

Long Term Care Insurance: New Executive Perk?



For many executives, a secure financial future is no longer their only major concern as they edge closer and closer to retirement. Health issues are taking center stage. These employees want to ensure that their long-term healthcare needs are met in a way that doesn't deplete their life savings or jeopardize their estate assets. Companies, seeing the need, are now offering long-term care insurance as an enticing executive perk.

For years, companies have focused on creating benefit packages that provide financial security to key executives and their families as a means of attracting and retaining skilled executives. Times are changing. A secure financial future is no longer enough.

As the baby boomers edge toward their 50s, 60s, and beyond, they want to ensure that their healthcare needs are addressed in a way that won't deplete their family's life savings and retirement accounts. Responding to this need, more and more companies are offering long-term care insurance as a key executive perk.

Long Term Care's Growing Costs

Long term care (LTC) differs from other forms of medical care. Instead of curing a patient, the care is designed to allow the patient to achieve an optimal level of functioning, according to a 2000 report by the U.S. Senate Special Committee of Aging. LTC is needed when an individual can no longer undertake simple, everyday activities such as bathing, dressing, eating, toileting, transferring (i.e., moving from a bed to a chair), or suffers from cognitive impairment.

Approximately 12.1 million Americans need assistance from others to carry out everyday activities says a 1999 report by The Henry J. Kaiser Foundation. Public and private spending on LTC services was more than \$127 billion in 1998. About \$34.5 billion of the cost was paid for by individuals and families according to a 1999 report, Medicaid Long-Term Care Expenditures in 1999 by The Medstat Group. The aging of the population is expected to result in a tripling of longterm care expenditures in the next 40 years to \$346 billion annually, says the 1999 report, Long-Term Care: Medicaid's Role and Challenges by the Kaiser Commission on Medicaid and the Uninsured. Individual costs depend on the type of LTC. Service can be provided at home, in a residential care facility, or nursing home. Average costs vary from region to region and the type of care delivered. Nursing home stays can easily exceed \$50,000 a year, even reaching \$100,000 or more a year in some states. Home healthcare costs can run from \$50,000 to \$150,000 or more. Given this backdrop, it is no wonder LTC insurance is becoming so attractive to many employees.

LTC Definition and Tax Benefits

LTC plans have been around since the mid-1980s but became popular in the 1990s, especially after the passage of the Health Insurance Portability and Accountability Act of 1996 (HIPAA). LTC is defined in HIPAA as accident and health insurance and thus not subject to ERISA guidelines (IRC § 7702B(a)(2)). A company is under no obligation to offer LTC to all of its employees. It can decide who participates so it can limit coverage to only specified employees and their dependents.

LTC plans have attractive tax ramifications for employer and employee. They include:

- ▶ Premiums paid on policies are fully tax-deductible to a C-Corp. for employees and stockholders. (IRC162).
- ▶ Pass-through entities and sole proprietorships receive a full tax deduction for non-owners, and a 100 percent or partial deductions for owners depending on their age and premium amount.
- ▶ Premiums paid by the company are not considered taxable income to the executive receiving the benefit. (IRC § 7702B(d)(4).)
- ▶ LTC benefits are tax-free (up to \$230/ day in 2004). (IRC § 7702B(d)(4).)

Where the policy contains a "refund of premium" feature, the insured's beneficiary can receive all premiums paid into the policy as a tax-free benefit at the death of the insured (IRC § 7702B(b)(2)(c)). This is an added benefit for stockholder/ employees because the premiums were originally deductible, fully or partially, by the company.

LTC: How It Works

LTC can be offered by companies of any size—from one employee to thousands. Premiums are based on the age of employees and

the level of coverage. Before introducing a LTC plan to employees, employers must decide who will receive the coverage (all employees or a selected number), and determine whether premiums would be entirely employer paid or employers would pay for base coverage with employees paying for optional coverage.

Companies typically have a great deal of flexibility when deciding on plan objectives, eligibility, types of policies used, optional policy benefits and riders, coverage amounts and durations, guarantees, and payment options.

The lowest premium does not necessarily mean the lowest cost. When determining the appropriate coverage, great care must be given to evaluate and compare contractual provisions and benefits of each prospective LTC policy. Initial low-cost policies could end up costing the most if they do not adequately cover or address the multitude of long-term health options and costs.

Basic plans cover care in nursing homes, assisted living facilities, in-home care, and hospice care. In some cases, the policyholder must purchase a “home healthcare” (HHC) feature as a separate rider. HHC allows benefits for care provided in the care receiver’s home instead of in a nursing home or other facility. Some policies will pay benefits to a family member or friend who provides care while others will pay only licensed caregivers. Often, in-home delivered meals and housecleaning services are also included in the basic plan.

LTC policies are typically “guaranteed renewable.” With this clause, as long as premiums are paid when due, the insurance company cannot refuse to maintain the policy in force. They can, however increase rates, sometimes after a brief guarantee period. The company may be forced to choose between paying the higher premium and losing the policy.

Most LTC policies specify how many basic daily living activities must be lost before triggering benefit payments and classifying the loss as needing “hands on assistance” or “standby assistance.”

Policies are structured as “indemnity” or “reimbursement” models. In its pure form, the indemnity policy pays a specific amount of daily benefit irrespective of costs actually incurred, while

the reimbursement model only pays actual qualified costs or a percentage of costs.

Elimination (waiting) periods are spelled out in LTC policies. These are essentially deductible features where no benefits are paid before a specified period expires. Typical waiting periods are 30 to 90 days. This means the employee must pay the first month to three months of longterm care before the benefits kick in. The shorter the waiting period, the higher the policy cost. There are differences among policies on how the elimination period is measured, some being more generous than others.

Unlike most LTC policies purchased by individuals, executive benefit policies purchased through a business are customarily paid within 10 years and sometimes even with one single premium. Besides the larger tax deduction for the shorter premium period, the policy is truly “paid” and the carrier cannot increase premiums. Thus, an extra measure of price safety exists.

A variety of optional riders can be purchased with the LTC policy. A common rider provides cost of living increases (COLA), which come in a multitude of formats. The increase is often a set

percentage each year, increasing either on a simple or compound basis up to a multiple of the base policy. Coverage can also include the parents of employees. This is an especially desirable feature since many workers are in the “sandwich” generation, taking care of children and their aging parents.

Expect LTC to become as common an employee benefit as dental or medical care within the next decade. Unless medical and LTC costs suddenly stop skyrocketing, all of us will soon be seeking practical ways to manage these costs with the least impact on our financial stability.

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