WEALTHTRUST ARIZONA WT

VIDEO TRANSCRIPT: Long Term Care – Are You Prepared?

(PAUL AHERN, CERTIFIED FINANCIAL PLANNER (CFP), CHARTERED FINANCIAL CONSULTANT (ChFC))

I want to start by introducing myself. I'm Paul Ahern, I'm one of the partners here at the firm and I wanted to thank you all for coming out today, because today we have two things happening. The first thing we're doing, is we're welcoming back Greg Anderson. Greg Anderson was with our firm for seven years and then recently left, I guess, 2009? you were just saying, and then he went into the corporate world, and now he's back, and for us that is a big thing, because prior to Greg leaving us, we were really kind of stuck without an insurance expert, or a "go-to" person to go to on all these areas. All of our advisors at the firm are licensed to offer insurance, but from a practical standpoint, we don't get involved in the day-to-day complexities of insurance plannning, it's just not our forte, it's just what we specialize in is portfolio development, investment research, design work, etc. We leave the insurance planning and the estate planning to the experts that we have a strategic relationship with, namely David Colby and Megan Thornes on the estate planning side and now Greg Anderson on the insurance planning side. So, Greg works for a firm called Brokerage Professionals, Incorporated, and what they are is the largest consultant in insurance in the state of Arizona and one of the fifteen largest in the nation. Through them, our clients now have the ability to shop virtually every insurance carrier in the nation to get the best possible rates and the terms and conditions that they're seeking. So usually what will do is we'll have Greg in on one of our meetings to sit down with our clients to analyze all of their insurance, discover what it is they're looking to achieve, uncover any opportunities that they may not have known before and then present to you all of your various alternatives. And he will literally give you five to ten different quotes and options and let you analyze everything so that you can make an informed decision. The reason we love working with BPI – Brokerage Professionals, Incorporated – is because they don't represent one company. We don't want to be beholden to one insurance carrier, we want our clients to get the benefit of getting multiple quotes from various insurance carriers. So, Greg represents that for us now at our firm, all the insurance options. Greg is a chartered life underwriter, a chartered financial consultant and an accredited estate planner. What all that means to our clients is that he an absolute expert in everything insurance-related, with the exception of property and casualty. And although he is well-versed in various insurance topics, today we've asked him to specifically talk on the topic of long-term care. I know many of you in the audience already have long-term care, some of you have questioned do you want to keep it, so Greg's going to talk a little bit about the status of where the long-term care industry is today, current costs, what your options are, etc. So, with that I'd like to turn it over to Greg and I believe he's got something to do.

(GREG)
Thanks, Paul.

(PAUL)
You bet.

(GREG)
You know it's interesting, I've been in the insurance business since 1987 and I got into the long-term care industry about 1991. And over the years as I've talked to a lot of people, everybody for the most part have shared their frustrations with me, they've shared that they feel somewhat confused overall about the options they have for, you know, long-term care, they feel like they've been bombarded by the media and generally they haven't known where to turn. And one of the things that I've kept in mind as I've tried to present this information is to try to shed some light on this subject and I think we're gonna do that today and one of the things that we're gonna talk about, we're gonna talk a little bit about the basics. And, by the way, how many people here actually already have long-term care insurance?

(NOISE FROM CROWD)

Okay, so majority of the crowd, and that's good, you've already taken some steps to protect yourself. But we're gonna talk a little bit about the basics, what is long-term care, what are some of the statistics to get you caught up on that, what are some of the risks of long-term care, we're also gonna talk about who's paying for long-term care, what the government's role is, through Medicaid and Medicare, we're gonna talk about a new program called Partnership, in the state of Arizona, which is really an interesting program, we're gonna talk a little bit about, under "Obamacare" and what's available under the Class Act, and there's a long-term care provision under health reform, and we're gonna talk about that. And the other thing we're gonna do is, we're gonna look at some case studies, using some different approaches, some new innovations on insurance that are going to include what we call our asset base types of care. I'm gonna go about an hour, and if you have any questions as we go, we've got a small group, so just feel free to raise your hand and ask a question or otherwise, I'll be around after as well to answer questions.

So, just starting with some basics, what is long-term care, you know sometimes people think about, does that mean, I'm in the hospital, does that mean I'm in a nursing home, well, it's really about a broad range of services that someone might receive as a result of suffering from chronic illness or having a disability or an injury that results in the need to get some help. And that help can be provided through, a little bit through health insurance and there may be some help available through Medicare but there's limitations on those programs and we'll talk about that.

Long-term care can include health in terms of social health, housing, transportation and other supportive services, it can be provided through family members, it can be spouses,

it can be children, it can be neighbors, it can be friends, and it can also be provided by the professional community, that includes home health care agencies, and nursing homes and assisted living facilities. By the way, how many people in the room know somebody that's needed long-term care? Has anybody in the room been a caregiver themselves? Okay. One of the things that we've learned over the years in just meeting with people who've been caregivers is that long-term care is actually much more harder, much more difficult on the person that's the caregiver, especially if it's a family member, than if it's the person needing care. It's a tough job both physically and emotionally and one of the reasons that we like plan for this sort of thing is because we see people taking that role, and sometimes it can become a 24-hour a day, seven day a week job, and it takes years off you your life, so it's important for people to understand there are other options available out there to help loved ones with their care.

(PAUSE)

Here we go, well if you think about some of the activities that you performed when you got up today, the first thing you did is, you probably maintained continence all through the night, the second thing is, once you got up out of bed you probably walked all by yourself into the bathroom where you used the toilet, then you may have taken a bath or a shower after that, then you went and you got dressed, without any help whatsoever. We all take that for granted everyday. And then you probably walked out into the kitchen where you prepared and ate a meal. And these are what the insurance companies refer to as the six activities of daily living. And if you need help with two or more of these activities of daily living, because of a chronic illness or some type of disability or as the result of an injury, then it's said that you need some long-term care services, as well if you have a situation where you have a cognitive impairment, like Alzheimer's, like dementia, and as a result you need some supervision, it could limited supervision or it could be all day long, seven day a week supervision, then that's another form of long-term care. And these services are made available through a wide variety of settings, the most popular by far is home health care. And when I've talked to people over the years I've asked the question, hey, if you're ever traveling and you're on vacation and get sick, where do you want to be? And everybody tells me without exception, gee, I want to get home right away, or I wan to get back on a plane or back in the car, I want to get home as soon as possible so can be in the comfort of my own home, in my bed, you know, with my family, or my little puppy dog or my kittens or whatever by my side. And so by far the most popular option for long-term care is getting care in your own home, as a matter of fact, about 80% of the people who are getting any type of long-term care in his country, they're actually in their own home. Ah, in some cases they're in an assisted living facilities, they're in other, some of these group homes, but most people getting long-term care they're not actually in nursing homes. A lot of people think about nursing homes, where do you go if you need long-term care? But the fact is, that most people aren't in nursing homes. Now, home health care can either be the most expensive or the least expensive form of care. Now in the Phoenix metropolitan area, and across the country, we're seeing costs of anywhere from $18 to $22 an hour for home health care, it's provided by either a private person or through a home health care agency. Home health care agencies will send somebody out to your home to work a four or six or eight

hour or a 24 hour shift, depending on what their needs are, and you pay for that by the hour. Now we had a client some years ago that had his father getting care in his own home. He didn't want to leave his home, he said, I'm not going anywhere, and so he got care in his own home and over the course of about three years he spent about $340,000, because he didn't have family and friends around that could help supplement that care, he needed the 24 hour, seven day a week care. So it can be very expensive but if there's family members or friends that are able to pitch in and help out with care, then those costs can also be minimized. The other thing that is really important about home care is that if somebody needs help with of those activities of day-to-day living, there's a also chance that they're gonna need help with things like chores around the house, doing laundry, preparing meals, taking out the garbage, running errands and all those services can be provided by home healthcare aides.

(RESPONDING TO AUDIENCE)

Besides getting care in your own home, there's other types of places you can get care, one of them is adult day care centers, just like child care centers, and with an adult day care center, if I'm an adult working and my spouse needs some help, I can drop my spouse off in the morning, they get care and supervision during the day, and I can pick them up at the end of the day when I get off work. Adult day care is normally gonna cost somewhere of $50 to $80 a day. Then we have assisted care facilities and assisted care facilities are great facilities of people that don't need full-0time, around-the-clock care, and they don't need skilled care, but they need a little bit of care, potentially during the day, or, as in my grandmother's case my grandmother was 89 years old and she decided at one point that she was done with the house, driving, cooking, cleaning, she was done, she was in good health, she could do all those things but she decided not to. So she moved into an assisted living facility and she had her own little apartment and they prepared all her meals and she went down and ate and had social activities, transportation, I think they were charging her about $2,600, $2,700 a month. And after a year-and-a-half my grandmother had some changes in health and she did start needing some help in that assisted living facility, and she was able to get that help, which was wonderful. Once, once help goes from needing all intermediate help to someone needs help during the day but it's not 24 hours a day, then you have nursing homes, nursing homes are for people who generally need 24 hour, seven day a week care. They need it at night, they need it in the morning. Nursing homes in the Phoenix metropolitan area are generally, you're looking at $180 to $185 a day, average daily cost for a semi-private room in a nursing home. For a private room it gets even more expensive, now keep in mind a semi-private room, these rooms are about the size of a motel room, and you'll have a roommate and what separates you and your roommate is a curtain, like a hospital curtain, that's about three millimeters thick. So, a lot of people would like to have a private room if they absolutely have to go in a nursing home and a private room is gonna cost probably $225 a day in this area and up, depending on where you're at. So, the cost of care is certainly, something to be concerned with. And the cost of care has been going up in the past and not down, so we'll talk a little bit about that. You know, from a risk standpoint a lot of things have been changing over the years. It used to be that people would have a heart attack or a stroke or they'd have life-threatening cancer and sure

enough, they had a very short life expectancy after that. Or they would live through that event, and now a lot of the illnesses that would once shorten our life expectancy have become chronic, manageable illnesses and people are staying alive longer, but what we haven't figured out is how to take care of people as they get older and our bodies break down and people start needing help with those activities of daily living. Or, in the case of cognitive impairment, statistically they say that of people age 80 and up, 50% are suffering from some of cognitive impairment, whether it's early stages of Alzheimer's or dementia or what have you. So we haven't quite figured out how to. how to shorten and, you know, those issues and be able to extend people's ability to be independent and take care of themselves. 60% of Americans who reach age 65 are expected to need some long-term care services at some point, there's actually a 75% chance between a husband and wife or between any two people that one of them will need some long-term care during that life. When I first heard that statistic, I thought it was just staggering, a 75% chance between two people. Now, what we don't know is, well does that mean I'm gonna need long-term care for a year, or for ten years. And that's gonna vary obviously, and we look at the number of people, the 60% of Americans who will need some form of services, we can break that down, and the breakdown is about 9% of those people are gonna need care for five years or longer. They say that the average person who goes into a nursing home will be in a nursing home for just over two-and-half years. At about ten percent of the population, almost the percent, nine percent will need care for five years or longer. Now, one of my grandmothers went into a nursing home following a stroke, and she was in that nursing home for ten years. So I've seen it with my own family but I've also seen it in people who went into a nursing home and they died within that first 90 days. So, it can vary a lot. The vast majority of people that need care are gonna need care between two and five years, if they need any care at all. And five years can add up, when the current cost for care is $60,000+ and the rate of inflation on long-term care historically the last years has been running in the three-and-half to four percent range, but prior to that it's run much higher. In fact, from 1990 to 2000, long-term care was going up nearly 9% a year. And long-term care rates actually doubled over that period. The projections, according to the Centers for Medicare and Medicaid, going forward over the next twenty years, is that loin-term care costs are gonna go up about 5% a year. Which means over the next 15 years, we're gonna see these costs double. So if we're looking at $60-65 thousand a year, to be in a nursing home today, fifteen years from now we're gonna be looking at $120, $130, $140,000. Now all of a sudden we're starting to talk about serious money. 40% of the people in nursing homes are actually under the age of 65, so this is not just something for young people. It is something for anybody that has a portfolio to protect and, and I used to say when they opened up the 101 freeway out here, before they had dividers, people were crossing over, I said, oh my goodness, that's you know, anything can happen to anybody at any time and everybody's gonna have to be prepared, be prepared for it. Now here's a situation a lot of people don't consider, normally what happens is, who needs care first, between a husband and wife?

(UNINTELLIGIBLE FROM AUDIENCE)

The husband. Statistically the husband needs care first. And how takes care of the husband, the wife does. Now we've seen the situation over and over, and we've seen it

over the years, where the wife is taking care of the husband and even thought they had the financial resources, to hire somebody to help out. So people are so frugal and so conservative that they just don't seek out that extra help, they try to do it themselves and what happens is, that wife, her help becomes impaired over time because of the physical, the emotional toll that it takes to be a caregiver. So that's a problem and that's something we're gonna talk a little bit more about. Roughly half of American 45 and up say they know someone who's used up all their savings paying for long-term care and had to go on Medicaid. We're gonna talk about Medicaid and how to qualify for that. And the average cost of a semi-private room about $67,000 and we are pushing that cost right here in Phoenix. Another recent survey published by Senior Market Advisor magazine asked, how would you pay for long-term care in your family, if something happened? Well, 21% said they would have to dip into their savings and 401K plan, 19% thought that the government would pay for it, through Medicare and Medicaid, and, and 18% said that they had already purchased long-term care insurance of some format, and that that should cover it. So, some really important questions to ask yourself. One of them is, If you've had a change in health and you have an extended health care need, do you have any type of written plan for care, What I mean is, I've talked to people over the years and, and people shared with me when I brought up the topic of long-term care, they say, Greg, I'm never going in to one of those places. I won't go in to one of those places, now you know what I'm talking about, don't ya? Nursing home. I'll never go into a nursing home, right? And I'll ask a question, have you shared that with your family? Do your children now how you feel about that? Because here's what happens in the real world, people say I'll never go into one of those places, if I ever need help I'm staying right here in my own home. Then a day comes when some help is needed. And now the children come get involved, and they sit down with the financial planner and they say, The number one thing that we want to make sure of is that mom or dad gets the proper care and that we can make sure that they have enough money to pay for it the rest of their lives and they don't run out of money. Well, if mom or add is gonna get care in the home, and the home care is gonna cost more than the cost of a nursing home, if that's where mom or dad ends up going. The kids want to do the right thing and make sure mom and dad never run out of money, so they end up going in a nursing home, anyway. So, something really important to consider is having that conversation, potentially having a written plan as part of your overall will or your trust, here's what I want to happen if I need care, I want to stay in my own home, no matter what the costs are, even if I run out of money at some point, I wanna do that, I wanna stretch it out as long as possible. So something to consider. Another question, assuming that you didn't already have long-term care insurance and you needed care and the cost of the care wasn't gonna be covered by your current income, what would be the first asset that you would liquidate to pay for it? Now for a lot of people they're gonna say, you know what, we're gonna have to go into our IRA and we'll have to start taking money out of our IRA, which means we'll have to liquidate the stocks or bonds or other investments that are inside that IRA, and once your start doing that, you know what happens then, some of you may already be taking your minimum required distributions, you're taxed on that every year, my father complains every year that he has to take his RMD because he doesn't need the money and he has to pay taxes on it and he doesn't know what to do with it afterwards. So

(UNINTELLIGIBLE FROM AUDIENCE)

I brought that up, giving to me, he doesn't like that idea either. I like your idea, though, that's good thinking. So, you know, the dilemma with that is, if you take out a dollar out of your IRA, you're gonna pay taxes on it, and now we're depleting an IRA, having to pay taxes on top, and potentially liquidating some of your bets assets, some of your very best investments. Another question to consider, do you currently have an annuity, or a life insurance policy? Or a CD that beside just the face value or the cash value represented by those products, also provides some leveraging for long-term care? In other words, if you had $100,000 in an annuity and you needed long-term care, would the insurance company that holds the annuity give you $200,000 or $300,000 to help pay for your long-term care? And if the answer to that is no, then you're gonna be interested in learning more about some of the things we're gonna be talking about, because there have been some innovations within the long-term care insurance industry where the insurance companies have said, let's see what else we can do besides a traditional medical or health-based products and let's see what else we can do in terms of showing you ways to leverage your existing life insurance or annuities, so we're talk about that.

(INAUDIBLE QUESTION FROM AUDIENCE)

So there's three ways to pay for long-term care. You can pay for it out of your own assets, there's government programs like Medicare and Medicaid, we're gonna talk about those in the class at, and finally you can transfer the risk by buying private insurance.

(INAUDIBLE QUESTION FROM AUDIENCE)

Well, we've talked about about-of-pocket costs, we've talked about the projected rate of inflation, but consider this. If you had a $500,000 portfolio, that was brought about five-percent a year, that portfolio, assuming that the average annual cost of long-term care is $75,000, growing at a rate of 4-1/2% a year, that portfolio would be depleted completely within about six years. So I know that sometimes we're feeling rich because we have half a million or a million dollars, but again as the rate of inflation for long-term care goes up, and assuming somebody says, you know, my portfolio is invested in a way that I'm drawing income off `of it, it's not invested for a lot of growth because I don't want a lot of risk, well if you have a million dollars today there's a possibility you may still have a million dollars in your portfolio 15 years from now, if you're enjoying the dividends and the interest off that portfolio. And the cost of long-term care is gonna go up over that time period and we could be fifteen, twenty years in the future when the cost of care is $150,000 in five years in five years of care is gonna decimate two-thirds of that portfolio or more, and what we worry about that when that happens is how does that impact the surviving spouse's retirement going forward at that point, and that surviving spouse might have another ten or fifteen years left in their retirement. What if you had a desire to leave some sort of financial legacy to your children? What's the impact to your children with that? And that may not be the most important thing but it's something that we want to consider.

(INAUDIBLE QUESTION FROM AUDIENCE)

Well, let's talk about one of the government programs, Medicare. Medicare is a very popular program, it's currently paying about 18% of the country's Medicare costs, Medicare primarily pays for skilled care. Well, what is skilled care? Well, everybody knows who Gabrielle Giffords is, from Tucson, the Congresswoman, and after her incident she goes through intensive physical therapy, speech therapy, she's working with PT people, and that is what we refer to as skilled care. Teaching her once again how to walk, how to talk, how to eat, all of those things that's provided by professionals that are licensed people, and the cost for skilled care can be significant. Medicare will pay for that skilled care, they'll pay for some of that skilled care at home, they'll pay for it in nursing homes. Now, one of the requirements in order to be eligible for skilled care and have that paid for by Medicare, is that you have a hospitalization of at least three consecutive days. And then you have to enter a skilled care facility within thirty days after being released from the hospital. Now what does Medicare pay if you need skilled care? Well, for the first twenty days in a calendar year, Medicare pays the full bill. The next 80, 80 days Medicare pays the balance over and above a $141.50 co-pay that you're required responsible for, okay? And that's adjusted for every year with inflation. After 100 days and you're responsible for the full cost of your skilled care. Now, Medicare pays nothing for custodial care, and custodial care is the care people get where they just simply need help with those activities of daily living. They don't need help with being taught how to walk again or to talk, but they need help going to the bathroom or taking a shower or a bath or getting dressed or somebody that has a cognitive impairment and they need some supervision to keep themselves and others out of harms' way, that'd be another form of custodial care and Medicare doesn't pay for any of that. Now, I'll share, I'll tell you a quick story, my grandfather, when he was about 96 years old, he had to go into a nursing home and he went in because he had Alzheimer's. And I went to visit him one day and I went up to his room and somebody said, well, he's not in his room, he's down at the, in the physical therapy room, so I went down to the physical therapy room and I got there and my grandfather's sitting there in a chair and he's doing this, he's doing some leglifts, you know, getting a workout, and somebody there with him, and I said, hey, what's going on, why is he doing this, and they're like, you know, we're just doing some physical therapy, well my grandfather wasn't there because he had physical issues, it was because, because he had Alzheimer's. Well, what I learned was, from the nursing home's perspective, my grandfather, my grandparents didn't have any money, they were, he was eligible for Medicare from the get-go, because they had already depleted all their financial resources when my grandmother needed care. In order for the nursing home to get the highest possible payout, the best way to do that for as long as they could was to get into the Medicare pocket. The reimbursement amount for that nursing home that my grandfather was in, was higher for Medicare, so they had to justify that my grandfather was getting skilled care to get the higher payout for Medicare. Once they got through that time period then he simply went on Medicaid and he stopped doing any physical therapy, I mean it just ended (snaps finger) abruptly. So you see that happening and oftentimes, the reason I bring that up, is when I talk to people and they say, yeah, my dad or my grandfather or my mother need long-term care, and I think Medicare paid for it all. And it may have paid for the first 90 days, even though they really only needed custodial care

because the nursing facility found a, came up with a reason to get them some skilled care so that they could get the higher reimbursement. So, it's kind of interesting. Now, Medicaid is another government program and Medicaid is a joint federal/state program that's administered by the states, the states fund half and the federal government funds the other half of the cost. Medicaid is the program for long-term care for the poor, okay? And it's, in order to qualify for Medicaid, you've got to meet some pretty strict income and asset requirements. If you are single, all of what we call your accountable assets have to consumed so that you have no more than $2,000. Well, what are your accountable assets? Well, accountable assets would be your checking account, your savings accounts, CDs, money market account, mutual funds, stocks, bonds, real estate, investment real estate, vacation home, IRAs, 401Ks, so you're getting the picture, it's all the good stuff, right? The things that aren't counted in determining whether or not you're qualified for Medicaid is your home, automobile, a small burial policy, and small life insurance policies and your personal belongings, your personal property.

(TO AUDIENCE MEMBER) Yes, sir.

(AUDIENCE MEMBER: What if you had your assets in a trust?)

What type of trust?

(AUDIENCE MEMBER: Well, I don't know, but could you possibly shelter it that way, and still get Medicare?)

Well, it's a good question. If it's a family trust of a revocable living trust, that's those are assets that you still control, you're still the owner of those assets, and there's to having those assets in trust, in terms of disposition and so forth, but there aren't, there isn't any protection for any type of trust where you still have ownership and control from those assets not having to be spent down in order to qualify for Medicaid. There is a type of trust where if you fund it, and you transfer all your assets in through gifts, that will allow you some protection, and that's called an irrevocable trust. The downside of an irrevocable trust is you're giving up the rights to those assets, you're in effect gifting those assets to someone else, typically your family members. So, we would normally not advise someone to do that and besides that, Medicaid has look-back rules on gifting, and they will look back five years on any gift that people have made to try to say hey, if we' want;' to qualify for Medicaid, let's get rid of our good assets, our liquid assets and give them to our kids, well, if with a five-year period of making those gifts you actually need assistance and apply for assistance, Medicare Medicaid is gonna say, you know you gave away $100,000 two years ago, you're gonna have to come up with a substantial portion of that and pay for part of your long-term care before you're eligible for Medicaid. And, so there are strict rules in place to try to prevent people from starting to give it away when they anticipate the need for long-term care, and most of the time you're not gonna anticipate that need more than five years out, usually it's six months or, you know, within a year, which doesn't really give you enough time to start making gifts. so

(AUDIENCE MEMBER: Is that five years used to be two years?)

It used to be, it was either two or three years and they extended it, so it used to, it definitely was shorter, I think you're, it was either two or three years, and they go m ore aggressive because of, you know, basically everybody was trying to play the game, they were trying to get rid of their assets in that short period of time and the government said, hey, we don't want, we don't want the middle class going on Medicaid, Medicaid is for people that don't have money, have never had money and aren't gonna get money. Now, I've talked about countable assets, I've talked about non-countable assets, in order to qualify for Medicaid, if you're single you have to spend down to those countable liquid assets until the value is no more than two-thousand, so if you've half a half-million dollars sitting in your portfolio, stocks, bonds, CDs and so forth, you literally have to spend that down to $2,000 before they, you'll be eligible for Medicaid. Now if you're married or we're in a community property state here in Arizona, and if you're married, your spouse, your healthy spouse is allowed to have approximately $110,000 of liquid countable assets and the other spouse can still be eligible for Medicaid. But again, the downside of that is, if you started with a half-million dollars and you gotta go down to a hundred-and-ten, that's an 80% reduction in your liquid assets. You know, what's the impact gonna be on that surviving spouse, you know the healthy spouse for the remainder of their retirement? So, Medicaid is a great program, the government definitely doesn't want to, and they have, ah, disincentives for people that try to give away their money, to try to qualify for Medicaid, we're gonna talk about another program though in a few minutes, the Partnership Program, um, that involves insurance and being able to qualify for Medicaid that I think you're gonna find very interesting. I wanna talk about the Class Act, you know, the Patient Protection and Affordability Care Act or healthcare reform includes what is called a Community Living Assistance Services Supports provision. We call it the Class Act. It's a voluntary government program that is designed to assist the working disabled, working disabled, under which participants will, ah, benefit from some long-term care services, now what I want you to notice is, (POINTS TO BOARD) that says working disabled, that doesn't say retirement disabled. It's a program that has not been designed for retirees. So, here's how the program is supposed to work, the way it's been rolled out. If you work for a company, if you're still employed, the idea is, is that you're going to automatically be entered into this program, unless you sign a waiver saying you don't want to be in it. So, if you don't sign the waiver, then you're in. They're gonna do a monthly payroll deduction of somewhere between 180 and 240 dollars a month, it's guaranteed issue, so this is a long-term care program that they can't turn you down. Now, I had a, my stepmother's sister has MS, now she's had it most of her life, and I know for a fact that she cannot qualify for disability insurance or long-term care insurance, because, with MS, it's inevitable that she's gonna have some problems at some point. Now she's been actively at work most of her life, she hasn't missed a lot of work, she'd be able to enroll in this program, which is wonderful for her, but keep in mind that if it's guaranteed issue and everybody can sign up, with any health condition, what does that say for what's gonna happen to the costs down the road if everybody ends up going on claim or the propensity to go on claim is much higher. It's been proposed to have a 60-month waiting period, which means that you couldn't actually file a claim until you've been on the program and paying premiums for five years. Now, who would buy

an auto insurance policy where you couldn't file a claim until you've been on the policy for five years. Nobody would do that.

(AUDIENCE MEMBER: you mean it's been proposed?)

Well, this is all part of the bill, it hasn't gone into (UNINTELLIGIBLE FROM AUDIENCE MEMBER) and it's proposed to go into law in a couple of years. Now, it probably won't happen, at least not in this format. Now, benefit-wise, if you needed long-tem care and you're in this program, you could collect as much as $75 a day.
Now, we know that the average daily cost of care, around the country and in Phoenix, is about 180, 180 to $185 a day, so it comes up well short of what the actual costs are. So, it's an interesting program that we talk about just because some people feel, hey, we don't have to worry about this anymore, ah, President Obama has bailed us out on this, and we can relax, but the fact of the matter is, it's not a program that's even designed for people that are retired. And I think it has a lot of shortcomings, um, you know the Department of Health and Human Services is gonna continue to work out the terms of the program, ah, whether or not we actually get this thing through I don't know, and it's not clear whether or not retirees will be able to participate. But I think it was very clear back in the year 2000 the federal government passed the Long-Term Care Security Act of 2000, and one of the provisions of that act was, is the federal government went out and they endorsed two major insurance companies, at that time it was John Hancock and Metlife and they said to all federal employees, the government did, they said, hey, you're a federal employee, retiree, you're in the military or a military retiree, or if you're in the extended family of those individuals, buy long-term care insurance from these two carriers, we'll even give you a discount on your premiums, now what would be our guess as to how much the government contributed towards that premium cost, on behalf of their employees?

(AUDIENCE MEMBER nothing)

That's exactly right, they didn't pay anything, in fact the government got a kickback, for everybody that signed up, they got one-to-two-percent of that premium that individual was paying, from out of their own pocket, as a kickback. Now I don't think there's ever been a clearer sign from the government when they're telling their own middle class employees, you gotta buy long-term care, because the government can't afford to pay for it. We're already paying for it for people who don't have any money, through Medicaid, but we cannot afford to have the middle class on that Medicaid program. So, I, I think it was very clear that the government wants people to protect themselves and they encourage them to do that, to do that through that insurance program. Well, the third way to pay for long-term care and we talked about you can pay for it out of pocket, you can, you may able to rely on the government, but the third way is through the transfer of the risk through private insurance and there's different ways to do that, we're gonna talk about traditional long-term care, we're gonna talk about the new partnership policies, there are some new innovations where you can actually use life insurance to pay for your long-term care, and they also have annuities now, what we call the asset-based long-term care options to help save money for long-term care. Now, traditional policies, and some

of you I the room have traditional policy, and the way these work is you normally would choose a daily or a monthly benefit so if you know the cost of care in your area is $180 per day that you might buy a policy that's 175 or 180, or $200 a day or something close to that, there's a benefit period, benefit period is, if I need care and I'm gonna go on claim, how many years do I want the insurance company to pay benefits? You can have the insurance company on the hook for the claim from anywhere from two years to a lifetime. Ah, it doesn't mean you can limit how long you can own the policy, once you have a long-tem care policy it's yours to keep for as long as you wanna keep it and as long as you pay premiums, but once you go on claim, there's always the potential to have limited benefits. If somebody says, you know what, if I go on claim I'm on claim for twenty years, I want the insurance company to pay it every single month for the rest of my life and we can do that too with these policies and the longer your benefit period the higher the cost. An elimination period is like a deductible. Ah, how long am I gonna self-insure before the insurance company starts paying the bills? Common deductibles or elimination periods are 30 days, 60 days, 90 days, 120 days, 180 days, even longer, one year, somebody says, you know, I think I can afford to pay for a year, I wanna minimize my insurance costs, I want a higher deductible. Inflation's important because, again, historically, we've seen the cost of long-term care going up, at a rate, um, of anywhere from nine percent during the '90s, during the early part of the, after the turn of the century, it was going up about five, five-and-half percent, more recently just because of things that are happening in the economy, we've got greater supply of labor in the care-giving industry, we've seen the costs kinda pared down a little bit, we've in the three-and-a-half to four percent range, inflation rate, the last three or four years, but going forward, you know, it could be much higher than that. So inflation's important to make sure that your policy keeps up with the growing cost of care. And then finally, most traditional policies lie to you to create a pool of money, so if I say, hey, I'm gonna do a 200 a day benefit for five years, but what if, I'm gonna have long-term care and I'm gonna have care in my own home and I'm only spending $100 a day? I'm spending half of that $200. Well, that means I'm just drawing half the money off the pool and if I did for the entire duration of my contract, it means I could literally stretch out my benefits from five years all the way to ten years. So, we have flexibility in these policies, which makes it nice. Now, traditional long-term care insurance policies are very comprehensive, they cover all occurrences, ah, in a variety of settings, so you have coverage of nursing homes, assisted living, home health care and adult day care centers, they're flexible, you have the ability to sit down and figure out how you want your policy to look. You can literally design it from the ground up. One of the concerns people have is that premiums are not guaranteed and anybody that's owned a long-term insurance policy now for a number of years realizes that their policies can and will be subject to rate increases. They can never cancel the policy on ya, and they can't ever pick on you as an individual for a rate increase, but an insurance company can go to the state Department of Insurance where you buy your policy and they can raise the rates for everybody that has a policy like yours, okay, and that's one of the concerns that people have, and that's, you know, this is probably a good time to give you a little update on kind of the state of the industry. Um, you probably read in the media or magazines how insurance companies are now passing on rate increases on long-term care policies that were purchased five years ago, seven years ago, fifteen years ago, we have some companies that are raising rates on

people that bought last year. We're seeing rate increases of anywhere from five percent to as much as 90 percent, depending on what type of policy you have, your age and so forth. So, some people have now lost a little bit of confidence, they said, gee, shouldn't we all now do traditional policies, will we be subject to a rate increase down the road. Now traditional policies, historically, are one of the best ways to provide coverage for long-term care. But you have to keep in the back of your mind that if you have a traditional policy, you can and will possibly get a rate increase at some point. Now, there's three things that are happening in the industry that are leading to these rate increases, because I think in the early days of long-term care, the insurance companies thought, you know, we have the right to raise rates but we don't think we'll have to. Well, three things that have happened in the last several years, one thing is that we've seen big changes in interest rates. Interest rates have come down substantially, haven't they? And most insurance companies, they're primarily, primary investment in their portfolios that they manage, multi-billion-dollar portfolios, that back up, ah, and support the products they offer, is bonds. They have a substantial amount of government bonds, ah investment-grade corporate bonds and so forth and what's happened is, is that interest rates have dropped on these bond portfolios, that's had an impact on pricing, and in fact when they price these products, they've factored in a certain assumed rate of return that they were gonna get in their underlying portfolio. You know, people are paying premiums until they go on claim, they take those premiums they've set aside and they invest them. Well, the rates of return on those investments have dropped and that's impacted the pricing and now all of a sudden they say, gee, we probably should have charged more. The second thing that's impacting rates and potential rate increase is lapse ratios. When the actuaries sit down and they design pricing our product, they have an assumption, how many people are actually gonna drop their policy every year. And when they design these long-term care policies in the past, they assumed about a three, three-and-a-half annual lapse ratio. That means if an insurance company sold a hundred policies this year, they assume that every single year thereafter, three of those policies will come off the books. People for whatever reason will decide they don't want the coverage or they'll decide to drop the policy, stop paying premiums. Well, the good news for the insurance company is, is that they were able to collect some premiums and never had to pay out a claim on those policies. Actual lapse ratios have been closer to one percent. One-third of what they expected, which means more people are holding on to their policies, which means that they're gonna have to pay out more claims. The third factor is actual experience. Claims experience has been much higher than they expected because people buy long-term care insurance, they hold on to it, and they're going on claim. And again, the statistics show why, 60% of the population's gonna receive some sort of long-term care in their lifetime. Seventy-five percent chance of needing long-term care between a married couple. so, and that's of the reasons why the industry developed some of the asset-based solutions, because they realize that some people will say, you know what, I'm not willing to take a chance that my rates are gonna go up, I want something that's fixed and it's known and certain, because I'm going into my retirement years and I have a fixed income and I know other expenses are gonna go up, the cost of gas is gonna go up, the cost of utilities is going up, the grocery bills are going up. Now, one of the advantages of traditional long-term care insurance is premiums may be tax-deductible if you have a tax-qualified policy, which means you probably had to have taken out the policy sometime after 1997,

ah, when the Health Insurance Account Affordability and Portability Act was passed, one of the provisions was, that they came out with was tax-advantage long-term care policies. If you have a tax, or a tax-qualified, rather, if you have a tax-qualified long-term care policy and if you own a business, could be any type of business, could be a proprietor, sole proprietor, you could have a corporation, then you are eligible for a tax deduction on your premiums. Depending on your age will determine how big that deduction is. Also, if you file your tax return, if you itemize your expenses, and between all of your medical expenses, your dental expenses, the premiums you pay for health insurance and long-term care, if all of those expenses, expenses combined exceed seven-and-a-half percent of your adjusted gross income, then you may be also eligible for a deduction. So that's the good news about traditional policies. The one thing that people don't like about traditional policies is, is, you know it's like all my other insurance, I pay, I'll pay all my premiums for a number of years and if I never go on claim, that money's just right out the window, right? There's no return. And that's the way it is for most insurance, for the most part, in that if you go on claim, great, you know, not great, because you went on claim but at least you had the insurance there, but if you don't ever need it, it's money out the window. A lot of people tell me, I hope that's the worst investment I ever made, I hope I don't need it. And then traditional polices have inflation protection available. Let's talk about the Partnership Program. Back in the early '90s, a handful of state participated in a pilot program that they called Partnership. And the purpose of Partnership was, the states started realizing that one of the fastest-growing expenses for every state in the country is Medicaid expenses and directly under Medicaid is these long-term care expenses. Long-term care expenses under Medicaid were growing at a rate of about twelve-percent a year and they had been for years. So it's an escalating cost and they're concerned about it and they're trying to figure out solutions. So one of the solutions they came up with is, what if we provide the incentive to get the middle class to buy long-term care insurance so that they never have to go on Medicaid? What can we do to provide an incentive? And so they came up with this Partnership Program, each state under this pilot program actually partnered with insurance companies doing business in those states and the idea was, if somebody buys a long-term care policy and it's one of these partnership policies, and they go on a claim, and they start pulling benefits out of the policy, for every dollar that they get in a claim benefit, that they pull out of the policy, they could actually protect a dollar in assets, of countable assets, on their balance sheet. In other words, if somebody had a policy that paid out $250,000 in benefits, their long-term care policy over some time period, and then the policy ran out, because they had a limited benefit period and then they said, oh, gee, now we have to go into our portfolio, and we have $250,000 in CDs and mutual funds and other investments, well if they hadn't had a partnership policy, what would they have to do? Well, they'd actually have to spend that money down, if they were single, until it got down to either $2,000 or they have to spend it down to $110,000 if they were married. Well, now what the government says is, hey, you pulled $250,000 out of your policy, the Partnership Long-Term Care Insurance Policy, you can now protect $250,000 of liquid assets. We won't make you spend that down to qualify for Medicaid, you can immediately go from coverage under your long-term care policy to having Medicaid pay your bills and now you can preserve that $250,000 for the benefit of your spouse or you can leave it to your heirs or you can us it to supplement the money that's being provided by Medicaid to help you with your long-term care needs. So fast-

forward 2005, government passes the DRA, Deficit Reduction Act, and as one of the provisions in that program, they said we're gonna make partnership available in every state in the country. And now each state in the country has the opportunity to partner with insurance companies to provide long-term care. Ah, the state of Arizona adopted Partnership Law July First, 2008, so anybody who has since purchased a long-term care policy since July of 2008, they will either, once their insurance company, ah, approves a partnership program, they will have the opportunity to have a partnership policy or many insurance companies now offer partnership policies, and those are available and you can purchase those now. And the good news about these partnership policies is, that they don't cost any more than a non-partnership policy. Yet, they allow you to ability to tap into Medicaid without having to go broke first. So, I think the partnership program is an excellent program, it's a real inducement to make sure that people have an additional incentive to protect themselves, to protect their estate, um, you know, it's good for the insurance industry.

(AUDIENCE MEMBER: Where does the state come in to play on that?)
(AUDIENCE MEMBER: I mean, are they just end up getting less taxes?)

Well the state, the state's angle is, is that they, they know statistically that the average person who needs long-term care is gonna be in a nursing home two-and-a-half years, prior to going in a nursing home they're gonna be getting care in their own home or a community care setting for about a year-and-a-half, but they know a lot of people will pass away before they've even utilized all the benefits of their long-term care policy. So that State says that people have insurance and the insurance pays for the bills, then they're less likely to go through their own assets and then have to go on Medicaid and have to be spending the money that really, we, they want to preserve for the people that never had any money to spend to begin with. So, the state's win, the state's win on that is, they keep, fewer people on the Medicaid payroll, so to speak. So the state says, hey, if you have long-term care insurance, chances are we'll never have to pay for your long-term care, because your policy will pay for it. And you know what, if you need long-term care for an extended period of time and your policy runs out, well then fine, you'll qualify for Medicaid right away. But they, they're playing, they're playing the statistics that most people will have a policy and most policies will take care of all their care needs and they'll never have to go on Medicaid. Whereas somebody that doesn't have a policy, well what are they gonna do, are they gonna self-insure, they're gonna pay their own assets paying for long-term care and once those assets run out then they have to go on Medicaid. So the State feels that they're gonna save money over the long haul, because, um, people will end up using insurance as opposed to using their own money and then going on Medicaid. Okay, one of the new innovations in long-term care is through using life insurance to provide long-term care benefits. And, and here's the idea here, you know, if, if ya, if ya have a life insurance policy, normally we think of two potential ways to benefit from that, one is if, is that if you have a cash value policy you can tap into that during your lifetime, you have that access to it, you can take that money and enjoy it today. The second benefit of life insurance is that if you pass away, your beneficiaries, your loves ones, your heirs, are gonna benefit, because they'll receive a tax-free payout from that life insurance policy. But if ya need long-term care insurance, or if you need,

rather, long-term care, and you have a life insurance policy, you're only gonna think, well, I have a couple of options, I can use some of the cash from the policy if there is any, but, I don't really wanna die to get the death benefits, so how else can I take advantage of this policy? Well, the insurance industry recognized that there is a segment of the population that for a variety of reasons a traditional long-term care policy wasn't gonna be the right option for them. It might have been because they decided they didn't like the structure of it, they didn't wanna pay premiums, or they didn't like the fact that there was a chance they may never collect benefits, they're may pay premiums for many years and die peacefully in their sleep and never file a claim. And so the industry has said, you know what, we need to have other options and one of the options they came up with is tying long-term care to a life insurance policy. And what they've done is, they've created a life insurance policy where you have, it's, and these are cash-value policies, but you have access to the cash from the policy during your lifetime, and in fact some of these policies are structured where you access to every dollar you put in, on the spot, if you put in $10,000 a year you have access to that, if you decide you have second thoughts about doing it. You transferred $50,000 or $75,000 into a lifer insurance policy and said, you know, I think I need that money back, you can get all of your money back. At the same time, that premium that you make into that policy creates a death benefit, and if you die prematurely, or upon your death a death benefit is paid out to your loved ones, and the third thing it does, is it creates a secondary pool of money for long-term care. And you might be able to put $100,000 into a life insurance policy and create $300,000 that's available for long-term care and you can actually spend the death benefit without having to die. How wonderful is that? So, from a consumer's standpoint, you'll look at this and you'll say, you know what, I like this because I can't lose. If I want my money back I can get my money back. If I need long-term care, I've created a ben, a pool of money that's larger than I could have done in a short period of time by just investing and keeping that money in my portfolio, and finally if I don't need long-term care and I die peacefully in my sleep, my heirs will get back a tax-free death benefit that's gonna be more than the money that I put in to create it. Now, these policies are comprehensive so they provide care in all the different settings we've talked about, at home, nursing home or in assisted living. Flexibility-wise, somewhat less flexible in terms of design, policy design than you would if you would in a traditional policy, but a big benefit and what people love is these agreements can be guaranteed. So if somebody says you known, I'm really, you know I've got friends that have rate increases on their policies, we've got insurance and the rates are going up, well we can literally guarantee you, provide you a contractual guarantee within these policies that your premiums will never go up, you can never come back and ask for more money. Now there's typically no tax deduction for these premiums, the reason for that is, because the nature of life insurance, is you take money out, whether it's to pay for long-term care or it's taking money out, ah, ah, you know it's some serious tax benefits with these policies, tax-free death benefit, but generally they don't have an upfront deduction because the tax benefits are on the back end. We can literally guarantee benefits paid for long-term care or upon your death. One thing to consider with these, though, is that you go through full underwriting, which you do with a traditional policy, they're gonna ask you about your medical history, you'll have to have an insurance exam. so, they're not for everybody but they're certainly a, a possibility, that could be a good option for a lot of people.

(AUDIENCE MEMBER: Question) Yes, sir.

(AUDIENCE MEMBER: Can you complement a traditional policy with, if it's if it's not covering a benefits window, one of UNINTELLIGIBLE)

Yes, you can, and in fact, many people do that, we've met with people over the years that they bought a policy ten or twelve or fifteen years ago and the policy didn't include inflation or it was a very short benefit period and now the policy, fast forward, hasn't really kept up with the actual cost of care. Now, we normally would not recommend replacing those older policies because usually they're, the premiums are much les than if you tried to start over on a new policy today, but what we will do sometimes is say, hey, why don't we stack another type of policy on top of what you have to supplement it? So you can literally buy an additional policy, you know, a life insurance-based policy or an annuity-based policy and just simply supplement your existing coverage, in particular if your existing coverage is gonna come up a little bit short, if it hasn't kept up with the actual cost of care. So that's certainly a good option I think it makes sense for a lot of people.

(AUDIENCE MEMBER: Let me ask you, where is the insurance company making their money on that? If you get, ah, a three-to-one payback if you start, if you know, you go on, like you say, start using up the benefit) Um-ha

(AUDIENCE MEMBER: And if you can take your money out at any time, and you got the death benefit, also, guaranteed in there, where are they making their money?)

Yeah, well, that's a good question because nothing's free. Well, um, it all depends on your and, and your health, but the insurance companies are playing the mortality game and they know that, you know, it's a dynamic population, ah, some people are gonna live very long lives, very long, healthy lives, and other people are gonna live less healthy, shorter lives. So, for every person that says, hey, I put money into this and all of a sudden I'm on claim and they're pulling money out and they die prematurely, there's also gonna be another individual who makes it well into their 90s, never needs it for long-term care, or needs it for a very short period of time then passes away at the end and the insurance company has had the use of that money for all those years and even though, that the consumer is paying a reasonable rate of return on their money, the insurance company is obviously able to take that money and been able to earn a couple of additional points on it over time so that they can cover their profits and their expenses, so, the answer is, the actuaries actually design these policies so they can always make money, they're always profitable, but they do it making sure that they, as an example, these insurance policies seven six, seven eight years ago, we could find that they were paying you five, six, seven percent rate of return on the cash sitting in these policies. Well, now that interest rates have come down, we're finding those returns are in the two, three, four percent range. The insurance companies are still able to take the money and get five or six percent, but their portfolios' rate of return is dropping as well, so we are seeing a shift in terms of the level of benefits that you can get.

(AUDIENCE MEMBER: A person lives into their 90s and then they know they're about to check out, can you still go in and get all the benefits that they paid in? All the premiums? They can pull that out?)

Yeah, they can do that anytime, a lot of these contracts have 100% percent guarantee surrender value on the money you put in.

(AUDIENCE MEMBER: Hmm, and they still make money off this)

They still make money on it.

(AUDIENCE MEMBER: Well, that tells me that health insurance doesn't cost that much, or I mean, you know, long-term care, doesn't cost that much.)

(AUDIENCE MEMBER: If they make long-term payment for those that need it, and still pay you, for your investment, and still make some money on that, and pay off all those people that are pulling their premium back out)

Well, keep in mind, let's say you put $100,000 into one of these policies, and five years later you say, you know I don't think this is for me, I wanna get my money back, well, you can get all your money back, that $150,000, you're not necessarily gettin' any interest on it

(AUDIENCE MEMBER: Okay) so they've had the use of that money, it's been part of their portfolio, they've been making money on that, and some of the money has been used to fund the claims of other people that may have actually had to go on claim during that period, but you know, it's a, you now, actuarially, they've got it all figured out, insurance companies, you know they know what they're doin'.

(AUDIENCE MEMBER: Oh, yeah.) Yeah.
(AUDIENCE MEMBER: Under that underwriting provision you said that they have to investigate your health, how does that, how does "Obamacare" oh, say, affect that, where they, you can't deny a claim, or you can't deny insurance, there'd be health insurance)

Well this is, we're talking about private insurance versus "Obamacare's" the public health care, so completely different. um, you know whenever you're looking at acquiring insurance products they're always gonna be checking your health and doing underwritin' and doin' a history there, um, um, once you have a policy and your health changes, of course they can't do any post-claim underwriting, insurance companies aren't allowed to do that, it's illegal, but, um ah, it's definitely do some underwriting upfront, in fact sometimes what will happen is somebody will apply for a traditional policy or a life insurance-based policy and they'll be turned down or they'll be rated, and the industry said, hey, we've got an option for those folks as well, we'll do it through what is called an annuity-based, long-term care policy. With the annuity-based, long-term care policy the idea is, is that, you're simply gonna shift, or reposition a certain portion of your

assets, it might be $50,000, or $100,000 or $150,000 into a fixed annuity and if you need long-term care, the insurance company says, the first thing you're gonna spend, is you're gonna spend your own money, you're gonna take that money out of the annuity that we've been paying you interest on, and you're gonna spend that first. But if you go through all of that, and still need long-term care, then the insurance company steps in with their checkbook and they start payin' the long-term care bills. And the nice thing about the annuity approach for somebody that's older and says, you know, I don't know if I can afford some of these other options. Or somebody that's had some changes in their own health and they're not sure if they can pass the underwriting of a traditional or a life-insurance-based long-term care plan, the annuity plan works well because they do what is called simplified underwriting. Very few questions, they ask about seven medical questions, there's no exam, because the insurance company realizes that a lot of people will spend their own money, and before they ever get to the insurance company's money, they're no longer gonna need long-term care, either because they recover or they pass away. And again the insurance companies look at the statistics, so for people that say, you know, I'm self-insured anyway, I think I may have missed the opportunity on traditional policies, and I'm looking for, to create a stop-loss, you know, I'm comfortable spending $100,000, $150,000 or $200,000 but after that, enough is enough, let's turn it over to an insurance company and transfer the rest to them, well these annuity-based approaches can work very well, because your money is still growing, it's still working and earning interest, and now you can put a stop-loss if you need long-term care. So the annuity approach is becoming very popular as well, particularly for people that have health issues and gotten a little bit older feel like they may be priced out of some of the other options.

Now (AUDIENCE MEMBER: UNINTELLIGIBLE: Are the benefits that they pay you linked to the amount that you have in that annuity?)

Yes, they are (AUDIENCE MEMBER: Oh) yeah. Couple of secret advantages of private insurance, now this is really, somebody may say, you know, I've got a large portfolio, I'm worth a million or two or three million dollars and I think I could pay for this myself. But one of the things that people don't consider and we actually have had some people that said, you know, I, I can afford to pay for my own long-term care but I don't have the family support to make sure that everything happens the way it should happen and one of the things insurance companies offer, many of them do, is what we call care coordination services. And care coordination services are where the insurance company will work with an independent social worker from the community you live in and that individual will come into your home or the home of the person who needs care and they'll sit down with you and the other family members and figure out what type of care is needed, who's gonna provide it, where is it gonna be provided, what's it gonna cost, they help fill out all the forms, do the claim paperwork, and then they monitor your situation and make sure that everything's going well, protect you, and make sure you're not getting gouged, make sure you're happy with the care providers, so that's really good. The other thing is, is that we find that when people have some type of private insurance, they get care sooner, and the reason they get care sooner is they don't procrastinate. Now we oftentimes run into couples and the wife is taking care of the husband and we look at their financial situation

and say, gee, your really could afford to bring somebody in and take some of the burden off your shoulders, and they won't do it. They're putting if off because they're holding on so tight, you know, to what they have, and they don't spend money and they're, and so the wife is taking care of the husband and it's, you know, it's just tough work and it's beatin' 'em down. So, when people have insurance, hey, what are we waiting for, it's the insurance company's money, let's make sure we get someone in as soon as possible, so I think people end up getting better care and the caregiver, in part, it's a family member, ah, they have some preservation of their own health, because they're e not having to do it over a long period of time. Now, we're about out of time, and we've got some case studies, and I'm gonna fast-forward and talk about a couple of these that I think in particular are interesting. Um, the first one is with a 75-year-old female, what we call a standard rate class, and what that means in insurance jargon means she's in pretty good health, pretty good health for a 75-year-old. Arizona resident, looking for a policy that would pay $200 a day, a four-year benefit period, okay, so we want the insurance company on the hook for the client for four years, she can keep the policy for the rest of her life, if she ever goes on claim, the insurance company's maximum liability is to pay that out over four years, and they actually create a pool of money of about $192,000. Ninety day elimination period, so she's gonna self-insure for the first ninety days, the question is, should we have inflation or no inflation on that, what type of policy do we really want to have? Well, if we go with the traditional policy with no inflation, the annual premium would be about $7,392 a year. Is the premium guaranteed? No. Is it tax-deductible? Yes, potentially. Does it include inflation? There's no death benefit. A second option, the middle column, is long-term care, traditional policy, with inflation, it increases the premium to $11,400 a year. Is the premium guaranteed? No. Tax deductible? Potentially yes. Includes inflation so that, from day one, the benefits go up five percent a year, in good health or in bad. Even while she's on claim, the benefits are increasing five-percent a year on a compound basis, we still have no death benefit. A third option is she could actually buy a policy, a life insurance policy, has long-term care benefits, that would provide the same level of benefit, and the same coverage, as the traditional. Same premium, $11, 692 a year, is the premium guaranteed? Yes. Can never be changed. Is the premium tax-deductible? No. Now, do most people 75 years old, are they able to get a tax deduction. Well, it depends, if she has high medical expenses she may be able to, but if she's not a, self-employed, chances are probably not. Inflation included, the life insurance option? No. Is there a death benefit? Yes. The death benefit might be very important, because now this individual knows that at least somebody will get something someday even if she doesn't need long-term care. I'm gonna fast-forward to the last case study and then we're gonna wrap it up. Okay, case study number four, sixty-five year-old female, also in Arizona, in good health, she has three in-force life insurance policies she's had 'em for years, she has, they're whole-life policies, total face amount between the three is about $216,000, there's $150,000 of cash value in these policies, she's not any paying premiums. She's looked at traditional long-term care insurance and decided for whatever reason it was too expensive. So what are our considerations? Well, the purpose of the life insurance is for wealth transfer. It's a legacy for her three children, she wants to make sure that her three kids are guaranteed to get something when she passes away, okay. She doesn't need the cash value policy, she has other resources and financial assets and she a good income. Now, she passed on

traditional, long-term care because she thought it was pricey. Now, one option, if we're just looking at the insurance in its own right, could we 1035 exchange the life insurance to a new life insurance policy and get more death benefit? Well yes we could. Yes we could. The current policy is cash-rich, it is not death benefit-rich. But that's not her desire, she would like to have some access to the cash value and we have a concern about long-term care. Could we 1035 exchange the life insurance to an annuity? Yes, we could but now we've taken money that will pass tax-free to her heirs and put it into a vehicle that eventually there'll be tax on those gains. Could we use the cash value to help pay for long-term care if she ever needs it? Yeah, we could do that. But it would only pay for maybe two years of care, two, two-and-a-half years of care at today's rates with that $150,000. Now we could also use the $150,000 to pay the premiums on a long-term care policy. Is that the best use of their money? Well, one of the concerns is, what if we never use long-term care and we eat up all that cash value and the death benefit goes away and we leave nothing to our children?

But, what if we could roll 'em all into one? Well, we can actually take that $150,000 and we can buy a new life insurance policy that guarantees $334,000 is available, upon the death of this individual. She has guaranteed cash surrender value of $150,000 if she ever decides she wants her money back, she can get her money back. We create a separate pool of money of $468,000 that's available to pay for her long-term at a rate of $5,573 month. Now, if she needs long-term care someday and spends $150,000 then dies they're gonna subtract the $150,000 she spent for long-term care from the death benefit and pay out the net to her heirs. If she spends $468,000 on a long-term care, well that will exhaust and wipe out the death benefit, so no death benefit will be paid in that example. But we've taken an asset that was somewhat stagnant, $150,000, and just over $200,000 in life insurance, we've preserved the $150,000 if she needs it, we've create another pool of money at $468,000, a 300% return on that $150,000 for long-term care and we've increased the death benefit on a guaranteed basis. She pays no premium and we did it all through a 1035 tax-free exchange. So that's just one example of, of how these can work, and what I would recommend for anybody that has any interest is if you have old life insurance policies, if you have some existing traditional long-term care, if you have a, an annuity, dig those policies out, bring them down to the office, meet with your advisor, your advisor will invite me in it's appropriate, we'll do a review of your policy, see what your have, and if it's appropriate we can show you alternatives to either supplement what you have or if you don't have any coverage in place, we can show you options on how you can provide some protection. If we end up implementing something and it's important to monetary on an annual basis, well do we have any questions?

(AUDIENCE MEMBER: If the bulk of your assets were still in IRAs, you'd have to cash out your IRAs to come up with the money to do some of these longer-term policies, is that correct?) Well, with the annuity option, we have the ability to use qualified money. So, if you have an annuity that includes long-term care benefits, we can do an IRA transfer from an existing IRA, we can transfer money, it becomes a qualified annuity with long-term care benefits, so you have no taxation.

(AUDIENCE MEMBER: Where does the minimum withdrawal come in?) Well, you'd still, if you, if that was your only IRA asset then you'd have to have required minimum

distribution coming out of that annuity and we want to take a look at it to make sure you didn't violate any surrender charges that were in that annuity. But most of the time, ah, people will take their required minimum distributions from their other IRA assets that are more liquid.

(AUDIENCE MEMBER:Greg, do you know anything about VA benefits and how, um, people get qualified for that?) I don't, I do know people that are experts in that are and they're actually, yeah, you know, um, know about that. Personally, I'm not an expert on VA benefits. I do know a little bit about VA benefits, um, in terms of long-term care, I mean, if, if you're a veteran you do have access to ah, ah, a local, you know, in Phoenix, I guess it's in downtown Phoenix, they have a long-term care facility and you're able to take advantage of that, um, that, that's great as a last resort but what I've heard from people is that may not be their, their first, and, and best choice because, um, the, the conditions in that facility and there has been articles I've seen, um, in the newspapers about, you know, nationally about our VA long-term care facilities not being, um, as safe as they should be, not providing the level of care that you're seeing in private, um, but it's an option and um, the nice thing about it is you're, not, you're, no out of pocket costs for that option.

(AUDIENCE MEMBER: Right)

(AUDIENCE MEMBER) Do you have any knowledge what it takes to qualify for VA benefits?) I believe that for VA benefits they use the same qualifications that the insurance industry uses, that means is you have a chronic disability or, as a result of an injury or illness and as a result you need substantial, uh, help, with at least two or more of the activities of daily living. Ah, or you have a cognitive impairment and because of that you need substantial supervision. Um, at the federal level, with these tax-qualified long-term care policies, um, they got involved a little bit in those definitions and they require that in order for a policy to, if it's a tax-qualified policy, that's what most traditional policies are, in order to trigger benefits it has to be expected that you're gonna need care for at least 90 days or longer. The government said they want that, they didn't want a lot of short-term stuff, they wanted there to be something longer and more serious in order to, ah, enjoy some of the tax benefits available.

(PAUL OFF-CAMERA: Any other questions for Greg?)

(PAUSE)

(PAUL:Alright, well thank you Greg, I appreciate it.)

You're welcome.

(PAUL: Do you guys think your time was well-spent? I see a lot of notes being taken. If you have follow-up questions, by all means let your advisor know, let me know, before you leave the room, personally, and we'll get Greg involved. Otherwise I want to thank you for coming and I want to remind you that you have a comment card ion front of you,

this is the only time we’re doing a workshop this fall on long-term care, but if you thought it was worthwhile or you know others who might be interested, we will do it again after January First. So if you would, just give us any comments, constructive feedback, we welcome that, and we have our list of upcoming workshops, which start as early as next week with Mayo Clinic. Bob Smoldt will be coming out to talk on the state of healthcare and we have three different workshops with Bob, who is the head of National Policy with Mayo, so he’s a big-time speaker, it’s a real exclusive arrangement that we have, so we’d welcome you guys coming back and then we have various other topics coming up between now and then end of the year, so we hope to see you again soon. With that, I wan to wish you all a great rest of the day.