Your Guide to Consumer Information

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Asset protection

Partnership offers insurance incentive

By Debra Newman

As you plan for retirement, think in terms of three phases:

- **The *go-go years* of retirement, when active, capable seniors may increase their expenditures in order to see and do things they previously didn't have time for.**
- **The *slow-go years,* often resulting from a decline in health. Life settles into a routine, many people downsize their living arrangement, and medical expenses may begin to rise.**
- **The *no-go years,* when a significant change in health or circumstances—for example, the death of a spouse—brings about a change in abilities and activities and a narrowing range of choices.**

You need to be well prepared for all three phases so that if your spouse or partner enters the second or third phase before you do, it does not financially devastate your retirement.

The average cost of long-term care totals $6,000 per month. That's $72,000 annually—a sum that could grow to $330,000 annually in 30 years, at a 5 percent rate of inflation. Three decades from now, the price tag for five years of care could exceed $1.8 million.

These facts suggest two central questions: What's your plan to pay for a nursing home, home care, or other long-term care for yourself and your spouse? And how will you prevent long-term care expenses from depleting your family's assets?

For many Minnesotans, the answer to both questions is long-term care insurance. About 180,000 long-term care insurance policies are in effect in the state, according to the Department of Human Services. The policies cover about 11 percent of all adults in Minnesota households earning at least median income, which the U.S. Census Bureau estimated at $52,000 in 2005. The Minnesota Long Term Care Partnership Program (LTC Partnership) aims to double that percentage in the next 10 years. This cooperative effort between private insurers and the Minnesota Medical Assistance Program (the state agency that administers federal Medicaid benefits) offers consumers a powerful new incentive to buy long-term insurance.

Medicaid and asset protection

Medicaid, which covers long-term care services for those who lack private insurance or who have exhausted their own insurance benefits, can be financially draining. Ordinarily, individuals must "spend down" their assets—cash, stocks, and most other items with cash value—until only $3,000 remains before they can receive Medicaid benefits.

To encourage more people to buy long-term care insurance and to reduce pressure on the public financing system, federal lawmakers have facilitated the creation of public-private partnerships that allow policyholders to protect some of their assets. Through the LTC Partnership, which received federal approval in 2006, qualifying private insurance policies include a feature called "asset disregard" that enables individuals who need Medicaid for continued long-term care to keep assets equal to the amount of benefits they received under a qualifying long-term care insurance policy. Minnesota established the rules for its partnership program at the end of 2007.

A case in point

Consider the hypothetical example of Ruth, a widow who wants to preserve her assets for her two sons and their families. At 58, Ruth buys an LTC Partnership policy with a total lifetime benefit of $400,000.

Years later, when Ruth needs long-term care, she begins to receive benefit payments from her LTC Partnership policy. Eventually, Ruth uses the maximum benefits allowed under her policy that, as a result of inflation protection in the policy, now equals $600,000. She continues to need care and applies for Medicaid to continue covering her nursing-home stay.

Ruth's assets have now grown to $700,000. Instead of having to spend down all but $3,000 of her assets to qualify for Medicaid, she can keep assets equal to the amount she received in long-term care benefits. That means Ruth can keep and pass on to her sons $603,000 of her assets—while getting the care she needs.

Control your care

In addition to increased asset protection, LTC Partnership policies provide all the benefits of traditional long-term care coverage. The policies typically cover not only nursing home care but also care in an assisted living facility or in-home help with bathing, dressing, eating, and other daily activities; visiting nurses; and adult day care and other community programs. Most policies also offer care coordination. This feature helps your family build a plan for your care and then helps you find the right caregivers.

If you're fit and healthy in middle age, buying long-term care insurance might be the furthest thing from your mind. But if you wait until your 70s or 80s or your health begins to fail, you might be too late.

If you rely on Medicaid to fund your long-term care, you not only will put your assets at risk; you also may not get to choose what type of care you receive, or where you receive it. By purchasing private insurance, you can gain greater control over how to live in your later years and how to fund needed care.

Minnesotans are enjoying increased life expectancy, and the proportion of state residents age 65 and older will increase by more than 60 percent over the next 25 years, from 12 percent to 20 percent, according to Department of Human Services. Many seniors will enjoy more active, independent lifestyles than earlier generations, but because there will be more older Americans, demand for long-term care services inevitably will increase.

Is LTC right for you?

Are you in your mid-50s, do you consider yourself reasonably healthy, and do you have some assets you'd like to protect? Then you may be an ideal candidate for LTC Partnership insurance. For a healthy 55-year-old receiving a spousal discount, a modest policy can run from $120 to $150 per month, factoring in an annual state tax credit of up to $100. It's important to note that an LTC Partnership policy doesn't cost more than traditional long-term care insurance.

Once you need care, you will use your LTC Partnership policy benefits to pay for your long-term care. If you exhaust your benefits, you can apply for Medicaid coverage. Medicaid will set aside assets equal to the amount of your partnership policy before determining your eligibility. During your life or your estate-settlement process, Medicaid cannot take the assets you set aside.

Long-term care coverage may not be for everyone. It is important to be able to afford the premiums—not only now, but also in the future. If paying the premiums may become difficult on a fixed income or with limited savings, it may not be appropriate.

Getting started

To inquire about LTC Partnership policies, consult a state-certified long-term care insurance agent. About 60 insurers sell long-term care insurance in Minnesota, and to date almost half have received approval to offer the new LTC Partnership coverage. To sell LTC Partnership insurance, agents must complete training and offer qualifying policies.

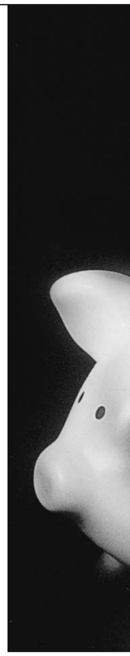
You may also be able to obtain coverage through your employer or an association. However, don't assume group plans provide more affordable rates or better coverage than individual policies.

In many cases, a married healthy individual may obtain lower rates with an individual policy. A typical policy provides a benefit of about $6,000 a month for a three- or five-year period. An insurance professional can help you compare policies and determine the appropriate coverage for you, depending on your age, health, and finances. Be sure to ask about:

- Age-appropriate inflation protection, required for policyholders younger than 76.
- Shared care, a feature that allows spouses to share each other's benefits.
- At-home care, since the majority of care is now being provided outside facility settings.
- Financially strong insurers; look for companies with high ratings by Standard & Poor's and A.M. Best.

It makes sense to include long-term care as part of a comprehensive approach to your retirement and estate planning. If you can afford it, this is an opportunity to arrange for your long-term care, protect your assets, and control where and how you live out your days.

Debra Newman *is founder of Bloomington-based Newman Long Term Care, one of the largest long-term care insurance agencies in the United States.*



What if I already have long-term care coverage?

The Minnesota Long Term Care Partnership Program (LTC Partnership) isn't only for new policyholders. It also allows some existing policyholders to protect their assets from Medicaid. If you recently purchased a policy in Minnesota that already meets LTC Partnership criteria, your insurer will notify you if it is eligible to be converted to a partnership policy. The main criterion for partnership plans is they must include age-appropriate inflation (ages under 60 must have compound inflation; ages 61 to 75 must include some form of inflation; for ages 76 and up, inflation is not required). Not all insurers have filed for the partnership program. Of those who have, many are converting only policies sold after the July 2006 Minnesota approval date.