



Steve and Sue Patterson

LONG TERM CARE ANALYSIS
November 18, 2009

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Long Term Care Analysis

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LTC Terminology

Long Term Care involves a wide array of services to individuals with a chronic illness, degenerative condition (e.g. Parkinson's, stroke, etc.), disability or cognitive disorder (e.g. Alzheimer's). If you are at least 50 years old and have assets to protect, Long Term Care Insurance may provide protection against the unexpected depletion of those assets.

Long Term Care Insurance can typically cover a broad range of services including nursing home care, assisted living facilities and adult day care. The following summarizes some of the key terms and concepts involved in preparing for the potential need for Long Term Care:

Activities of Daily Living (ADLs)

Activities that people do independently everyday-eating, bathing, dressing, moving around (mobility), transferring (from chair to bed), using the toilet, and maintaining bladder and bowel continence. These are commonly used to measure an individual's ability to function.

Nursing Home - Levels of Care

Insurance companies' definitions may differ; therefore, consult your policy for more information. The following are general definitions of the various levels of care.

- Skilled Nursing Care is for persons who need intensive care, 24 hours a day, with supervision and treatment by a nurse under the direction of a doctor.
- Intermediate Care is suitable for individuals who do not require around the clock nursing care, but are still not able to live on their own.
- Custodial Care is suitable for individuals who do not need skilled nursing care, but require supervision for some of the activities of daily living (ADLs).

Daily Benefit Amount

A specified maximum daily dollar amount payable on a covered period of long-term care services. Policies typically allow for the choice in \$10 or \$25 increments. An individual's choice should take into consideration the local costs of long-term care services and any amounts that could come out of pocket to pay for such services without depleting savings.

Inflation Protection

This policy provision increases the daily benefit amount on an annual basis, to protect against the effects of inflation. This can be an important provision to consider, as many long term care insurance policies are purchased looking towards potential future events. For example, a nursing home that charges \$130/day today could charge \$260/day in 14 years based upon 5% annual increases to those costs.

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Elimination Period

A specified time period in which covered long-term care services are received but no benefits are payable. With respect to this policy provision, you would generally select the longest period that you could sustain payment of the costs of long-term care services using available expendable assets in order to reduce your policy premiums.

Guaranteed renewable

This refers to a provision that guarantees that an insurance policy will continue in force as long as insurance premiums are paid on time. An insurance company can typically only cancel a guaranteed renewable policy for non-payment of premium. However, premiums can be increased for all policyholders within a particular class.

Non-cancelable policy

A policy which cannot be cancelled or altered by the insurance company and whose premiums will not increase as long as the insured continues to pay premiums on time.

Riders

A rider amends a policy by adding additional provisions to it. Riders may be available at an additional cost.

Most insurance policies contain exclusions, limitations, reductions of benefits and terms for keeping them in force. Your representative can provide you with costs and complete details.

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LTC Frequently Asked Questions

What is Long Term Care?

It is the care required for someone who can no longer perform a certain number of "activities of daily living" (ADL), such as eating, bathing, toileting, dressing, moving between a chair and a bed, and remaining continent. Generally, insurance companies will use a certain number of ADLs or a cognitive impairment (e.g. Alzheimer's) to determine when a person is eligible for benefits under their long term care insurance policy.

Will the government pay for my Long Term Care needs?

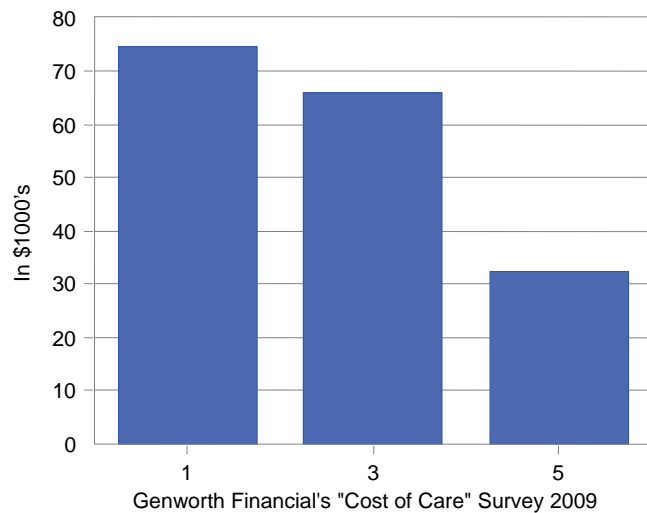
Generally, Medicare doesn't pay for long term care. Medicare pays only for medically necessary skilled nursing facilities or home health care, and even those services will be provided only if certain conditions are met and for a short period of time. Medicaid is a Federal program administered by the states that pays for certain health services and nursing home care for people with low incomes and limited assets.

What does Long Term Care cost?

According to the Genworth Financial Cost of Care Survey 2009:

- The average annual national cost for a private room in a nursing home is nearly \$75,000 (see chart column 1), and a semi-private room is in excess of \$65,000 (column 3).
- A one bedroom unit in an assisted living facility has an average annual cost in excess of \$32,000 representing a 1% increase from previous year (column 5).
- The average hourly rate for a home health aide worker was in excess of \$32, representing a 10.6% increase from previous year.

National Average Annual Costs



What is Long Term Care Insurance?

Long Term Care Insurance is coverage designed to pay for personal care needs and other long-term care services for individuals who are limited in their activities of daily living (ADL) or are cognitively impaired. These types of policies can pay benefits for long-term care services provided in a nursing home, an assisted living facility, or even your own home.

What does Long Term Care Insurance cover?

Many policies generally cover skilled, intermediate, and custodial care in state-licensed nursing homes as well as home care, assisted living, and adult day care services. All policies have conditions, limitations, and exclusions that differ from contract to contract. These policies may pay a fixed dollar amount for each day you receive long-term care services or they may cover actual charges up to a maximum daily benefit.

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Client's Long Term Care

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The Cost of Long Term Care

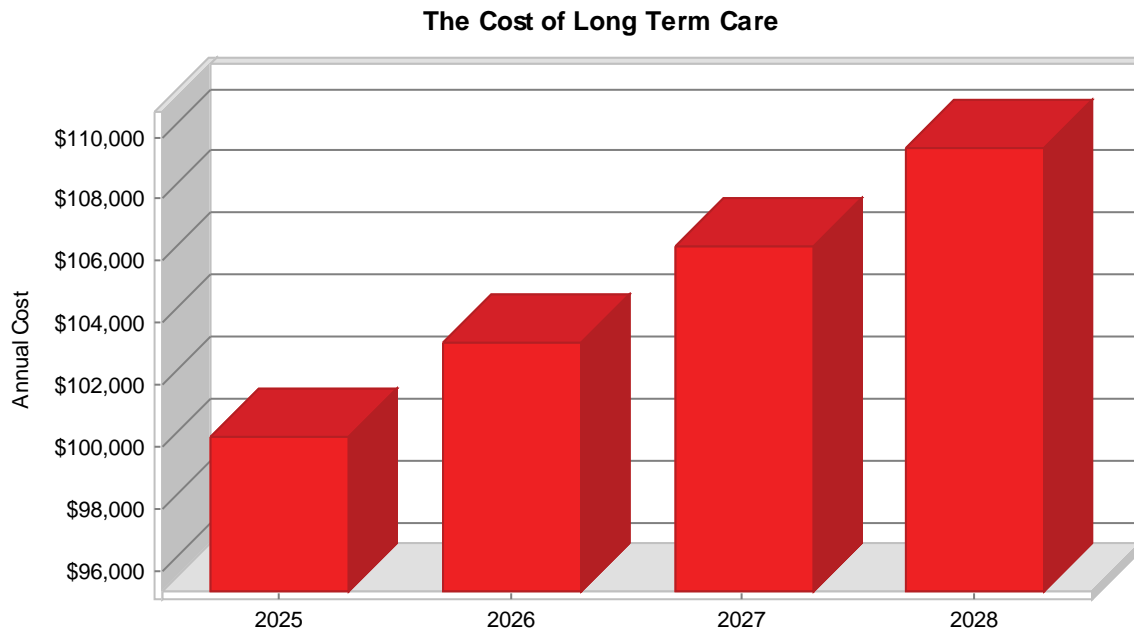
Long Term Care (LTC) can result in significant expenses for a number of years, potentially draining your savings and having a financial impact that could undermine your plans for retirement. The chart below illustrates the significant cost that a typical long term care event can present.

In this example, Steve has a health event that results in a need for LTC at age **75** and lasts for a period of **4** years. The cost of Steve's care, in today's dollars, is assumed to be **\$5,211** Monthly - in addition to normal living expenses - and assumed to grow at a rate of **3.00%** each year.

Monthly Cost of LTC Today	\$5,211
Annual Cost of LTC at Age 75 (2025)	\$100,346
Total 4-year Cost of LTC (2025 - 2028)	\$419,809

What will it cost each year?

Each bar in the chart below represents the annual cost you can expect to pay for Long Term Care each year. Starting at **\$62,532** today and increasing at a rate of **3.00%** the annual cost would grow to **\$109,650** in the last year of your need.



Keep in Mind...

According to the U.S. Census Bureau, the 80+ segment represents the fastest growing segment of the population. With more of the population living longer, there will be more individuals incurring long term care costs. Families need to understand and plan for these costs without expecting them to be covered by government programs or entitlements.

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The Impact On Your Resources

The costs associated with a health event that requires Long Term Care can mount quickly and have a potentially serious impact on your savings. Assets that you expected to have through retirement may need to be liquidated to cover the additional expense of Long Term Care and may become depleted much sooner than they would have otherwise.

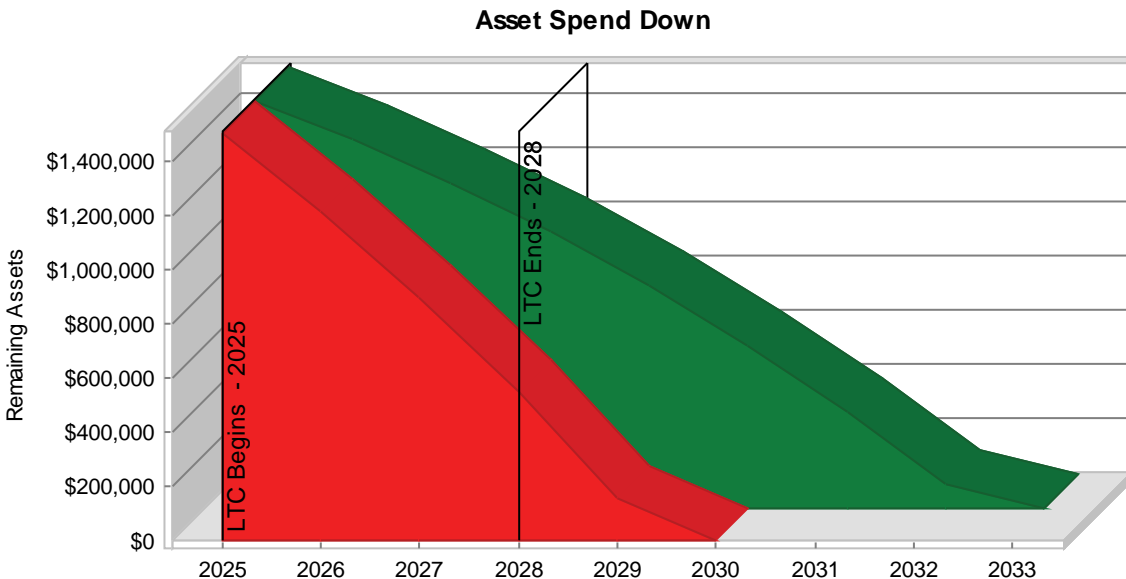
Let's assume that **\$1,500,000** of capital resources will be available when **Steve** turns **75**, at which time a need for Long Term Care will arise. Let's also assume these assets will grow at **7.00%** annually, and withdrawals from them will be taxed at **25.0%**.

Your capital resources will be used to offset your Long Term Care costs (**\$62,532** per year) as well as your Living Expenses of **\$9,000** per month (**\$108,000/year**) both of which grow at a rate of **3.00%**.

Without a need for LTC Your resources will last until 2032
With 4 years of LTC Your resources will last until 2029
Loss in Years 3
Loss in Dollars \$548,412

How quickly will your resources be used?

The chart below shows how the resources available when **Steve** is **75** would be expended. The green area indicates the rate at which the resources are used if no need for Long Term Care arises. The red area shows the same resources being expended in the event that LTC is required. Based on the above assumptions, you can expect a loss of **3 years** of funding which amounts to **\$548,412**.



Keep in Mind...

According to the U.S. Census Bureau, the 80+ segment represents the fastest growing segment of the population. With more of the population living longer, there will be more individuals incurring long term care costs. Families need to understand and plan for these costs without expecting them to be covered by government programs or entitlements.

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Impact on Your Resources Details

Cumulative Deficit in 2040 without LTC: **\$2,101,588**
 Cumulative Deficit in 2040 with LTC: **\$2,650,000**
 Total Dollar Loss due to LTC: **\$548,412**

Year	Age	Without Long Term Care Event				With Long Term Care Event				
		BOY Capital Resources	Withdrawals to Fund Expenses	Growth at 7.00%	EOY Capital Resources	BOY Capital Resources	Withdrawals to Fund Expenses	Growth at 7.00%	EOY Capital Resources	Deficit
2025	75/74	\$1,500,000	\$231,077	\$88,825	\$1,357,748	\$1,500,000	\$364,872	\$79,459	\$1,214,587	\$0
2026	76/75	1,357,748	238,011	78,382	1,198,119	1,214,587	375,819	58,714	897,482	0
2027	77/76	1,198,119	245,151	66,708	1,019,676	897,482	387,093	35,727	546,116	0
2028	78/77	1,019,676	252,505	53,702	820,873	546,116	398,705	10,319	157,730	0
2029	79/78	820,873	260,080	39,256	600,049	157,730	157,730	0	0	76,763
2030	80/79	600,049	267,883	23,252	355,418	0	0	0	0	200,912
2031	81/80	355,418	275,919	5,565	85,064	0	0	0	0	206,939
2032	82/81	85,064	85,064	0	0	0	0	0	0	213,147
2033	83/82	0	0	0	0	0	0	0	0	219,542
2034	84/83	0	0	0	0	0	0	0	0	226,128
2035	85/84	0	0	0	0	0	0	0	0	232,912
2036	86/85	0	0	0	0	0	0	0	0	239,899
2037	87/86	0	0	0	0	0	0	0	0	247,096
2038	88/87	0	0	0	0	0	0	0	0	254,509
2039	89/88	0	0	0	0	0	0	0	0	262,144
2040	90/89	0	0	0	0	0	0	0	0	270,009
									2,101,588	2,650,000

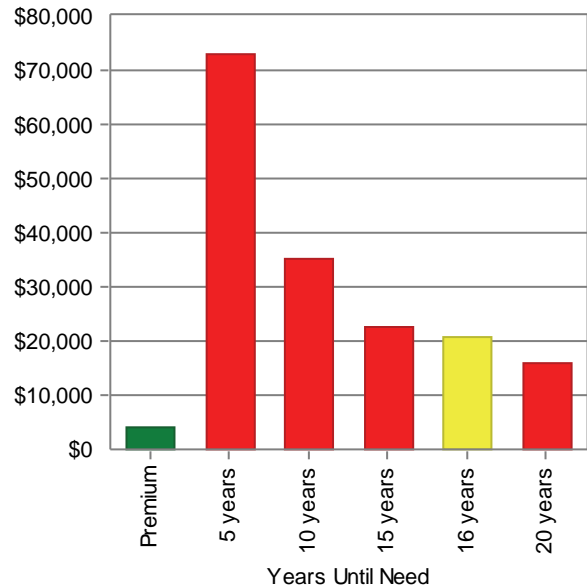
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The Cost Benefit of LTC Insurance

It may be hard to pay long-term care insurance premiums, when long term care may not be necessary for many years, but when you compare those premiums with the cost of self-insuring against a potential need for LTC, the potential value of Long Term Care Insurance becomes apparent.

It would cost you about **\$4,000** per year in LTC Insurance premiums to receive around **\$240** Daily in LTC benefits (or **\$86,400** per year in today's dollars).

To be able to provide this same level of funding on your own, you would need to save much more than **\$4,000** each year from now until the onset of the Long Term Care need. The chart at the right shows the amount you would need to save *each year* in order to provide a comparable benefit at various periods in the future, assuming **3.00%** Cost of Living Adjustment on insurance benefits and **7.00%** rate of return on your personal savings.



By the Numbers

The table below further illustrates the difference in cost between LTC Insurance and self-insurance. The annual savings and/or rate of return requirements could make self insuring against a future LTC event cost-prohibitive.

Years Until Need	5 years	10 years	15 years	16 years	20 years
Age	64	69	74	75	79
Annual Benefit	\$100,161	\$116,114	\$134,608	\$138,647	\$156,048
Total Benefit	\$419,037	\$485,779	\$563,151	\$580,046	\$652,846

To provide yourself with the same total benefit in each of these time periods, you would need annual savings in the following amounts (assuming a rate of return on your savings of **7.00%**).

Savings Needed	\$72,867	\$35,159	\$22,410	\$20,799	\$15,925
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To provide the same total benefit using only the **\$4,000** per year that you would have spent on premiums, your savings would need to grow at the following rates:

Rate Needed	188.0%	51.4%	28.0%	25.6%	18.9%
	\$419,440	\$484,669	\$565,230	\$583,697	\$653,748

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Results Summary

This report summarizes the results of the analyses for Steve and Sue Patterson. It provides the information that is the basis for the "takeaway" message. All of the details concerning the process of how these results were arrived at are contained in the specific chapters for each selected analysis.

Family Information

Client: Steve and Sue Patterson
Address: 123 Main St.
Bryn Mawr, PA 19010
H: (610) 345-5567

Client: Steve Patterson
Date of Birth: 1/1/1950
Current Age: 59
Spouse: Sue Patterson
Date of Birth: 1/2/1951
Current Age: 58

Children	Gender	Age	Date of Birth
Bill Patterson	Male	19	1/1/1990

Advisor Information

Prepared By: Susan Black

Analysis Performed

- Long Term Care Analysis
for: *Client's Long Term Care*

Result Summary

Monthly Cost of LTC Today \$5,211
Annual Cost of LTC at Age 75 (2025) \$100,346
Total 4-year Cost of LTC (2025 - 2028) \$419,809

The Long Term Care analysis examines the cost that may accompany a long term care health event. Long Term Care (LTC) can result in significant expenses for a number of years, draining your savings and having a financial impact that could undermine your plans for retirement.

Based upon the assumptions utilized in this analysis, a long term care event for *Steve* in the year *2025 (age 75)* and lasting *4* years may result in a total cost of **\$419,809**, which may have significant impact on your ability to enjoy a retirement standard of living for which you have worked.

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Information Summary

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Bill Patterson	Male	19	1/1/1990

Information Summary

Basic Assumptions

Analysis for: Steve Patterson
Date of Birth: 1/1/1950
Current Age: 59

LTC Occurs at Age: 75 (2025)
LTC Ends at Age: 78 (2028)

Financial Assumptions

Expenses Grow at: 3.00%

Existing Long Term Care Insurance

None

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