# Oast & Hook News

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MEMBER

## Inside This Issue




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## Efficient Funding of Long-term Care Insurance

## by Andrew Hook and Jeffrey Gump

Over the next 20 years, the number of Americans age 65 years and older will more than double to 71 million, comprising roughly 20% of the U.S. population. Greater longevity among the Baby Boom generation will also contribute to increased demand for long-term care services; those surviving to age 65 years can expect to live an average of 20 more years. As Baby Boomers live longer, their chance of needing some form of long-term care services will rise as well. Roughly 70% of people over the age of 65 years require some form of long-term care, and more than 30% will receive some nursing home care in their lifetime.

Long-term care is expensive, and the cost is rising every year. Currently, the average annual cost of a one-year stay in a private room at a nursing home in the Virginia Beach metropolitan area is $77,380. Future long-term care will be even more expensive. If costs rise at just 3% annually (a conservative estimate), then 20 years from now a one-year stay in a nursing home will cost approximately $139,757. It's easy to see how long-term care expenses can threaten or even wipe out your retirement savings and jeopardize any assets you had planned to leave your loved ones.

With the Standard & Poor's (S&P 500) index returning an average of only 2.72%2 a year for the last ten years and a one-year certificate of deposit returning an average of under 1.0%, it may seem like an insurmountable task to save enough money to fund a retirement and potential long-term care costs.

The experienced attorneys at Oast & Hook can help you come up with creative options to help plan for your family's future long-term care costs. Let's take a look at one of the innovative funding solutions someone might want to consider.

Let’s assume that Cheryl, age 56 years and Frank, age 58 years, are a married, working couple with assets in excess of $500,000, mostly in certificates of deposits. Cheryl’s mother has Alzheimer’s disease and has been in a nursing home for the past six years. Cheryl and Frank have seen first-hand how her mother’s nursing home expenses have decimated her parents' retirement nest egg. To avoid this from happening to them, Cheryl and Frank want to plan ahead for their own retirement.

Cheryl and Frank can purchase a shared long-term care insurance policy that will cost them roughly $4,000 annually if they are in good health. Cheryl and Frank can then take $75,000 from one of their certificates of deposits that is maturing and purchase a Single Premium Immediate Annuity (SPIA) with a “Life with Cash Refund” payout option.

SPIA income payments with specific life insurance companies can be set up to automatically pay the long-term care insurance premiums each year to ensure the policy stays in force for life. Also, beginning in 2010 (thanks to the Pension Protection Act), income payments from a SPIA can fund an long-term care insurance policy. If set up properly, then these income payments can be federal income tax free. Thus, using a SPIA to fund long-term care insurance premiums creates not only a tax-efficient funding solution, but also a convenient way to help protect Cheryl and Frank’s lifestyle and portfolio from the high costs of long-term care.

Oast & Hook attorney Andrew H. Hook is a Certified Financial Planner® who has years of experience helping clients determine the best solution for their long-term care planning needs. Oast & Hook can assist clients with their estate, financial, insurance, long-term care, veterans' benefits, and special needs planning issues.

Jeffrey A. Gump is a Senior Wealth Manager in the Hampton Roads practice of Cherry, Bekaert, & Holland, L.L.P. Mr. Gump has over a decade of experience providing banking, insurance, investment, retirement planning, and estate consultation services. For more information, phone Mr. Gump at 757-456-2400 or e-mail him at **jgump@cbhwealth.com**.

## Ask Allie

O&H: Allie, we’ve heard about a great organization that helps stray and feral cats in Los Angeles, California. Please tell us about it.

Allie: Sure! Saving Grace was launched in 2006 by Polly Wheelock-LePorte. She had been trapping feral and stray cats in her neighborhood for several years and having them spayed and neutered, while paying these expenses out of her own pocket. She realized that she could not continue to do this on her own, so she started Saving Grace, a 501(c)(3) nonprofit organization dedicated to “the most humane treatment of animals.” Nelia Southwick is now working with Polly. Nelia focuses on shelter rescues, while Polly continues her work with cats on the street. They have a team of volunteers who help them run a weekly adoption station at the local farmers market, and they operate two catteries. Saving Grace has now found homes for over 2,000 animals. FixNation, a Los Angeles-based organization that provides free spay and neuter services, has been helping Saving Grace in its effort to lower feral populations. Saving Grace has also applied for funding to assist with food and medical care for the cats. What a great group! I hope all of our readers are having a great summer. . . See you next week!

## Speakers

If you are interested in having an Oast & Hook attorney speak at your event, phone Darcee Hale at 757-967-9702 or e-mail her at **hale@oasthook.com**. Past topics include estate planning, long-term care planning and veterans benefits.

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