With the ever-changing landscape of taxes, it is growing increasingly difficult to understand how legislation affects clients and could possibly impact their financial future. As a leader in the financial services industry for over 30 years, we get it. That’s why HD Vest Financial Services® is constantly seeking ways to share the latest knowledge we acquire with you. We’ve created the Taxes & Investments: Timely and Timeless Strategies series to share timely information and provide our Advisors and their clients with practical information and ideas they can build on.

One of the chief fears individuals have as they enter retirement is outliving their income. For those who need it, long-term-care costs are becoming an increasingly large portion of an individual’s annual budget. A long-term-care event can distress a person and their family by significantly impacting finances, careers, lifestyles, and emotions. The chances of needing some kind of nursing care are higher than many people realize. The Society of Actuaries reported that the odds are one in three of a 65-year-old person spending more than two years in a nursing home.¹

With such a high probability of needing some form of nursing care, it is important to protect one’s family from such a financial burden. Long-Term-Care Insurance is designed to alleviate the drain on one’s finances by such an occurrence.

**Types of Long-Term-Care Insurance**

There are three main ways to acquire long-term-care coverage: traditional long-term-care policies, hybrid insurance policies or a long-term-care rider on a tax-deferred insurance investment vehicle.

**Traditional Long-Term-Care Insurance:**

Traditional long-term-care insurance provides a stated daily or monthly benefit to the insured should they have severe cognitive impairment or be unable to perform at least two of six daily living activities (eating, dressing, bathing, transferring, toileting, retaining continence). Long-term-care policies are usually reimbursement based, meaning they will reimburse you for actual costs paid. These policies have several other key features:

- **Elimination Period:** The elimination period is the period of time the insured will pay costs out of pocket until the long-term-care insurance pays benefits. Typically this is a 90-day period, but it can be changed to as short as 30 days or as long as 365 days. The shorter the elimination period is, the higher the cost.

- **Benefit Period:** The benefit period is the period of time the insured will receive benefits. This is typically three years, but it can be as short as one year or as long as lifetime benefits. The longer the benefit period is, the higher the cost.

- **Inflation Protection:** Inflation protection is an option to have the stated benefit increase over time at a specified rate. Generally the insured can choose 3% or 5% and simple or compound. The higher the inflation protection is, the higher the cost.
• **Partnership Plan:** If a partnership plan exists in the insured’s state, it can be chosen as an option. A partnership plan requires a minimum level of benefits, which will vary by state. By choosing the partnership plan, an insured is only required to spend down their assets to the value of the insurance purchased, instead of poverty levels, before state benefits will apply. Only traditional long-term care qualifies for a partnership plan.

The costs associated with traditional long-term care are not fixed, and the premiums may increase over time.

**Hybrid Insurance:**

Hybrid insurance policies combine a permanent life insurance policy with a long-term-care benefit. These policies can be indemnity (a set check amount each month/day, no matter the cost of care) or reimbursement based. These policies are attractive because they feature a fixed premium, and should the insured not need long-term-care insurance, they generally provide a death benefit to be paid to the listed beneficiaries. Hybrid insurance does not qualify for a partnership plan, and elimination periods may still apply.

**Long-Term-Care Rider:**

Long-term-care riders can be purchased or may be included on a tax-deferred insurance investment vehicle. This option typically guarantees a percentage, normally 150% to 200%, of a living benefit withdrawal amount. It is important to note that a long-term-care rider does not generally require any underwriting, but the insured is drawing down assets from their own investment account, and the insured must still be unable to perform two of the six activities of daily living or have a cognitive impairment. Long-term-care riders do not qualify for a partnership plan, and holding periods and elimination periods may apply.

Long-term-care insurance is a very important part of an overall financial plan. Should an individual have a long-term-care event, it could significantly impact their finances or the finances of their family. Only 7% of nursing home residents receive Medicaid coverage for assisted living, which means that for most people, the full cost of a nursing facility must come from their personal assets.² Long-term care can help mitigate that cost and relieve the stress on the insured's budget.

An HD Vest Advisor is able to help determine the most appropriate long-term-care coverage for an individual's situation. A full financial analysis by an HD Vest Advisor will help ensure protection from potentially detrimental long-term-care costs by working to reduce gaps in an individual's 8 Wealth Management Issues®.

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¹The Society of Actuaries- https://www.soa.org/ltc/

Investments are subject to market risks, including the potential loss of principal invested.

Dollar-cost averaging does not assure a profit and does not protect against loss in declining markets. Such a plan involves continuous investment in securities regardless of the fluctuation of price levels of such securities. An investor should consider his or her financial ability to continue his or her purchases through periods of low price levels.