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ClientAdvisor

APRIL 2022

New Long Term Care products provide favorable tax treatment

Premiums paid from a C-Tax Status Entity are deductible as health insurance premiums, while benefits received from the policy are untaxed.

The Insurance Industry has long searched for a profitable Long Term Care product, and the newest product offerings are built around a life insurance chassis that can provide preferential tax treatment, given proper planning.

The cash value in the contract (your money) supports the Long Term Care benefit. The "insurance" is the Long Term Care benefit in excess of the actual cash values.

For our doctors, there is a lot to like about this structure:

- The premium paying period can be limited to 5, 7, or 10 years. After that time, no more premiums are required for a lifetime of benefit.
- There is a Life Insurance Death Benefit.
- 100% of premiums can be refunded "less any claims" at any time in the contract life (Pacific Life Premier Care contract).

As the contracts are considered "Qualified Long Term Care," this exempts all benefits received for care from tax. Since they are built around Life Insurance Structures, they are not normally eligible for pre-tax treatment.

However, for our long-time clients, Long Term Care Insurance is funded with pre-tax earnings out of their practice and fully paid for over 10 years. They enjoy a lifetime of coverage with inflation adjusted benefits and a return of 100% of premiums to their designated beneficiary at death.

Long Term Care Coordination Services

Funding of Long Term Care expenses is just the financial side of Long Term Care Insurance. As those who have been care-givers or care-coordinators for loved ones know, there is much more to coordinating the needs of a patient. With this in mind, we are recommending **10-pay, return of premium Long Term Care** paired with coordination expertise from licensed health practitioners. We recommend this product and service combination specifically because it allows payment of premiums from the practice while working, ensuring lifetime coverage with no further obligations. Several reputable companies can provide the companion coordination service.

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Financial Planning for Long Term Care

In the United States, Medicaid actually funds over 80% of the Nursing Home Care expenses. Many attorneys and planners specialize in the arrangement of their client's affairs in order to qualify as eligible for Medicaid. For our Doctors, this is not an acceptable or an appealing strategy.

If it is expected that long term care services will be needed beginning in the nearer term, planning should begin now regarding Service Providers and a Plan of Care. A review of assets to fund Long Term Care will lead to recommendations for the proper Custodian, and Portfolio Structure for those assets.

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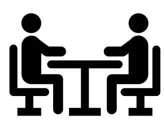

Schedule a Client Review

Background on Long Term Care Planning

Most adults in the United States know of family members or friends who have required assistance with "Activities of Daily Living" or "Long Term Care." The US Department Health and Human Services projects that 7 out of 10 Americans over age 65 will need some sort of Long Term Care in their lifetimes.

Congress has recognized the need for individuals to plan for Long Term Care expenses. As the baby boom generation ages, the burden on Medicaid funding LTC claims will continue to grow. Legislation was passed providing tax incentives for citizens to purchase insurance to fund the risk of Long Term care expenses.

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Twenty years later, the world has changed. An extended period of ultra-low interest rates, higher than projected claims rates and higher than expected persistency (people do not drop their coverage) has led insurance companies to discontinue sales of Individual Long Term Care Insurance. Those that remain in the business are offering very high premiums for much more modest benefits.

The U.S. Department of Health and Human Services estimated in 2014 that Long Term Care costs average $85,000 per year. That number is expected to grow by 3.9% per year. A nursing home stay beginning 30 years from now could cost $271,000 per year.

The uncertainty which has developed in these contracts comes from the losses the insurance companies are experiencing in this line of business. When a product is not profitable and the future projections are for increasing losses, the insurance companies seek rate increases from the State Insurance Regulators which are routinely granted.

The insurance is supposed to provide piece of mind. Unknown future rates and the failure of some insurance companies providing this coverage creates concern rather than piece of mind which defeats the purpose of having the insurance. The Insurance Industry has searched for a product design to provide the Long Term Care Insurance benefit in a profitable structure (stable rates and better quality service from the insurance company).

In addition to risk protection, some products offer Long Term Care Coordination Services, which includes coordination expertise from Licensed Health Practitioners who can:
- Help you understand your benefits
- Guide you through claims processes and claims materials.
- Provide assistance in location an eligible, qualified provider of service, whether you choose to receive care at home, through an adult day program, or in a Long Term Care facility.
- Give assessments to quantify your care needs, including in-home visits by a nurse when appropriate.
- Assist you and your family to construction a plan of care that meets your needs.
- Offer care giver training to your loved ones and/or designated representative.
- Locate supplementary support services, such as home delivered meals, transportation, housekeeping, or minor home modifications.
- Provide information to ensure you find the most cost effective care and services.
- Monitor your care needs over time.
- Establish transition plans if you exhaust your benefits or no longer meet the eligibility requirements.
- Provide payment options.

Long Term Care Insurance policies are underwritten for the Life Insurance benefit as well as the Long Term Care risk. There are many types of pre-existing conditions which will cause the insurance company to turn down an application. Any diagnosis of cognitive impairment, Parkinson's disease or stroke will not qualify. The inability to Activities of Daily Living, Diagnosis of Lung Disease, Kidney Disease, Rheumatoid Arthritis, Osteoporosis, Cancer or a handicapped parking permit will cause a decline of coverage.

How do we solve Long Term Care for clients/dependents who are not insurable?

Basic items include documenting medical directives and medical power of attorney for a trusted individual in the event you are unable to make decisions for yourself.

For doctors or their dependents who cannot qualify for Long Term Care insurance but are not current in need of coverage and do not expect a need to arise in the next 10 years, a continued focus on accumulating spendable assets will fund retirement savings needs, as well as provide a potential pool of money to fund long-term care related expenses.

Disclaimer

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