only useful for middle-class people in a nursing home. They'll never really get access to home-care or assisted living.

Most assisted living facilities don't even take Medicaid. They're all private pay. The home-care providers who do take Medicaid are limited. They have exclusive contracts with the counties. There are often shortages and other problems in the Medicaid home-care sector.

You have to spend your income all the way down to such low levels that, for all practical purposes, I tell middle-class people they will never ever be able to use Medicaid for anything other than nursing home care.

Bill: Can you go into the specifics about what the Medicaid spend-down rules are, at least here in New York State, and what you get to keep versus what you have to spend?

Steve: Medicaid is a totally means-tested financial assistance welfare program. We can look at this from two standpoints: nursing homes or all other care such as home care and all other types of non-institutional services.

If you're a married couple and one of you goes into a nursing home, they'll let the at-home spouse keep approximately the last \$102,000 of combined assets, plus the primary homestead so long as you don't transfer it or sell it.

By "assets," that \$102,000 is talking about property, bank accounts, money markets, stocks and bonds, CDs and annuities, cash value of life insurance and all of the various forms of retirement accounts and annuities that you perhaps help people build up so they can maximize their eventual income. All of that is on the table.

You have to spend all of that down to \$101,600 today. Then, once you've met Medicaid's asset spend-down level, they look at your income from social security, pensions, interest, dividends and rents. You also have to spend your income down to fairly low levels.

It's worse if you're single. They basically require you to use everything. They let you keep \$4,200 in assets if you're in the nursing home and the last \$50 a month of income. Everything else gets applied to the cost of care.

That's an important phenomenon for a lot of people retiring today with good pensions. I'm sure you have clients who, regardless of what their assets might be, have pretty good permanent monthly retirement income.

Just from one social security check and one pension check, many people have \$5,000, \$6,000 or \$7,000 a month. Do you have clients like that?

Bill: Absolutely.

Steve: If they ever end up on Medicaid in a nursing home, even if they don't have a dime in the bank, they'll be contributing all of that income except for the last \$50 a month.

Bill: That's amazing. You can't even get a tank of gas for \$50.

Steve: They figure it's good for perms and cigarettes.

As I said before, for all practical purposes, middle-class people will never be able to spend down to the Medicaid levels required for home care and assisted living.

For instance, if you want non-institutional care like home care and are a couple, they require you to spend your income down to \$900 a month. You first have to spend down the cost of your own services until you only have \$900 a month left to live on. If you're a single person, the number is \$700 a month.

Bill: I want to get away from the numbers for a second to talk about the different types of programs available. I know there are nursing-home-only policies, home-care-only policies, comprehensive long-term care policies and, here in New York State, there's something called New York State Partnership.

Also, people are always interested in learning about any sort tax incentives to buy these policies.

Steve: You just basically enumerated everything I would talk about. When you're deciding on long-term care insurance, by the way, it's not an all or nothing decision. You're not just deciding to buy long-term care insurance or not. There are many decisions that have to be made.

One of the first important decisions, after you've decided whether or not you should have any kind of long-term care insurance, is what type of program will best serve you. There are really four different kinds of programs that exist in New York State, and 15 companies that offer long-term care insurance.

There are policies that will just pay for you in a nursing home, what we call “nursing home only.” There are policies that will just pay for you at home, what we call “home care only.” Then there are two types of comprehensive policies, which are far and away the most popular.

A comprehensive policy means that, once you are disabled, you get to choose whatever setting you want to go into and the policy will pay for that, such as nursing homes, home care, assisted living, adult daycare, hospice, respite, care in the hospital, etc.

There are two different kinds of comprehensive policies that exist in New York State. All 15 insurance companies offer a regular or long-term care insurance policy like you would find in any state. You’re buying the benefits that you’ll have directly from the company.

In New York State, we also have something called the New York State Partnership, which conceptually is a private policy offered by five of those 15 companies. It’s a short-term or medium-sized private policy back-ended by the Medicaid program in the event that you run out of benefits.

We can talk more about that after we’ve talked about some of the elements of the benefit package. It will make more sense then.

**Bill:** Let’s get right into the benefit package, then. What are the different factors somebody needs to look at that ultimately determine the cost of a policy or program?

**Steve:** The benefit package is really the guts of my presentation when I’m talking about long-term care. After you’ve decided you should have some long-term care insurance and have decided on program, whether it’s a Partnership policy or a regular policy, there are four key decision points or elements to every long-term care insurance policy. Each represents an individual planning decision.

We have what’s called the “maximum daily benefit,” which simply refers to the maximum amount of money per day your policy will pay toward the cost of care. That’s a very important element

because the right level of benefits has to be determined for each client. There is no universally right answer.

Let's say the average cost of care of a nursing home in the Capital District is \$300 a day. You could buy a policy to cover every nickel and dime of that. You can go up or down in \$10 increments. You could buy a policy or cover \$250, \$260 or \$270. A lot of choices are involved.

I'm sure it makes sense to you that the higher the daily benefit you purchase, the more the premium will be. On the other hand, the lower the daily benefit you purchase, the more you will have to pay out-of-pocket to supplement the policy to bring it up to the cost of care.

For instance, if you buy a \$250 a day benefit and have a \$300 a day cost, the other \$50 will come out of your pocket.

Here's the important planning principle. There is no right answer for everybody. The amount of coverage you should buy will depend on how much the cost of care is in the area you're dealing with, but more importantly, how much you're willing and able to contribute out-of-pocket toward the cost of care without causing you a lot of grief.

Some people are only willing to spend \$10, \$20 or \$30 a day out-of-pocket. If they have a \$300 a day potential cost, they might buy a \$270 a day daily benefit.

I have clients in various areas of the state who are willing to take on \$100 a day of the cost. They're willing to split the cost between an insurance policy and out-of-pocket. It makes perfect sense for them to do that.

They buy a smaller daily benefit to keep the premium lower, knowing that if they should ever need care, they will have a certain out-of-pocket expense. Even very wealthy people can afford \$200 a day out-of-pocket more readily than they can afford \$400 a day out-of-pocket.

Bill: As a long-term care strategist, probably one of the craziest questions you get is, "How much does long-term care insurance cost?" It depends on a gazillion factors.

Steve: One of the factors is obviously the size of the benefit package. The daily benefit is one of the key elements of any good benefit package.

You want to buy a daily benefit that will not price you out of house and home, and will enable you to have enough coverage so that, when the time comes that you need services, you will be able to easily afford the copayment associated with that.

Bill: Another factor now is what you call the "elimination period."

Steve: The elimination period is the deductible of a long-term care policy. How many days at the start of your long-term care episode will the insurance policy not pay? It will either be paid by you or Medicare.

Bill: In essence, this is like a waiting period.

Steve: People will choose anywhere from 20 to 100 days. For some people, a low deductible is better. Again, there is a lot of individuality associated with these decision points.

Bill: The higher the daily benefit, the higher your premium. We'd have to assume that the shorter the elimination period, the higher the premium as well.

Steve: Think of it in terms of your homeowners or auto insurance. If you have a policy with \$100 deductible, you will pay a higher premium than if you have a policy with \$1,000 deductible. It's the same exact mechanism.

Bill: What are the different elimination periods in a long-term care policy?

Steve: It varies from company to company. Generally you have 20, 60 or 90 days. Some companies use 100 days. Some companies use 45 days. I generally like to just call them low, medium and high.

The next element is the lifetime benefit. This is a very critical factor. When you buy a policy, you don't know if you will ever use any care at all, or if you will use care only for a few months to a couple years, or if you will have a 20-year Alzheimer's episode.

The issue for people is, "What if I buy a policy and become disabled a month after I buy it, or 30 years after I buy it, and start using my benefits? Let's say I start using my full daily benefit every day. How many years will a company continue to pay benefits before I've exhausted my entire policy?"

We call this the "lifetime maximum benefit," "coverage term" or "total duration of benefits." It has a million different names but it all refers to the same thing, which is how long the thing will last once you start using it.

It depends on what you buy. You could buy a policy with a coverage term lasting from as little as two years all the way up to 3, 4, 5, 6 or 10 years or lifetime or unlimited coverage. You could buy a policy that covers you for as long as you would need care. If you have a 30-year Alzheimer's episode, it will pay for 30 years.

What do you suppose is the disadvantage of buying a lifetime policy?

**Bill:** If you buy a lifetime policy, my guess is that it will be the most expensive policy.

**Steve:** Absolutely. The longer the coverage term or the longer the policy will pay for you, the more the premium is. There again, we have another tradeoff decision point that I work with when I'm dealing with my clients as to what the appropriate coverage term is for them.

Some people will choose a relatively short coverage term of three or four years. Other people will want to know that they will never run out of benefits.

People who have been exposed to an Alzheimer's episode in benefit status for 20 years will be more likely to want to go with a longer coverage term even if it might cost more.

Bill: Steve, what is your domain name in the event people want to get hold of you?

Steve: [www.SteveNussbaum.com](http://www.SteveNussbaum.com)

Bill: Certainly, long-term care insurance will give you some peace of mind. But one of the big factors, and one of the big benefits, of long-term care insurance is the inflation protection five, 10, 15 or 20 years down the road.

Steve: That's not so much of a benefit as a necessity.

When I was talked about the daily benefit, I was talking about the typical daily benefit for people in the Capital District today, \$250 a day, plus or minus \$20.

That's a fine benefit today. It will leave you with a relatively low co-pay, if any. In fact, you might even have home care or assisted living episodes where your daily benefit will cover 100% of the cost of care.

But if your benefit remains flat, meaning it's a stagnant, unmoving benefit that remains the same over time, it will become inflation eroded. As we discussed earlier, the costs of care have been going up about 5% a year compounded.

If you have a good daily benefit today but it didn't have what we call "built-in 5% compounded inflation protection," then in 10, 20, 30 or 40 years when you go to use the benefit, you will be paying three or four times as much as your policy is paying. It will feel like you don't have any insurance at all.

The way we deal with that is to buy a policy where the fixed premium cost includes an automatic escalation of your benefit, in this case 5% compounded.

The daily benefit you initially purchased will go up at 5% a year compounded, which presumably will keep pace with the cost of care. If you need to use the policy 20, 30 or 40 years down the road, the real purchasing power of your policy will be as good then as it is now.

**Bill:** How exactly do long-term care insurance policies work? How are benefits paid if somebody needs to put in a claim?

**Steve:** New York has had very good regulations in place ever since 1991. In 1996, the federal government came along with a very important piece of legislation called the Kennedy-Kassebaum Act.

At that time, the federal government concluded that they would never be able to implement a national long-term care insurance program, so they would rely on the private insurance market to help those people who have an exposure protect their assets and income by using insurance.

In order to help accomplish that, the Kennedy-Kassebaum Act included two important dimensions. It was the act that allowed federal tax deductibility of long-term care insurance premiums.

The other important component of that act was that the feds wanted to make sure companies selling long-term care insurance in all states, including New York, had certain minimum standards, requirements or policy components. They standardized a lot of things required for all tax qualified policies.

All tax-qualified policies use the same two “benefit triggers” to determine when you are considered disabled and eligible to start collecting benefits to pay for the services your policy provides for.

One of those benefit triggers occurs when your doctor or other healthcare provider certifies that you are cognitively impaired and require supervision.

The other benefit trigger, which is an independent benefit trigger and the more common one, is when your doctor or other healthcare provider certifies that you need ongoing human assistance with at

least two of the six main activities of daily living which are eating, bathing, walking, dressing, toileting and transferring. Sometimes go by slightly different names with different companies, but it all means the same thing.

Bill: Those are called “activities of daily living,” or also referred to as ADL.

Can you talk for a minute about how health issues affect one’s ability to buy a policy? If I have a pre-existing condition, can I get a policy?

Steve: It depends on the pre-existing condition. When you want to get long-term care insurance, you have to apply and go through an underwriting process which consists of a telephone interview. Then they get medical records from your doctors.

Once in a while, they may also come out to look at you if you have a condition they don’t like. With most companies today, if you are over the age of 75, they will automatically come out to look at you.

In order to get long-term care insurance, you have to be able to pass medical underwriting. You don’t have to be Superman, but you can’t have certain conditions that a company would consider to be so likely to result in a long-term care episode that they won’t cover you.

In the old days, they used to either approve you with perfect health or deny you. Today, they have become much more sophisticated. While they can still approve or deny you, they also can approve you at a variety of different rate classes, just like life insurance or automobile insurance.

If you’re very healthy, you can get a permanent, built-in preferred rate discount to your premium. If you have a medical condition that your insurance company feels might be riskier, depending on what it is, they can rate you up to 25%, 50% or even 100%, and of course they can always deny you.

Your health goes a long way toward determining not only whether you can get long-term care insurance, but what rate class you're likely to be put in.

**Bill:** What are some pre-existing conditions? If people have high cholesterol, can they get long-term care insurance?

**Steve:** Cholesterol is much less of a big deal with long-term care insurance policies as with life insurance companies.

Most of the time, the kinds of medical conditions that will cause a company to reject you outright and not even consider you are generally active medical conditions like cancers or impending operations.

Mostly it's the progressive diseases that are almost guaranteed to result in the utilization of long-term care services such as multiple sclerosis, Parkinson's disease, muscular dystrophy and things of that nature.

Companies are changing their underwriting standards all the time. More and more companies are looking at strokes. There used to be a time when most companies would forgive you if you had only a single stroke. Now, most companies have turned away from that. They believe that if you have one stroke, the likelihood of having another stroke is that much greater.

There are several companies today, in fact more than half the companies in the state, that won't even consider you if you've had even one stroke.

**Bill:** Can you talk about options people have as far as paying premiums on a policy? Can they give an insurance company one big lump-sum check? Do they have to pay every month?

**Steve:** In some states, that actually might exist. New York State, for several reasons, doesn't allow you to pay the lifetime premium in one lump sum.

You can pay the premium either annually, semi-annually, quarterly or monthly. Most people opt to pay it annually because it's cheaper that way.

In terms of the duration of the payments, normally when you buy a policy, most people pay what is called a "lifetime premium payment." That might change in the near future. Most people pay the premium over the life of a policy. They will pay the premium until they either die or become disabled and start to use benefits. Then the premium is waived.

There are several companies that also have accelerated premium payment schedules. This is not a single premium lump sum. That isn't allowed in New York State.

There are a variety of accelerated premium payment mechanisms. The fastest is what is called a "10 pay." You could literally pay the entire lifetime premium in 10 years, obviously at a higher rate than you would for those 10 years if you had a lifetime premium payment.

For some people, that can work out really well. Depending on your age and the number of years of work life you have left, you could actually have New York State pay for one-fifth of the entire lifetime premium of your policy in your tax code.

**Bill:** I don't know if this is really a tax question. New York State is one of a handful of states in the entire country that have a partnership plan or partnership policy. Can you just address what states have a partnership plan and, more specifically, what the New York partnership plan is all about?

**Steve:** There are four states that have the traditional partnerships going back to the early 90s. New York is one of them. Connecticut, Indiana and California are the other three states with partnership policies.

New York actually has a more unique and, in many ways, better structure for its partnership. We have what is known as a "lifetime asset protection plan partnership policy."

Let me try to give you a conceptual statement that really says what the partnership is meant to do. When we talked about the benefit package a bit ago, one of the elements was the coverage term or benefit duration.

We said, "You could buy a policy that lasts for two years to unlimited lifetime coverage. The longer the policy would pay for you, the more expensive the premium would be."

New York State said, "We would like to offer a policy to New Yorkers with lifetime coverage, but where you don't have to pay the enormous premium associated with lifetime coverage. You only have to pay a premium associated with four years of coverage."

The partnership policy is really a four-year policy back-ended by the New York State Medicaid program. If you buy the special four-year coverage term, you still have to pick your deductible and daily benefits.

You must have built-in inflation protection. New York State is very finicky about that. If you are under the age of 80 when you buy a partnership policy of any type, you have to have built-in 5% compound inflation protection. That is how important New York State feels that element is.

There are five of those 15 companies that actually sell a partnership policy right alongside their own non-partnership products.

You would buy a four-year policy from one of those companies and only pay the premium associated with four years instead of five to 10 years or a lifetime. It is a less expensive policy.

If you use up your four years' worth of benefits and exhaust the total benefits package you purchased from the company, you are allowed to come on to the New York State Medicaid program. Medicaid will pay for the cost of your care for as long as you need it. They will let you keep all of your assets. They won't make you go through the asset spend-down.

Bill: You said that if you pay out of pocket as a married couple, you have to spend down your assets to about \$102,000. If you have \$800,000 in assets, you have to spend everything down until you hit about \$102,000. Medicaid would then kick in.

With the New York State partnership program, you buy the coverage, exhaust the benefits and then have no spend-down. Medicaid will step in?

Steve: You would keep your entire \$800,000.

Bill: I definitely see a benefit to that.

Can you explain who should not consider buying long-term care insurance? What are the reasons why someone should not consider long-term care?

Steve: There are a couple different types of people who shouldn't consider long-term care. Obviously, people who aren't healthy enough to get it won't have it available to them to get anyway.

People shouldn't try to make that decision on their own. Sometimes people have a misguided idea of what conditions make you uninsurable or insurable. There are also people who are low enough down on the economic food chain to have access to the Medicaid program and don't have a huge spend down. Medicaid is a safety net program for poor and middle class people who use up all their assets and spend down.

It depends on personal preference. There is no right level or answer to this. When I sit down with my clients and review their financial circumstances, I won't recommend long-term insurance to somebody who doesn't have sufficient assets to protect or if they perhaps have a better way to do that.

I have even counseled some of my clients that they would be better off transferring their assets, particularly if the only thing they have of note is a house and want to preserve it for their heirs. The people

who get long-term care insurance are the people who have a financial profile to make them legitimate candidates for it.

You also have people who are extremely aged. You can buy long-term care insurance from most companies through age 85. Some actually have a limitation of 75 to 80. Age has a very pronounced impact on the cost of a long-term care policy.

If you are already in your 80s and are looking into long-term care insurance, it will be a fairly expensive proposition. There may be other ways for you to look at that would be better for you to protect your assets, particularly if you are a surviving spouse or single person.

**Bill:** If you are extremely elderly, can't afford the premiums, have limited assets or are on Medicaid, long-term care is not really a big consideration for you. On the other side of the coin, who should consider long-term care insurance besides people who have a big amount of assets or income?

**Steve:** You obviously don't buy auto insurance if you don't own a car. You don't buy homeowner's insurance if you don't own a house. You normally don't buy long-term care insurance unless you have sufficient financial resources that are exposed to having to pay down the cost of care.

At my seminar, I introduce people to the 10 top reasons why people buy long-term care insurance. Interestingly, the top three reasons have almost nothing to do with the person buying the insurance. They have to do with the children, family and spouse.

People buy long-term care insurance because they don't want to see their healthy spouse's standard of living go down the drain. They don't want their children to find themselves entrenched in a major care-giving episode that plays tricks with their own life.

The main reason is to protect loving family members. The other reasons are to maintain their independence and make sure they don't go into a nursing home prematurely. Strangely enough, way

down on the list, people buy long-term care insurance to protect bequests.

About 10% to 15% of my clients are really interested in protecting their assets because they want to leave them to their children. Most of my clients have already done a pretty good job raising their children and creating independent beings.

They want to protect their assets. That is just the icing on the cake. It is certainly a relatively low-level concern for most people. That is not generally why people buy long-term care insurance.

Bill: Ten years ago when I met with clients and prospective clients, the vast majority didn't want to spend the money because they wanted to leave a financial legacy for kids and grandkids.

After 9/11 and the difficult market we had five to six years ago, people now say, "We'll live our life. If there's anything left, the kids can have it. We won't go out of our way to leave anything to them."

Steve: You will appreciate this more than most people. I try to explain to my clients that they usually leave bequests behind not because they intended to do it, but because it was the side effect of good financial retirement planning, unless they happened to know the exact date they would die.

Bill: Do you happen to have that list of the top 10 reasons why people actually do buy it handy?

Steve: I could send it to you.

Bill: People have assets and income to protect. People have families to protect. There has to be an issue in there about staying independent or having control.

Steve: That is really what it is more about. When we talk about assets and income, those are cerebral concepts that really don't have any bearing. Protecting children from having to undergo tremendous care-giving rituals is a whole different thing.

Bill: A long-term care episode is not just a financial care issue. It's an emotional and physical one as well.

Steve: These have been cited as the 10 leading reasons why people buy long-term care insurance. I will read them to you in order.

1: Protect family members from the potential physical, emotional and financial burden a long-term care episode can have on them.

2: Protect the healthy spouse from experiencing a loss of financial security or decrease in standard of living due to a long-term care episode.

3: Protect children from having to function as full-time caregivers.

4: Postpone or avoid the need to enter a nursing home because of financial concerns or due to the exhaustion of family caregivers.

As an aside, about one-third of the people who are in nursing homes today don't need to be there given their health conditions. They can no longer afford to remain viable in the community, paying for either home care or assisted living on top of all of their normal maintenance expenses.

5: Maximize provider choices as a private-pay patient. There is a huge difference between having the ability to pay privately and having to depend on governmental funding.

6: Protect the bequests for heirs.

7: Maintain control over financial resources, even when disabled.

8: Avoid spending down to Medicaid and depending on welfare. There are actually people in this country who don't want to end up on welfare under any circumstances.

9: Provide the means to pay for professional home-care workers who can supplement the care-giving efforts of loving family indefinitely.

10: Maintain financial independence, dignity and decision-making authority.

Bill: You mentioned being able to transfer assets. I have seen commercials on TV with estate planning attorneys or elder-care attorneys touting the benefits of Medicaid planning. Can you briefly explain what it is and what the advantages and disadvantages are of doing that?

Steve: The advantages of transferring your assets are that you can basically avoid paying for a long-term care insurance premium and get onto the Medicaid sooner than you might have if you didn't transfer your assets.

The downside, especially today in an environment where government has become increasingly hostile toward the strategies involved with transferring assets, you really have to transfer your assets five years in advance.

You will lose control. You basically plan to go into a nursing home. You will never get any assistance from Medicaid for the most part on assisted living or homecare.

You will still have to provide income contributions. You will never avoid that, even if you don't have any assets and have a substantial income base. You will have to make that income available to the cost of your care on Medicaid.

There are several disadvantages. The biggest one is that most people don't want to transfer their assets when they're young and healthy. They don't want to lose control.

Ninety-five percent of asset transfers occurred not by people as a planning tool, but by people already in a nursing home or who had an impending nursing home episode. They had no choice but to transfer a part of their assets to save them.

Before the deficit reduction act of 2005, you were able to save up to half of your assets by transferring the other half. You can't do that anymore. You will be stuck. If you haven't done the advance

planning and transfer of your assets five years in advance, you will pay through the nose.

Bill: That is what they refer to as “half a loaf.”

Steve: That is correct. Half a loaf no longer exists.

Bill: I hear about people transferring an account or putting the house in their child’s name. Is it true that the downside to that is that if there is a divorce or lawsuit, the parents can ultimately lose that money?

Steve: One area where both long-term care agents and Medicaid estate planning attorneys agree is that one of the worst ways to deal with the issue is to transfer your assets to your children. I’m not talking about just a house here with lifetime estate use.

When you transfer your assets to another party like that, there are ramifications, even if you do it for a really legitimate purpose. There could be tax or other legal implications.

As you just alluded to, if something happens to the person you gave your assets to like a divorce or if they pre-decease you, it’s a financial mess.

Bill: The bottom line is that when you do the transfer, it’s technically no longer your asset.

Steve: I’m not even getting into the genre of those children who actually lock their parents out of their money. That has been documented and is one reason why when you transfer your house to your children, all of your attorneys will insist you maintain what is called a “lifetime estate use.”

It is considered to be a non-transferred part of your house. They will impute a rental value to the part you have had for your lifetime estate use.

Bill: I have to thank you for spending the last 55 minutes with us on the telephone today. If people want to get a hold of you, your website is

[www.SteveNussbaum.com](http://www.SteveNussbaum.com). I assume your different seminars and workshops are a little bit longer than 55 minutes.

Steve: They are a little bit longer. I do all the talking. My website will go under construction shortly. My telephone number is 518-435-4828.

Bill: In what states are you licensed to help consumers?

Steve: I'm licensed in New York, Vermont, Massachusetts, Connecticut and all of the border states except New Jersey. I have trouble dealing with that.

Most of the long-term care I do is in New York. I have even been known to transact business with border-state people by pulling them across the state to sign the application and then delivering the policy in New York. There are so many incredible safeguards and advantages to buying policies filed in New York State.

Bill: Thank you so much for joining us today.

Steve: It has been my pleasure. Thank you for having me. Have a great day.

Bill: Ladies and gentlemen, thank you for joining us. I hope you learned something today and found it time well spent.

Remember to start your subscription to *Retirement Intelligence™*, my free, award-winning, weekly newsletter. You will learn tips, tools and techniques to enhance your health, wealth and happiness. You can start your complimentary subscription by visiting our website at [www.MyRetirementSuccess.com](http://www.MyRetirementSuccess.com).

Additionally, pick up your copy of *Retire in a Weekend! The Baby Boomer's Guide to Making Work Optional*. Visit [www.RetireinaWeekend.com](http://www.RetireinaWeekend.com).

If you would like to talk directly with me about your situation and how I and Steve may be able to help you, I encourage you to call me toll free at 866-786-2521.

This is Bill Losey saying so long for now. Until next time, take care of yourself.