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# Tactical Use of Long Term Care Insurance in Planning Under the Deficit Reduction Act of 2005

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### Introduction

This article is about perspective. The subject is the importance of long term care insurance (LTCI) within the perspective of post-Deficit Reduction Act (DRA) planning.

Three provisions of the DRA trigger this discussion.

(1) The extension of the look-back period from 36 to 60 months for purposes of determining whether or not a period of ineligibility for Medical Assistance has been created by the disposal of assets by an individual made on or after the enactment of the DRA;

(2) The fixing of the date of transfer for purposes of triggering a period of ineligibility as (a) the first date as of which the individual is both an institutionalized individual and has applied for medical assistance under the State plan, or (b), in the case of a non-institutionalized individual, the date on which the individual applies for medical assistance under the State plan or, if later, the date on which the individual disposes of assets for less than fair market value;

(3) Amendment under the DRA whereby States may provide for qualified long term care partnership insurance policies (including a certificate issued under a group insurance contract) which meet specific provisions of the National Association of Insurance Commissioners model Act and model regulation adopted as of October, 2000. The DRA provides for the disregard of any assets or resources in an amount equal to the insurance benefit payments that are made to or on

behalf of an individual who is a beneficiary under such a qualified State long term care insurance partnership policy.

### PERSPECTIVES

Before we consider the possible impact of those provisions of the DRA on the use of qualified LTCI in your planning on behalf of your clients, let's identify several perspectives which will significantly affect that planning.

#### Partnership Plans

Only four states currently have partnership plans in place (NY, CT, IN, and CA). It will likely take several years, if at all, for such plans to become available in Pennsylvania.

The DRA does not appear to provide for grandfathering of existing LTCI policies. The absence of such a provision is unfortunate because it, at least theoretically, diminishes the potential asset preservation value of qualified policies owned by individuals who made the decision to purchase coverage while they were in sufficiently good health to do so.

In contrast, the Health Insurance Portability & Accountability (HIPAA) legislators in 1995 had the foresight to grandfather existing long term care policies as qualified under HIPAA so long as substantial changes were not made to the policies after 12/31/95.

The Kaiser Commission on Medicaid and the Uninsured noted in February 2006 that "LTC Partnerships have been operating in 4

states since the early 1990s, but enrollment remains limited . . . As of March 2005, 211,972 Partnership policies had been purchased and 172,277 were still current.” A number of factors may have contributed to that relatively low participation, among them the requirement of special testing for agents before they are approved to sell partnership plans (a requirement included in the DRA as well). However, note the percentage of persistency in those Partnership policies. 81% of the policies purchased remained in force. That comments on the value the policyowners place on the policies they own.

The DRA provides at 42 U.S.C. Sec. 1396p (b)(1)(C)(iii) that “the term ‘qualified State long-term care insurance partnership’ means an approved State plan amendment under this title that provides for the disregard of any assets or resources in an amount equal to the insurance benefit payments that are made to or on behalf of an individual who is a beneficiary under a long-term care insurance policy if the following requirements are met:

- (I) The policy covers an insured who was a resident of such State when coverage first became effective under the policy.
- (II) The policy is a qualified long-term care insurance policy (as defined in section 7702B (b) of the Internal Revenue Code of 1986) issued not earlier than the effective date of the State plan amendment.
- (III) The policy meets the model regulations and the requirements of the model Act [noted at (3) in the Introduction to this article].
- (IV) If the policy is sold to an individual who—
  - (aa) has not attained age 61 as of the date of purchase, the policy provides compound inflation protection;
  - (bb) has attained age 61 but has not attained age 76 as of such date, the policy

- provides some level of inflation protection;
- and
- (cc) has attained age 76 as of such date, the policy may (but is not required to) provide some level of inflation protection.

(V) The State Medicaid agency under section 1902(a)(5) provides information and technical assistance to the State insurance department on the insurance department’s role of assuring that any individual who sells a long-term care insurance policy under the partnership receives training and demonstrates evidence of an understanding of such policies and how they relate to other public and private coverage of long-term care.”

Note: The above quotes of the Kaiser Commission comments as well as of DRA provisions and references to DRA provisions later in this article are taken from *Changes Made to 42 U. S. C. Secs 1396p, 1396r-5, and 1396r by the Deficit Reduction Act of 2005, Pub. L. No. 109-171* prepared by the Elder Law Practice of Timothy L. Takacs, CELA, and accessed through a link published in the NAELA eBulletin, March 7, 2006. Timothy Takacs is the founder and a co-author of the eBulletin. The link is to [www.tn-elderlaw.com](http://www.tn-elderlaw.com).

It is important that we understand the provisions that the DRA demands of an LTC policy for it to be a *Partnership* policy. In our judgment, those mandates include elements which add a significant cost to such coverage and may exclude the use of a particular provision (shared care) currently available in some qualified LTCI policies which could substantially enhance the potential benefit to an insured at a modest increase in premium.

Perhaps those mandates and that possible

exclusion evidences an intent to foreclose the most economical use of long term care insurance as a “5 years and out” safety net following a planned transfer of assets.

Not to be lost in the discussion of LTCI and the DRA is, again, both the time it will take for Pennsylvania to authorize and implement the availability of Partnership policies in the Commonwealth and the possibility that your clients may view alternative non-Partnership coverage structures as meeting their planning needs.

### Current LTC Insurers in Pennsylvania

An inquiry to the PA Department of Insurance at the end of March, 2006 produced a list of “Approved Long Term Care Policies” dated 8/01/04. 45 companies were listed, 41 of which are currently offering LTC policies. 37 of those companies offer *individual* LTC contracts. Of those 37, 21 are rated “A” or better for financial strength by at least two of four firms (A.M. Best, Fitch Ratings, Moody’s Investors Service, Standard & Poor’s).

It is our recommendation that you and your clients only consider coverage from an LTC insurer that is rated “A” or better for financial strength by at least two nationally recognized rating firms.

We further recommend that you consider only LTC insurers who are experienced in the long term care marketplace as evidenced by the duration of their LTCI sales activity and the volume of LTCI premium they have inforce. These are not guarantees of quality or, indeed, of the company staying in the LTC business, but they are reasonable indicators of commitment to the market and of experience in underwriting (thus hopefully sensibly pricing) long term care benefits.

### Planning and Insurability

“Plan” as we understand the term for the purpose of these comments means simply the creation and implementation of provisions now to accomplish goals important for the future. Those goals may involve the present transfer of assets. Or they may be focused on provision for the preservation of assets for future distribution on the happening of certain events. If your client is insurable, qualified LTCI can be a useful *temporary* or *permanent* tool in planning from either perspective.

Insurability is an issue. In our experience, the major, well-rated LTC insurers are becoming more critical of health histories in the underwriting process. Attending Physician Statements are more often than not requested. Your clients need to know that their physician will literally copy the file and send it to an insurer pursuant to such a request, and every LTCI application includes a HIPAA compliant authorization by the client for the physician to do so.

Pre-qualifying the client within the perspective of his or her health history through an anonymous inquiry to each of the insurers under consideration will help, though not guarantee, the result of a subsequent formal application.

The Kaiser Commission comments noted earlier observed that “[t]he likelihood of developing conditions that result in long-term care needs increases substantially with age. About 19% of seniors experience some degree of chronic physical impairment; increasing to 55% of those aged 85 or older. (Congressional Budget Office, Financing Long-Term Care for the Elderly, 2004) Because of health and functional limitations, older people are more likely to be turned down for coverage. Estimates indicate that 28% of people age 65 to 69 would not pass an underwriting test, in-

creasing to 38% for age 75 to 79. (Mark Merlis, *Private Long-Term Care Insurance: Who Should Buy It and What Should They Buy?* Prepared for the Kaiser Family Foundation, 2003.)”

If, indeed, individually insured long term care benefits are important in your client’s planning, then consideration should be given sooner rather than later to your client’s health history and his or her potential for favorable LTCI underwriting.

### Premium Paying Resources

Your client’s present and likely future financial circumstances are important in assessing whether or not the client should consider buying LTCI. In some situations we have found that other family members are willing to assume the premium paying responsibility for a parent or parents who could not afford to carry coverage themselves. This is particularly the case where the children live at a distance and could not realistically care for a parent who suffers the sort of catastrophic health conditions to which LTCI policies are responsive.

Individual long term care insurance premiums are not guaranteed. Several companies offer short guarantee periods, but nothing extending longer than 5 years. Unfortunately, not even those periods are available in Pennsylvania. Companies cannot increase premiums on *individual* insureds for HIPAA qualified policies. Any increase must apply to a class of insureds and must be approved by the Insurance Department of any state in which an increase is requested.

Within the context of cost, however, you and your client should be sure to understand that there are many ways of structuring LTCI coverage to perhaps bring current costs within a reasonable range for the client’s budget. Further, premiums for similar benefits do differ

among the major, well-rated insurers. We will discuss alternative policy structures and costs below.

### The Willing Suspension of Disbelief

LTCI *is* insurance, not an entitlement. Tough words, but we sometimes wonder if well-intentioned souls would have risk taken out of the insurance equation and still expect “insurers” to provide benefits at a generally affordable cost.

Medical Assistance, with its brutal threshold spend down mandate, is hugely expensive to the individual, and to his or her spouse, who is compelled by a catastrophic health event to seek benefits under its terms.

Alternative solutions to the need to provide for care while not bankrupting a family each seem to have, in varying degrees, one prerequisite: money. Money to pay premiums, money to place in pretax programs to fund long term care insurance premiums, money to establish tax-free long term care insurance accounts similar to health savings accounts, money provided in flexible spending accounts to cover the cost of future long term care needs.

If you will suspend for a moment what may fairly be your belief that LTCI is just too expensive for most individuals, we believe that we can demonstrate an economical way of structuring policies that offers substantial shelter against the storm that the DRA has brought upon the world of LTC planning.

Our suggestions won’t make LTCI affordable for everyone. It simply isn’t. But they may provide opportunities for you to incorporate LTCI as an effective tool in planning on behalf of more of your clients.

What we think is particularly valuable is that these structures can function as either a

temporary safety net in Medicaid planning or as a *permanent* transfer of substantial financial risk for traditional asset preservation planning.

### What Are the Odds?

That's the wrong question to ask in regard to a specific individual. Statistics involve the laws of large numbers. But we all do it, especially when we're about to commit to a long term expenditure of our own money.

It is useful, however, to have a perspective on the statistical risk of needing catastrophic health care. The April, 2004 Congressional Budget Office report ([www.cbo.gov](http://www.cbo.gov)), in Table 2-1, *Probability of Nursing Home Use by Elderly People Over Their Remaining Lifetime*, notes that, of people turning 65 in the year 2000, there is a 32% probability of such a need for three months or longer, a 23% probability for one year or longer and an 8% probability for five years or longer. For people turning 65 in 2010, the estimates project a slight increase at 33%, 24% and 9% respectively. The CBO sources the figures from Brenda C. Spillman and James Lubitz, "New Estimates of Lifetime Nursing Home Use: Have Patterns of Use Changed?" *Medical Care*, vol. 40, no. 10 (2002).

Among the individuals who do need care in a nursing home, the average length of stay for males age 65 to 74 was 823 days, for females 881 days; for males 75 to 84, 759 days, and for females, 801 days; for males 85 years and older, 725 days, and for females, 977 days. Table A-2 of the same CBO report sourced the data from Celia S. Gabrel, *Characteristics of Elderly Nursing Home Current Residents and Discharges: Data from the 1997 National Nursing Home Survey*, Advance Data no. 312 (Centers for Disease Control and Prevention, National Center for Health Statistics, April 25, 2000).

One major LTC insurer recently provided a report on the average length of actual claims by benefit type over a thirty year period. While, for all benefits, the average claim lasted 690 days, nursing home claims averaged 721 days, assisted living 1,079 days, and home health care 523 days. Among those claims, dementia ranked first as the primary diagnosis, accounting for nearly 24% of the total; stroke was second at 10.6%; fractures (other than hip fractures) counted for 5.3%; hip fractures added 4.4%, and heart disease accounted for 3.6%.

To perhaps put it in the simplest perspective, if I had a 9% chance of winning the lottery, I'd play it early and often. If I had a 9% chance of losing a large chunk of our life savings, I'd want to insure, one way or the other, against that risk. Most of us would likely agree with the former; to date, better than 90% of us haven't acted on the latter.

### TACTICAL LTCI POLICY STRUCTURES

We have noted the dramatic tightening by the DRA of the timelines for financial eligibility for Medical Assistance long term care benefits, the structural elements that the DRA imposes on Partnership LTCI policies, the necessity to meet health underwriting guidelines for the issuance of an LTCI policy, the odds of needing long term care, a major report on the average duration of LTC claims by sex and age groups as well as by the locus of the care delivered and the primary diagnoses generating those claims.

We have suggested that there are techniques for tactically structuring qualified LTCI policies to make them more accessible for insurable individuals by minimizing

premium costs while providing coverage tailored to post-DRA planning. We have further suggested that such policies can be used as a temporary or permanent planning tool.

Now we will consider three tactical approaches to the structuring of LTCI policies which, we submit, can be effective, appropriate and economical long term care planning tools.

### Temporary or Permanent?

The DRA has mandated a 5 year look-back period for the purpose of determining whether or not a period of ineligibility for Medical Assistance has been created by the disposal of assets by an individual made on or after the enactment of the DRA.

### Temporary Benefits

*If an individual is concerned only about insuring against the expense of long term care during the five year period following the transfer of assets countable in determining eligibility for Medical Assistance, then that person could consider purchasing a comprehensive long term care policy with a 5 year benefit period.*

Once the 5 year period of DRA vulnerability has passed, the insured could lapse his or her policy. This is the concept of using an LTCI policy as a *temporary* planning tool.

Note that an inflation rider is not included in that suggestion. Inflation riders can add 50 to 100% more cost to an LTCI contract. Depending on the issue age of the insured, they are an important consideration in structuring a *permanent* LTCI policy, one which the individual intends to keep in place indefinitely. However, in the DRA planning situation just described, eliminating such a rider will hugely reduce the cost of the 5 year benefit policy

while providing a reasonable level of coverage for the period of exposure to the 5 year look-back.

Partnership policies, as prescribed in the DRA, require the inclusion of a *compound* inflation rider (thus typically doubling the cost of the basic benefit) if the purchaser is younger than age 61 when the policy is issued. If the applicant is 61 through 75 at the issue date, a Partnership policy must include “*some level of inflation protection.*” The legislation leaves it unclear whether the protection is to be automatic or can be through a voluntary option to purchase additional coverage. However, a 5% *simple* automatic annual benefit increase rider, commonly offered in policies available to day, typically adds 40 to 50% to the cost of a policy.

It is important to recognize the valuable protection offered by such inflation provisions for individuals who may not experience a claim for many years. A \$150 expense today will cost more than \$300 in 15 years. Without a built-in provision for a benefit increase, the insured could have a nasty surprise at a future claim time.

However, a policy with such a mandated benefit would be very costly for an individual whose concern is to provide for coverage *only* during the 5 year period following a planned substantial transfer of assets.

### Shared Care

The classic benefit period in an individual LTCI policy may be structured as unlimited (lifetime) or as limited (a period of benefit years after which no benefit is payable.) The longer the benefit period, the higher the cost of the policy and the greater the transfer of the duration risk to the insurance company. If your client, aware of his or her

own health history and the statistical probabilities for incurring a claim of various durations, wishes to retain some of the financial risk and lower the cost of insurance, then a limited benefit period policy is an appropriate choice. If, on the other hand, the client simply doesn't want a "clock ticking" in the event of a claim, an unlimited or lifetime benefit period is the choice.

Most LTCI companies offer limited benefit periods of 2,3,4 and 5 years, with some going to 6,7,8 and 10 years.

Some, but not all, also offer either a *shared care benefit* by rider or the option of purchasing a shared benefit policy covering a couple.

Shared Care is, in its most basic form, a provision in a limited benefit period LTCI policy whereby one insured can, should he or she exhaust their own policy's benefits and with the permission of their spouse/partner, access the benefits of the other's policy. The individuals must apply for issuance of coverage at the same time and have identical policy benefits. Two insurers offer a third pool of money comparable to the single benefit pool owned by each individual insured and accessible by either individual in the event one exhausts their own primary benefits. Shared Care may also be provided through a single policy insuring two individuals (spouses/couples), each having access to a single pool of policy benefits.

*It is the shared care benefit that we think may be uniquely valuable to a couple who are considering a limited benefit period using LTCI as either a temporary or permanent long term care planning tool.*

### **3 Year vs 5 Year Shared Care Benefit**

If the objective of your clients is to have insured protection against the 5 year DRA look-

back, they could take the arguably aggressive approach that carrying a 3 year shared care benefit, affording *one of them* the maximum protection of *6 benefit years*, reasonably hedges the bet against *both of them* needing catastrophic health care in the next 5 years. One person's reason may be another person's folly, but such a benefit structure, without an inflation rider, is the least expensive insured strategy for accomplishing the planning objective.

A modest increase in expense can provide a 5 year shared care benefit, a maximum of 10 years for one of the individuals.

*This is what, for lack of a better term, we call a temporary LTCI plan because it is entered into with the intent of covering the risk for a very finite period of time, the next five years.*

### **Shared Care Among the 21—A Cost/Benefit Matrix**

In developing the LTCI planning concepts presented here, we reviewed each of the 21 companies approved to sell individual LTCI in the Commonwealth and which are rated "A" or better by at least two of the financial rating services noted earlier. We eliminated those which do not offer a shared care benefit either by rider or a shared benefit policy. We further eliminated those which are either very new to the individual LTCI marketplace and/or which do relatively little LTCI business compared to the other insurers. In the final analysis, 6 LTC insurers made the cut.

We calculated for each company at each of seven issue ages (50, 55, 60, 65, 70, 75, and 79) at standard as well as preferred rates the cost, assuming a spousal/partner discount, for an individual, comprehensive, HIPAA qualified, 3 year and a 5 year *shared*

care benefit using a \$150 a day benefit amount with a 20/30 or 50 day elimination period (depending on which a company offered) assuming (A) No Inflation Rider, (B) a 5% Simple Inflation Rider, and (C) a 5% Compound Inflation Rider.

We then averaged the costs of the 6 companies for each issue age and on the basis of (A), (B) and (C), above.

The averaged costs are displayed in a four page addendum to this article captioned *SHARED CARE LTC COST/BENEFIT MATRIX*. Two of the pages are based on Preferred Issue rates and two on Standard Issue rates. Two assume a 3 year Benefit Period and two assume a 5 year Benefit Period. The Preferred discount averages about

15% and is based on health underwriting. The majority of policies are issued at the Standard rates of the various insurers.

The Shared Care benefit *adds* from about 8 to 18% to the cost of a policy without that benefit. Once again, it does pay to obtain comparable quotes from at least three or four major, well-rated and LTC experienced insurers. Interestingly, the cost of a Shared Benefit policy is actually *less* in the case of one company compared to individual policies issued by that company.

We also calculated for (A), (B) and (C) the benefit the insured would receive in the event of a claim commencing at age 80 (84 in the case of a 79 year old issue date), the premium that would have been paid, assuming no increase in premium, from the policy issue date until age 80/84, and the number of days the insured would need to be on claim in order to recover in claim payments an amount equal to the premiums paid over those years.

We realize that premiums will likely increase

on a class basis in the future, but because none of the companies in the survey have had a rate increase to date on *existing* policyowners, we have no objective basis on which to project a rate of increase in the paid premiums calculation.

Please note that the costs shown on the matrices are for coverage on one of two individuals. LTC claims happen to an individual!

### **Individual Policies *Without Shared Care***

In many cases an elder law attorney or financial advisor may need to counsel a community spouse who is personally in need of insured long term care benefits or a single individual who is concerned about asset preservation in the face of possible future long term care needs.

The Cost/Benefit Matrix prepared for this article focuses on shared care which necessarily involves a couple. The cost of a 3 or 5 year benefit period *individual* LTCI policy *without* a spousal/couples discount and *without* the added cost of a shared care benefit can be 19 to 46% higher, depending on the company, than the average costs shown on the Matrix.

### **The Time Value of Money/Self-insuring**

The question inevitably arises, What do I get for my premium dollars if I never have a claim? Absent a return of premium at death rider, the answer is the protection against the financial risk to the extent of your policy benefits, similar to your disability insurance, term life coverage, car, homeowner's and liability insurance.

But we think that it is useful to look at how long a savings fund composed of the dollars which one would have spent for LTCI but

were, rather, invested at the generous after tax rate of 6% would last in the event of an LTC claim *at age 80/84*. Those numbers also appear for each underwriting class, benefit period, issue age, and inflation related policy structure. The savings fund approach is not self-completing; the insured benefit is. This analysis will reasonably allow your clients to evaluate the price of their risk tolerance against each of the Inflation assumptions, (A)-(C).

*Back for a moment to the impact of future rate increases.* Though a yearly increase of 6% is probably a rate that the Insurance Department would seriously question, the savings fund analysis could be looked at as an acid test for the value of *permanent* long term care benefits in your client's plan. Even if rates went up at 6% every year, the number of claim days needed to recover in benefits every dollar paid in premiums over 30 or 20 or 10 years exceeds significantly the reported average duration of claims. In the case of a *temporary* LTCI plan, using the insurance as a hedge against a catastrophic health care expense developing within 5 years of asset transfer, the value of a 3 or 5 year shared care benefit period is clear.

### Inside the Numbers

It is not our purpose to promote any particular insurer. Each of the six companies would serve your client's benefit needs well. However, we think it important to note that there is a very large difference in our research data between the least expensive and the most expensive policies. The spread for essentially identical benefit structures can be as much as 55%. It absolutely pays to obtain comparable quotes with preliminary health underwriting from at least three or four companies.

### Permanent Benefits

This phrase simply distinguishes the temporary or "5 years and out" concept described for DRA planning following asset transfers from the preference a client may have for an LTCI policy structure reasonably suitable for economical coverage over a longer period of time. To provide a perspective on costs for such coverage using shared care, which likely would include a simple or compound inflation rider, we included the average cost of 3 and 5 year shared care policies *with inflation riders* in the *SHARED CARE LTC COST/BENEFIT MATRIX*.

The inclusion of at least a simple inflation rider may also be prudent where the implementation of the client's asset transfer plan will take place over a number of years or where your client may simply prefer to be less aggressive in the retention of the financial risk of long term care expenses.

## CONCLUSION

Actually, this is just the beginning. The Deficit Reduction Act has dramatically altered the timeline for the transfer of countable assets without vulnerability to the creation of a period of ineligibility for Medical Assistance purposes.

The implementation by the States of qualified long term care insurance Partnership policies will introduce a new planning vehicle. The flurry of legislation proposed to facilitate tax favored methods of qualified policy premium payments and the establishment of tax advantaged or tax free accounts for the payment of future long term care expenses may result in useful planning tools for some individuals.

However, qualified long term care insurance can *today* play a strategic role in creating a financial safety net for individuals who are insurable and who incorporate benefits ap-

appropriate for their budget, needs and risk tolerance in their life planning.

For couples, the use of a shared care benefit structure can substantially and economically enhance the strength of that net.

For individuals, the consideration of a 5 year benefit period on either a temporary or permanent basis, depending on their planning needs, can reasonably and economically help preserve their assets for distribution according to their wishes.

In every case, the demand of comparable quotes from at least three or four well-rated and experienced LTC insurers, based on specifications established by your client's plan and following thorough, anonymous preliminary health underwriting, will facilitate the objective selection of the most suitable contract and insurer.

# FUTURECARE

Associates, Inc.

# SHARED CARE LTC COST/BENEFIT MATRIX

Assumed: 3 Year Benefit Period  
 \$150 Comprehensive Daily Benefit  
 Elimination Period—20/30/50 Days  
 HIPAA Qualified Policies

PREFERRED ISSUE RATES\*  
 (Average of 6 Major LTC Cos)  
 Spousal/Partner Discount  
 Rates as of 4/06 (PA issue)\*

| Age At Issue                           | 50         | 55        | 60        | 65        | 70        | 75        | 79        |
|--|------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Age At Claim                           | 80         | 80        | 80        | 80        | 80        | 80        | 84        |
| Benefit Period                         | 3 Years    | 3 Years   | 3 Years   | 3 Years   | 3 Years   | 3 Years   | 3 Years   |
| <b>(A) No Inflation Rider</b>          |            |           |           |           |           |           |           |
| Daily Benefit at Claim                 | \$ 150.00  | \$ 150.00 | \$ 150.00 | \$ 150.00 | \$ 150.00 | \$ 150.00 | \$ 150.00 |
| Premium at Policy Issue*               | 647.00     | 744.00    | 1,016.00  | 1,497.00  | 2,432.00  | 4,280.00  | 6,414.00  |
| Aggregate Premium Paid to Claim*       | 19,410.00  | 18,600.00 | 20,320.00 | 22,455.00 | 24,320.00 | 21,400.00 | 32,070.00 |
| Days on Claim to Even                  | 129        | 124       | 135       | 150       | 162       | 143       | 214       |
| Aggregate Premium* @ 6% net            | 51,151.00  | 40,819.00 | 37,374.00 | 34,844.00 | 30,589.00 | 24,127.00 | 36,157.00 |
| Days Out-of-Pocket to Even             | 341        | 272       | 249       | 232       | 204       | 161       | 241       |
| <b>(B) 5% Simple Inflation Rider</b>   |            |           |           |           |           |           |           |
| Daily Benefit at Claim                 | \$ 368.00  | \$ 330.00 | \$ 292.00 | \$ 255.00 | \$ 218.00 | \$ 180.00 | \$ 180.00 |
| Premium at Policy Issue*               | 1,051.00   | 1,261.00  | 1,658.00  | 2,291.00  | 3,530.00  | 5,828.00  | 8,462.00  |
| Aggregate Premium Paid to Claim*       | 31,530.00  | 31,525.00 | 33,160.00 | 34,365.00 | 35,300.00 | 29,140.00 | 42,310.00 |
| Days on Claim to Even                  | 86         | 96        | 114       | 135       | 162       | 162       | 235       |
| Aggregate Premium* @ 6% net            | 83,090.00  | 69,184.00 | 54,823.00 | 53,325.00 | 46,528.00 | 32,853.00 | 47,701.00 |
| Days Out-of-Pocket to Even             | 226        | 210       | 188       | 209       | 213       | 183       | 265       |
| <b>(C) 5% Compound Inflation Rider</b> |            |           |           |           |           |           |           |
| Daily Benefit at Claim                 | \$ 617.00  | \$ 484.00 | \$ 379.00 | \$ 297.00 | \$ 218.00 | \$ 182.00 | \$ 182.00 |
| Premium at Policy Issue*               | 1,694.00   | 1,808.00  | 2,162.00  | 2,774.00  | 3,496.00  | 6,465.00  | 9,095.00  |
| Aggregate Premium Paid to Claim*       | 50,820.00  | 45,200.00 | 43,240.00 | 41,610.00 | 34,960.00 | 32,325.00 | 45,475.00 |
| Days on Claim to Even                  | 82         | 93        | 114       | 140       | 160       | 178       | 250       |
| Aggregate Premium* @ 6% net            | 133,925.00 | 99,195.00 | 79,530.00 | 64,568.00 | 46,081.00 | 36,444.00 | 51,269.00 |
| Days Out-of-Pocket to Even             | 217        | 205       | 210       | 217       | 211       | 200       | 282       |

NOTES: \*Premiums are *not* guaranteed, but may be increased as to a class of insureds with the permission of the Insurance Commissioner. Any change in premiums will change these calculations.

# FUTURECARE

Associates, Inc.

# SHARED CARE LTC COST/BENEFIT MATRIX

Assumed: 3 Year Benefit Period  
 \$150 Comprehensive Daily Benefit  
 Elimination Period—20/30/50 Days  
 HIPAA Qualified Policies

STANDARD ISSUE RATES\*  
 (Average of 6 Major LTC Cos)  
 Spousal/Partner Discount  
 Rates as of 4/06 (PA issue)\*

| Age At Issue                           | 50         | 55         | 60        | 65        | 70        | 75        | 79        |
|--|------------|------------|-----------|-----------|-----------|-----------|-----------|
| Age At Claim                           | 80         | 80         | 80        | 80        | 80        | 80        | 84        |
| Benefit Period                         | 3 Years    | 3 Years    | 3 Years   | 3 Years   | 3 Years   | 3 Years   | 3 Years   |
| <b>(A) No Inflation Rider</b>          |            |            |           |           |           |           |           |
| Daily Benefit at Claim                 | \$ 150.00  | \$ 150.00  | \$ 150.00 | \$ 150.00 | \$ 150.00 | \$ 150.00 | \$ 150.00 |
| Premium at Policy Issue*               | 754.00     | 903.00     | 1,185.00  | 1,746.00  | 2,836.00  | 5,019.00  | 7,474.00  |
| Aggregate Premium Paid to Claim*       | 22,620.00  | 22,575.00  | 23,700.00 | 26,190.00 | 28,360.00 | 25,095.00 | 37,370.00 |
| Days on Claim to Even                  | 151        | 150        | 158       | 175       | 189       | 167       | 249       |
| Aggregate Premium* @ 6% net            | 59,610.00  | 49,543.00  | 43,591.00 | 40,640.00 | 37,381.00 | 28,293.00 | 42,132.00 |
| Days Out-of-Pocket to Even             | 397        | 330        | 291       | 271       | 249       | 189       | 281       |
| <b>(B) 5% Simple Inflation Rider</b>   |            |            |           |           |           |           |           |
| Daily Benefit at Claim                 | \$ 375.00  | \$ 338.00  | \$ 300.00 | \$ 262.00 | \$ 225.00 | \$ 188.00 | \$ 188.00 |
| Premium at Policy Issue*               | 1,226.00   | 1,472.00   | 1,934.00  | 2,672.00  | 4,116.00  | 6,794.00  | 9,859.00  |
| Aggregate Premium Paid to Claim*       | 36,780.00  | 36,800.00  | 38,680.00 | 40,080.00 | 41,160.00 | 33,970.00 | 49,295.00 |
| Days on Claim to Even                  | 98         | 109        | 129       | 153       | 183       | 181       | 262       |
| Aggregate Premium* @ 6% net            | 96,925.00  | 80,761.00  | 71,143.00 | 62,193.00 | 54,252.00 | 38,298.00 | 55,576.00 |
| Days Out-of-Pocket to Even             | 258        | 239        | 237       | 237       | 241       | 204       | 296       |
| <b>(C) 5% Compound Inflation Rider</b> |            |            |           |           |           |           |           |
| Daily Benefit at Claim                 | \$ 617.00  | \$ 484.00  | \$ 379.00 | \$ 297.00 | \$ 233.00 | \$ 182.00 | \$ 182.00 |
| Premium at Policy Issue*               | 1,894.00   | 2,110.00   | 2,637.00  | 3,237.00  | 4,756.00  | 7,534.00  | 10,595.00 |
| Aggregate Premium Paid to Claim*       | 56,820.00  | 52,750.00  | 52,740.00 | 48,555.00 | 47,560.00 | 37,670.00 | 52,975.00 |
| Days on Claim to Even                  | 92         | 109        | 139       | 163       | 204       | 207       | 291       |
| Aggregate Premium* @ 6% net            | 149,736.00 | 115,764.00 | 97,004.00 | 75,344.00 | 62,688.00 | 42,470.00 | 59,725.00 |
| Days Out-of-Pocket to Even             | 243        | 239        | 256       | 254       | 269       | 233       | 328       |

NOTES: \*Premiums are *not* guaranteed, but may be increased as to a class of insureds with the permission of the Insurance Commissioner. Any change in premiums will change these calculations.

# FUTURECARE

Associates, Inc.

# SHARED CARE LTC COST/BENEFIT MATRIX

Assumed: *5 Year Benefit Period*  
**\$150 Comprehensive Daily Benefit**  
**Elimination Period—20/30/50 Days**  
**HIPAA Qualified Policies**

**PREFERRED ISSUE RATES\***  
*(Average of 6 Major LTC Cos)*  
**Spousal/Partner Discount**  
**Rates as of 4/06 (PA issue)\***

| Age At Issue                           | 50         | 55         | 60        | 65        | 70        | 75        | 79        |
|--|------------|------------|-----------|-----------|-----------|-----------|-----------|
| Age At Claim                           | 80         | 80         | 80        | 80        | 80        | 80        | 84        |
| Benefit Period                         | 5 Years    | 5 Years    | 5 Years   | 5 Years   | 5 Years   | 5 Years   | Years     |
| <b>(A) No Inflation Rider</b>          |            |            |           |           |           |           |           |
| Daily Benefit at Claim                 | \$ 150.00  | \$ 150.00  | \$ 150.00 | \$ 150.00 | \$ 150.00 | \$ 150.00 | \$ 150.00 |
| Premium at Policy Issue*               | 772.00     | 910.00     | 1,219.00  | 1,712.00  | 2,910.00  | 5,077.00  | 7,653.00  |
| Aggregate Premium Paid to Claim*       | 23,160.00  | 22,750.00  | 24,380.00 | 25,680.00 | 29,100.00 | 25,385.00 | 38,265.00 |
| Days on Claim to Even                  | 154        | 152        | 163       | 171       | 194       | 169       | 255       |
| Aggregate Premium* @ 6% net            | 61,033.00  | 49,927.00  | 44,842.00 | 39,849.00 | 38,356.00 | 28,620.00 | 43,141.00 |
| Days Out-of-Pocket to Even             | 407        | 333        | 299       | 266       | 256       | 191       | 288       |
| <b>(B) 5% Simple Inflation Rider</b>   |            |            |           |           |           |           |           |
| Daily Benefit at Claim                 | \$ 368.00  | \$ 330.00  | \$ 292.00 | \$ 255.00 | \$ 218.00 | \$ 180.00 | \$ 180.00 |
| Premium at Policy Issue*               | 1,241.00   | 1,499.00   | 1,984.00  | 2,718.00  | 4,225.00  | 7,000.00  | 10,214.00 |
| Aggregate Premium Paid to Claim*       | 37,230.00  | 37,475.00  | 39,680.00 | 40,770.00 | 42,250.00 | 35,000.00 | 51,070.00 |
| Days on Claim to Even                  | 101        | 114        | 136       | 160       | 194       | 194       | 284       |
| Aggregate Premium* @ 6% net            | 98,111.00  | 82,242.00  | 72,983.00 | 63,264.00 | 55,689.00 | 39,460.00 | 57,577.00 |
| Days Out-of-Pocket to Even             | 267        | 249        | 250       | 248       | 255       | 219       | 320       |
| <b>(C) 5% Compound Inflation Rider</b> |            |            |           |           |           |           |           |
| Daily Benefit at Claim                 | \$ 617.00  | \$ 484.00  | \$ 379.00 | \$ 297.00 | \$ 218.00 | \$ 182.00 | \$ 182.00 |
| Premium at Policy Issue*               | 1,951.00   | 2,156.00   | 2,608.00  | 3,351.00  | 4,934.00  | 7,830.00  | 11,050.00 |
| Aggregate Premium Paid to Claim*       | 58,530.00  | 53,900.00  | 52,160.00 | 50,265.00 | 49,340.00 | 39,150.00 | 55,250.00 |
| Days on Claim to Even                  | 95         | 111        | 138       | 169       | 226       | 215       | 304       |
| Aggregate Premium* @ 6% net            | 154,243.00 | 118,288.00 | 95,937.00 | 77,998.00 | 65,034.00 | 44,138.00 | 62,290.00 |
| Days Out-of-Pocket to Even             | 250        | 244        | 253       | 263       | 288       | 243       | 342       |

**NOTES: \*Premiums are not guaranteed, but may be increased as to a class of insureds with the permission of the Insurance Commissioner. Any change in premiums will change these calculations.**

# FUTURECARE

Associates, Inc.

# SHARED CARE LTC COST/BENEFIT MATRIX

Assumed: *5 Year Benefit Period*  
**\$150 Comprehensive Daily Benefit**  
**Elimination Period—20/30/50 Days**  
**HIPAA Qualified Policies**

**STANDARD ISSUE RATES\***  
*(Average of 6 Major LTC Cos)*  
**Spousal/Partner Discount**  
**Rates as of 4/06 (PA issue)\***

| Age At Issue                           | 50         | 55         | 60         | 65        | 70        | 75        | 79        |
|--|------------|------------|------------|-----------|-----------|-----------|-----------|
| Age At Claim                           | 80         | 80         | 80         | 80        | 80        | 80        | 84        |
| Benefit Period                         | 5 Years    | 5 Years    | 5 Years    | 5 Years   | 5 Years   | 5 Years   | 5 Years   |
| <b>(A) No Inflation Rider</b>          |            |            |            |           |           |           |           |
| Daily Benefit at Claim                 | \$ 150.00  | \$ 150.00  | \$ 150.00  | \$ 150.00 | \$ 150.00 | \$ 150.00 | \$ 150.00 |
| Premium at Policy Issue*               | 898.00     | 1,061.00   | 1,421.00   | 2,067.00  | 3,392.00  | 5,918.00  | 8,915.00  |
| Aggregate Premium Paid to Claim*       | 26,940.00  | 26,525.00  | 28,420.00  | 31,005.00 | 33,920.00 | 29,590.00 | 44,575.00 |
| Days on Claim to Even                  | 180        | 177        | 189        | 207       | 226       | 197       | 297       |
| Aggregate Premium* @ 6% net            | 70,994.00  | 58,211     | 52,272.00  | 48,111.00 | 44,709.00 | 33,360.00 | 50,255.00 |
| Days Out-of-Pocket to Even             | 473        | 388        | 348        | 321       | 298       | 222       | 335       |
| <b>(B) 5% Simple Inflation Rider</b>   |            |            |            |           |           |           |           |
| Daily Benefit at Claim                 | \$ 368.00  | \$ 330.00  | \$ 292.00  | \$ 255.00 | \$ 218.00 | \$ 180.00 | \$ 180.00 |
| Premium at Policy Issue*               | 1,447.00   | 1,749.00   | 2,314.00   | 3,170.00  | 4,926.00  | 8,158.00  | 11,879.00 |
| Aggregate Premium Paid to Claim*       | 43,410.00  | 43,725.00  | 46,280.00  | 47,550.00 | 49,260.00 | 40,790.00 | 59,395.00 |
| Days on Claim to Even                  | 118        | 132        | 159        | 186       | 226       | 227       | 330       |
| Aggregate Premium* @ 6% net            | 114,397.00 | 95,958.00  | 85,122.00  | 73,785.00 | 64,929.00 | 45,987.00 | 66,963.00 |
| Days Out-of-Pocket to Even             | 311        | 291        | 291        | 289       | 298       | 255       | 372       |
| <b>(C) 5% Compound Inflation Rider</b> |            |            |            |           |           |           |           |
| Daily Benefit at Claim                 | \$ 617.00  | \$ 484.00  | \$ 379.00  | \$ 297.00 | \$ 218.00 | \$ 182.00 | \$ 182.00 |
| Premium at Policy Issue*               | 2,276.00   | 2,517.00   | 3,043.00   | 3,908.00  | 5,754.00  | 9,127.00  | 12,872.00 |
| Aggregate Premium Paid to Claim*       | 68,280.00  | 62,925.00  | 60,860.00  | 58,620.00 | 57,540.00 | 45,635.00 | 64,360.00 |
| Days on Claim to Even                  | 111        | 130        | 161        | 197       | 264       | 251       | 354       |
| Aggregate Premium* @ 6% net            | 179,936.00 | 138,094.00 | 111,939.00 | 90,962.00 | 75,842.00 | 51,450.00 | 72,561.00 |
| Days Out-of-Pocket to Even             | 292        | 285        | 295        | 306       | 348       | 283       | 399       |

**NOTES:** \*Premiums are not guaranteed, but may be increased as to a class of insureds with the permission of the Insurance Commissioner. Any change in premiums will change these calculations.