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COMBINATION LONG-TERM CARE PRODUCTS BY LISA JOHNSON

A recent *Financial Planning Magazine* article discusses new tax laws that may increase the popularity of combining life insurance and annuities with long-term care insurance. Long-term care (“LTC”) insurance sales have been in a decline over the past several years. Many believe that consumers may be put off by the idea of “wasting” their money paying the premiums on LTC insurance policies for years or even decades and never filing a claim. With average annual premiums around \$2160 for individuals and \$4000 for married couples, many feel that they have other alternatives (selling their house, relying on a relative, tapping into their investments) to spending so much money to protect against a financial drain that may never occur.

The article presents the case of a widow, age 70, who had most of her liquid assets in CD’s. When she inquired into LTC coverage, her tax advisor recommended that she use her savings to pay for long-term care if she needed it. She then consulted her investment advisor who recommended that she move \$100,000 from her CDs to a life insurance policy that also offered LTC benefits of over \$230,000. The policy will pay a modest death benefit even if all the LTC benefits have been paid. This individual ended up with a product that is a combination of life insurance and LTC insurance.

These so called combo LTC products are appealing to clients because if they need coverage for LTC, they’ll have it. Alternatively, if the client needs only modest custodial care or no care at all, then the money they spent on life insurance or annuity premiums will provide a payoff for the client and their beneficiaries. These combo policies do not necessarily have to be single premium; they can be 10-pay and lifetime-pay products. For clients who have existing life insurance policies or deferred annuities, such holdings could be exchanged for a LTC policy or a LTC hybrid, using the existing product’s value as the single premium.

While these combo LTC products, which include annuity/LTC as well as insurance LTC blends, have been around for a while, they are likely to increase in popularity as deferred tax breaks take effect and pricing benefits become clearer. Effective in January 2010, provisions of the Pension Protection Act of 2006 include changes in tax laws that affect LTC insurance. These changes include:

- Approval of LTC riders on annuity contracts. These riders can be added without losing the tax deferral of annuities or some tax-free insurance benefits of most LTC insurance policies.
- Tax-free access to cash values for LTC coverage.
- LTC insurance eligibility for tax-deferred exchanges.

Only “qualified” or “tax-qualified” LTC insurance will get the above benefits. This is generally not an issue because most LTC insurance contains the features necessary to be considered tax qualified. However, the new tax breaks do not extend to “qualified” annuities that are purchased and held within a retirement plan such as a 401(k) or an IRA.

Combo LTC products will work best for those whose financial plans call for life insurance or an annuity in addition to LTC coverage. The question becomes whether clients are better off buying a standalone LTC policy plus the life insurance or annuity, rather than a LTC hybrid. The answer largely depends on how the costs compare.

Not surprisingly the tax issues related to the Pension Protection Act of 2006 and combo LTC insurance products remain unsettled. The IRS has issued a private letter ruling that could affect some product designs. Those individuals or couples interested in purchasing combo LTC products should consult with an elder law attorney and a Certified Financial Planner® before purchasing these products.

The attorneys at Oast & Hook can assist clients with developing a comprehensive plan for their long-term care needs ranging from public benefits to financial services. Oast & Hook attorney Andrew Hook is a Certified Financial Planner®; he and the other attorneys at Oast & Hook can discuss these products with clients.

Lisa Johnson is an elder law attorney with Oast & Hook. She concentrates her practice in the area of estate planning.

Ask Allie

O&H: Allie, we know that there are many advancements in the treatment of cancer in humans. We’ve heard that there are advancements in treatment of cancer in pets as well. Please tell us about it.

Allie: Sure! A recent article in the *Daily Press* discusses increased treatment options for pets with cancer. Veterinarians are diagnosing more cancer in pets than ever, mainly because of greater awareness and better diagnostic tools. The three most common treatment options are surgery, chemotherapy, and radiation therapy. Most veterinary practices are equipped to perform surgery for simple masses, and many can also perform more advanced surgery. Some practices administer chemotherapy in house, while some families work with oncology specialists in their local area or

region. Pfizer recently received FDA approval for the first veterinary specific chemotherapeutic drug, which treats a specific type of cancer. Work is in progress to see if the drug has wider application. Radiation therapy can be valuable in the fight against cancer, and it is usually provided in regional radiation centers. As with humans, newer cancer treatment options are becoming more common, such as immunotherapy and gene therapy. As a result of advancements in medicine, your pet's veterinarian is much better equipped to diagnose and treat cancer, and may be able to give you options for treatment you may have thought were impossible for pets. I'm glad to hear that there are more options to help pets and their families stay together longer. See you next week!

Announcement

Oast & Hook is proud to announce that it has partnered with TowneBank to offer a series of seminars for seniors and their families. Each seminar will cover issues facing our seniors such as planning for retirement, elder law, Medicare, and long-term care planning. Oast & Hook and TowneBank will present six seminars, and each seminar will begin at 10:00 a.m. and will end at noon. Below is the list of dates and locations. Seating is limited. If you have any questions or would like to register for any of these seminars, then please phone Carol Hernandez at 757-638-6797.

April 6, 2010

TowneBank, First Colonial Banking Center
984 First Colonial Road
Virginia Beach, Virginia 23454

April 20, 2010

TowneBank, Oyster Point Banking Center
1 Old Oyster Point Road
Newport News, Virginia 23602

April 14, 2010

TowneBank, Member Service Center
6001 Harbour View Boulevard
Suffolk, Virginia 23435

April 27, 2010

TowneBank, Great Bridge Community Hall
137 Mount Pleasant Road
Chesapeake, Virginia 23322

April 15, 2010

Harbor's Edge
1 Colley Avenue
Norfolk, Virginia 23510

April 28, 2010

TowneBank, New Town Banking Center
5216 Monticello Avenue
Williamsburg, Virginia 23188

Distribution of This Newsletter

Oast & Hook encourages you to share this newsletter with anyone who is interested in issues pertaining to the elderly, the disabled and their advocates. The information in this newsletter may be copied and distributed, without charge and without permission, but with appropriate citation to Oast & Hook, P.C. If you are interested in a free subscription to the *Oast & Hook News*, then please e-mail us at mail@oasthook.com, telephone us at 757-399-7506, or fax us at 757-397-1267.

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