



Specialists in Long Term Care

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# LTC News

Welcome Spring!



## How HSAs Might Affect LTC Funding In The Future

By David M. Miller, CLTC

If the new Health Savings Accounts (HSAs) become popular vehicles for funding LTC premiums for a significant number of Americans, this will perceptibly mitigate the LTC financing burden on future generations. The following discusses why this is so.

HSAs allow pre-tax dollars to pay for certain qualified health expenses. One very noticeable qualified expense is the premium for a federally tax-qualified LTC insurance policy—the so-called TQ LTC policies.

HSAs are only for individuals who are under age 65 and enrolled in a high deductible health plan. The annual contribution to the HSA is limited to the lesser of the annual deductible or \$2,600 (\$5,150 for a family; these amounts will be adjusted by the Consumer Price Index in the future). For individuals age 55 and over, there is an additional allowable contribution that started with \$500 in 2004 and will increase to \$1,000 by 2009. In any year, the excess of contributions made over qualified expenses withdrawn will accumulate in the account and accrue investment returns on a tax-free basis.

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The full extent of the tax advantages of a HSA depends on:

- Attained age when the account is opened
- Health status
- Deductibles on the health plan
- Contribution amounts
- Income tax bracket
- LTC insurance premiums, if any
- Investment gains on the HSA account
- Consumer Price Index
- Premiums for the high deductible health plan

The importance for the LTC insurance marketplace is that individuals can use their HSAs to pay premiums for LTC insurance. HSA is comparable with the "above the line" deduction that some advocates have been clamoring for. The main difference is that LTC insurance premiums are now competing with other qualified health expenses under a single limit.

At age 65 and later, no further contributions can be made to the HSA. However, substantial funds may have been built up that can be used to pay for future qualified expenses. Since both medical expenses and LTC insurance premiums are typically lower at younger ages, the sooner an individual starts an HSA, the greater this accumulation will be.



*Seeds Of Change:* Look to changes in your clients' portfolios. Your clients' prior plans for funding LTC can rapidly change. The coverage they declared they did not need last year may make more sense to them now!



**Survey: Millionaires Also Worry About Health, LTC Costs** Source: NU Online News Service

Affluent U.S. consumers may think almost as much about paying for post-retirement health care costs as other U.S. consumers do.

Researchers at Northern Trust Corp., Chicago, have published data supporting that conclusion in a report on a survey of 1,312 U.S. residents who each have at least \$1 million in investable assets. The survey participants each had an average of about \$6 million in investable assets.

Although the participants had large nest eggs, researchers found that 92% of the non-retiree millionaires and 88% of the retired millionaires were very worried or somewhat worried that rapidly rising health care costs would affect their ability to enjoy retirement.

Researchers found that 96% of the millionaires under age 55 were somewhat or very worried about the cost of retiree health care.

Here are some other survey findings:

- 10% of the participants with at least \$10 million in assets said they never want to retire.
- 55% of the baby boomers in the sample said they hadn't established or updated their estate plans.
- 88% of the non-retirees and 89% of the retirees are worried about the possibility that the stock market might fall.
- Millionaires under age 55 seem to be much more interested than retired millionaires in investing in real estate.

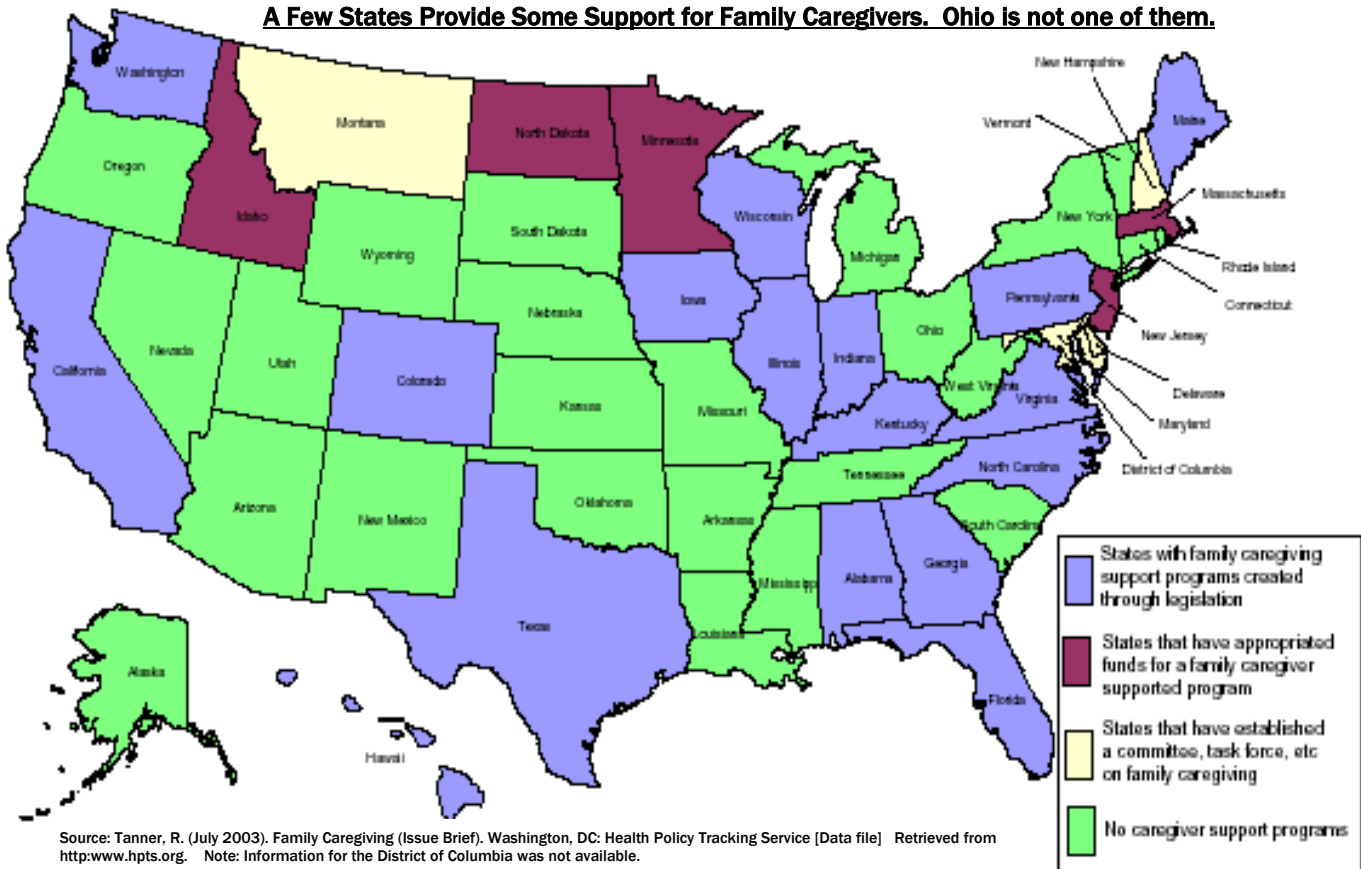
**Who Will Provide the Care?**

As the U.S. population ages, states' capacity to provide health and long-term care services will be tested. States must consider how to respond to an increasing demand for long-term care services not only in terms of providing enough care but also in terms of providing the type of care that consumers are likely to need and want. Achieving an optimal mix of good quality institutional and community-based care will likely be a challenge. Currently, there is great variation across states in the types and amounts of long-term care services available to people with limited resources. States have considerable discretion with regard to decisions about who can receive care and what services will be provided through the Medicaid program. In addition, some state-funded long-term care services and programs are larger and more comprehensive than others.

The shortage of paid caregivers in both institutional and community settings already has forced some states to think about how to successfully recruit and retain workers who can provide quality care, and this will continue to be an important issue. States can also take steps to support and encourage informal caregivers. In addition, states have a responsibility to monitor the quality of long-term care services. Some efforts to monitor the quality of care are in place now, but more attention to quality monitoring will likely be needed in the future.



**A Few States Provide Some Support for Family Caregivers. Ohio is not one of them.**



Source: Tanner, R. (July 2003). Family Caregiving (Issue Brief). Washington, DC: Health Policy Tracking Service [Data file] Retrieved from <http://www.hpts.org>. Note: Information for the District of Columbia was not available.