Why Plan for Long-Term Care?
Protect Your Assets

You may have spent years carefully working and planning so that you have sufficient income for a comfortable retirement. You may think that your retirement savings are protected; but have you ever considered what might happen if you or your spouse required long-term care?
The cost of long-term care services provided in the home, at a community facility or in a nursing home may not be covered under major medical plans or Medicare, and therefore can be a considerable threat to your retirement savings. The national average annual cost of a private-room nursing home stay is currently $74,208\(^1\) a year. The average cost of in-home care assistance is nearly $33 per hour or $68,600 per year for 40 hours a week of help. The cost of long-term care might deplete your entire retirement nest egg, all you’ve worked hard to obtain—even your home. It’s a risk you should not ignore. Without long-term care insurance, your financial plan may not be complete.

One Way to Protect Your Savings: Long-Term Care

Could you afford extended long-term care? And even if you believe you could, why take on that financial burden? There is an affordable alternative to paying these expenses out of your own pocket: long-term care insurance. By paying an annual premium, perhaps from your investment earnings, you can transfer the risk to an insurance company and protect your assets from long-term care costs. What’s more, your premiums may be tax-deductible (see page 4). Long-term care insurance can also help you maintain your independence and give you the freedom to choose the type of care you want.

\(^1\) Genworth Financial 2009 Cost of Care Survey, April 2009.
Long-Term Care Insurance: Myth vs. Reality

There are many myths about long-term care insurance, the biggest one being that it’s expensive. The reality is that typically, the average annual premium for an individual with a couple’s discount, both age 62, can range from about $2,000 (with simple inflation) to $2,450 (with compound inflation).²

**MYTH 1:** I’m healthy now and take very good care of myself. Chances are I will never need long-term care in my lifetime.

**Reality:** People who reach age 65 will have a 40% chance of entering a nursing home. About 10% of the people who enter a nursing home will stay there five years or more.³

**MYTH 2:** My children plan to take me in, if necessary. Long-term care insurance is just for nursing home expenses.

**Reality:** Long-term care insurance is not just for nursing home costs. It often covers services provided in the home, adult day care and assisted living facilities. You may even be covered for emergency medical response systems, home modifications due to a medical condition or the temporary services of a medical professional to share at-home convalescent care.

**MYTH 3:** I don’t need long-term care insurance. My Medicare/Medicaid coverage will provide for long-term care.

**Reality:** Medicare and Medicare supplements were designed to pay for catastrophes, hospitalization and physician health care. They do not, however, cover the cost of long-term custodial care. While Medicare does cover care in both a nursing home and a private residence, it is only for a limited time and is subject to restrictions.

To qualify for federal/state government Medicaid, recipients must meet the financial eligibility criteria, which includes spending down the majority of their assets. For this reason, Medicaid is typically a last resort for most investors.

² For illustrative purposes only. Based on two individual policies with a couple’s discount for four years of coverage, a 90-day elimination period and $5,000 monthly maximum benefit. Costs will vary based on age, benefits and carrier.

What Are the Key Features of Long-Term Care Insurance?

Once you’ve decided on long-term care insurance, you should look for a plan that will provide the broadest coverage for your needs. Comprehensive plans can provide coverage for nursing home care, assisted-living facilities, home care and community-based care, as well as professional advice on plans for care.

The cost of a policy—in terms of annual premiums—plays a large role in determining what type of long-term care coverage is best for you. Premiums are based on the length and extent of coverage. A range of options, designed to fit a wide variety of budgets, is available.

Long-term care policies are more inclusive than they used to be. Most routinely cover “functional” infirmities (such as needing substantial help to dress), physical impairment (such as a stroke) and severe cognitive impairment (such as Alzheimer’s disease). You may want to avoid policies that require a hospital stay before you can collect benefits. The key features noted below can be modified to fit your needs and budget considerations:

1. **Monthly benefit amount.** This is the maximum benefit you will receive for any one month. Before choosing a benefit amount, you should find out the going rate for nursing home or home health care in your area.

2. **Benefit period.** You can select a plan that provides benefits for a fixed number of years (e.g., five or six years). If you want to reduce your risk, a lifetime benefit period may be appropriate.

3. **Elimination period.** The elimination period, which acts like a deductible, should be selected based on the amount of time you are willing to pay for long-term care expenses out of pocket before benefits begin. Common choices are 30 days or 90 days.

4. **Home care coverage.** Many seniors may be reluctant to leave the comfort of their homes or communities to enter a nursing home. If you’re in this camp, you may want to consider a policy that offers complete home care coverage.

Additionally, many policies offer inflation protection riders that can increase your monthly benefit amount. Your Financial Advisor can review these alternatives with you and your family to help determine what may be appropriate.
WHO SHOULD CONSIDER LONG-TERM CARE INSURANCE?
From a financial standpoint, the best candidates for long-term care insurance are individuals between the ages of 45 and 75 who have at least $200,000 in assets to protect. Those under age 45 may be interested in purchasing long-term care protection for their parents or for themselves, since the premium may be lower at a younger age. Because long-term care insurance is medically underwritten, all candidates should be in reasonably good health.

ADDITIONAL TAX BENEFITS FOR LONG-TERM CARE INSURANCE
In an effort to encourage individuals to take more responsibility for their long-term healthcare needs, Congress passed legislation that provides tax incentives for buying long-term care insurance.

Now, tax laws consider premiums for qualified long-term care policies as a medical expense. If your nonreimbursed medical expenses, including your long-term care premiums, exceed 7.5% of your adjusted gross income, you might be able to deduct all your premiums. Additionally, benefits paid for long-term care services are not taxable as income.

Long-Term Care Looks After the Health of Your Savings

Which would you prefer to do: Pay $75,000 or more per year for long-term care expenses if you or a family member requires care, or purchase a long-term care insurance policy now—with an annual premium that may cost less than one month’s stay in a nursing home?

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Is Your Financial Plan Complete?

A little planning goes a long way. Long-term care insurance can be a valuable extension of your financial and retirement plans. With a little foresight, you can help protect your savings against the potential risk of long-term care expenses so that you can enjoy the retirement you’ve planned.

If you’d like additional information on long-term care insurance and financial planning, contact your Financial Advisor or local branch office.
For clients whose account is carried by Morgan Stanley Smith Barney LLC, insurance products are offered in conjunction with Morgan Stanley Insurance Services, Inc. For clients whose account is carried by Citigroup Global Markets Inc., Morgan Stanley Smith Barney LLC offers insurance products in conjunction with SBHU Life Agency, Inc.

Since long-term care insurance is medically underwritten, you should not cancel your current policy until your new policy is in force. A change to your current policy may incur charges, fees and costs. A new policy may require a medical exam. Actual premiums may vary from any initial quotation.

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