Farm Management

Tailor long-term care insurance to needs

Farm & Family

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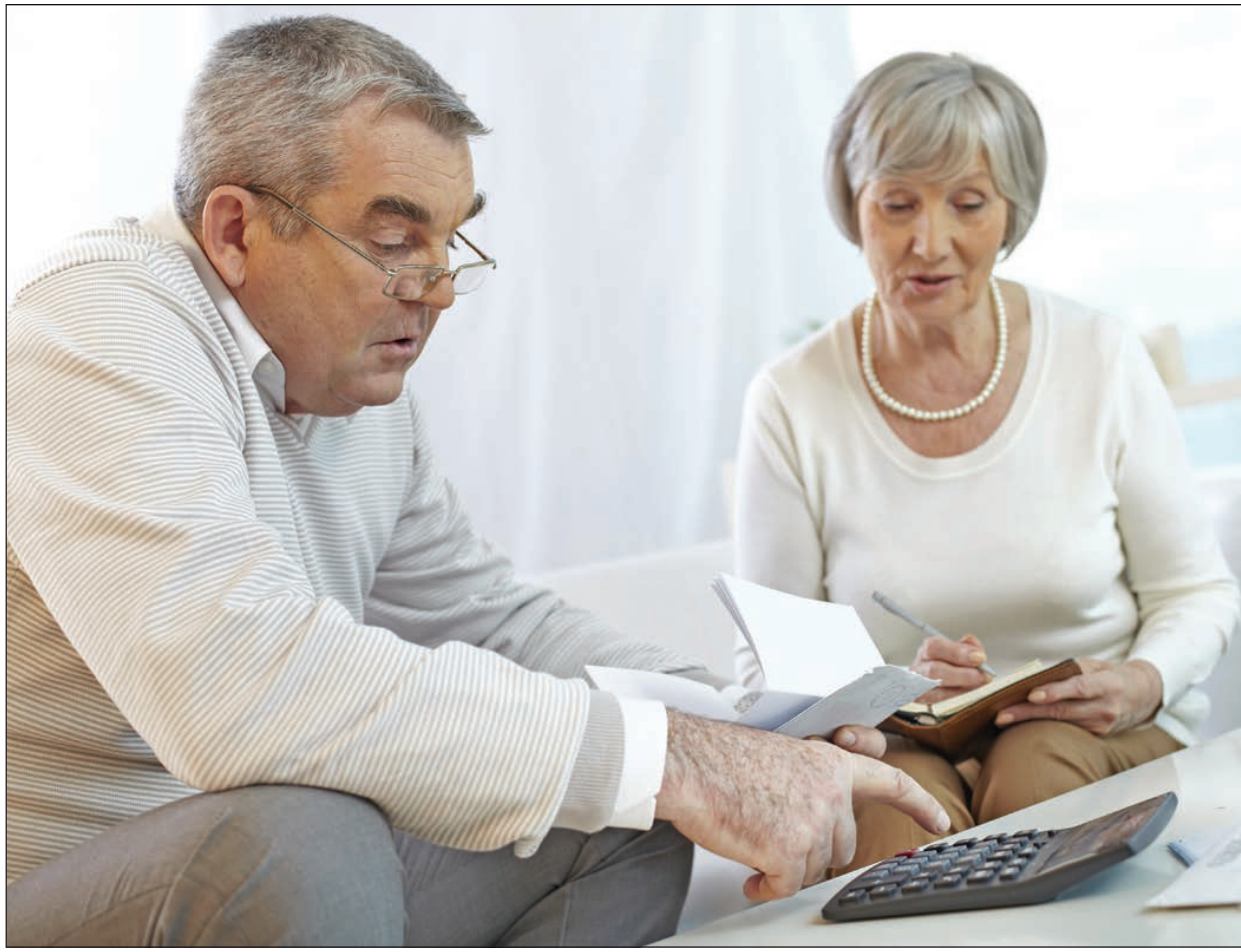

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Key Points

- Your risk tolerance level will narrow down your choices.
- Long-term care insurance may be tax deductible for farmers.
- Hybrids of long-term care and life insurances are available.

MY past few articles introduced and expanded on the topic of whether or not to buy long-term care insurance.

This month, we are going to round out and finish the topic by evaluating these risk management tools of long-term care insurance, life insurance and a hybrid of these insurance plans that are often utilized to address the risk of needing to fund long-term health care insurance expenses.

■ *Long-term care insurance:* There are many types of long-term care insurance policies and many different companies that sell such plans. As a result, you will want to work with an agent to determine the type of coverage you feel is appropriate to meet your risk tolerance levels.

Some of the variables that will need to be determined include the number of years of coverage, whether there is a maximum coverage limit, the daily or annual maximum coverage, what expenses are actually covered (example: home health visits, assisted-living expenses, nursing home care costs), whether there is an elimination period before insurance begins to pay, which facilities are covered, and if there is any inflation protection on the premiums or the maximum payout amounts.

If you have a low risk tolerance level, you are more likely to want more coverage at potentially increased premiums. If you have a high risk tolerance level, you may be willing to use the long-term care insurance policy as more of a safety net to cover only the basic risks.

Long-term care insurance may be a tax deduction for farmers if they employ their spouse under a qualified Section 105 plan and the long-term care premiums paid for the family are an employee benefit. The long-term care premiums also may be deductible for those taxpayers who itemize their deductions. Check with your tax preparer to determine the deductibility of your long-term care insurance premiums.

■ *Life insurance:* There also are times when we find that life insurance policies are appropriate when planning for long-term care costs. For example, if clients had previously deeded their farmland to their children, reserving a life estate to the rental income, we would then determine the date of the farmland transfer, the amount of consideration involved in the transfer, and discuss whether the client had surpassed the five-year lookback period of gifts for Medical Assistance eligibility.

In some of these situations, using future life insurance proceeds may indeed cover the risk that a surviving spouse or children would have to come up with funds to pay back any Medical Assistance benefits eligible for repayment. This evaluation is completed on a case-by-case basis, since many of the laws regarding life estates and Medical Assistance recovery have changed over the years.

■ *A hybrid of long-term care and life insurance:* Insurance agents are getting more creative as the number of people needing some type of long-term care insurance coverage increases. There are now many hybrid long-term care and life insurance-type policies available that may fit a particular client's situation and risk tolerance level.

One type is a life insurance policy that includes an advance death benefit that allows you to receive a tax-free advance on your life insurance benefit while you are still alive for reasons such as a terminal illness, a life-threatening diagnosis, the need for long-term care services for an extended period of time, or if you are permanently confined to a nursing home and not able to perform activities of daily living such as bathing and dressing.

Typically, ADBs are capped at 50% of the death benefit and have monthly or annual caps depending on the policy's face value. The ADB may be included in your policy, or it may function like a rider that requires an extra premium.

There are many different types of hybrid policies that are currently being offered, and there seem to be new plans emerging every month. Due to the many options and types of coverage, it is important to review these plans carefully with your insurance agent.

In summary, the question of whether or not to buy long-term care insurance is not so easily answered. Clients should assess their own potential health care needs, their ability to finance those health care needs, their risk tolerance level and the assets they may want to protect. There is no "one-size-fits-all" solution.

Clients have very different perceptions and opinions on long-term care insurance, life insurance, protecting their assets and how to cover their health care needs. I advise clients that it usually costs nothing but their time to meet with their insurance agent or financial adviser to complete an assessment and get a quote on a policy to cover long-term care costs.

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