

Using Annuities for Long-Term Health Care

by Stan Haithcock

Article Highlights

- Pure long-term care annuities give full control over the asset, while having coverage in place if needed.
- Income riders can pay a higher stream of income to help with confinement care coverage.
- Medicaid-compliant annuities should not be purchased without the consultation of an elder law attorney, a CPA and an agent with expertise in this complex planning area.

When the Romans started using annuities as pension rewards for their loyal soldiers and families, I doubt if there was additional health care coverage attached to those lifetime payments.

Because we are all living longer, today's investor is definitely concerned with end of life issues and making sure that enough coverage is in place as Father Time starts to take over.

As we all know, annuities are primarily used for lifetime income needs, but some annuity strategies can provide efficient transfer of risk coverage for confinement-type care. Let's take a look at some current health care risk-transfer strategies using annuities.

Long-Term Care Annuities

Even though the traditional long-term care product still provides the best coverage, pure long-term care annuities are a great way to have full control over the asset while having long-term care coverage in place if needed. If you don't ever use the benefit, you still have 100% access to your money. Most people really like that full control feature.

This type of annuity is classified as "simplified issue," and requires a phone interview with the annuity company for approval. If approved, the issuing carrier will apply a multiple to the annuity premium for long-term care (LTC) coverage.



For example, if you put \$300,000 into this type of annuity, the carrier might apply a three times multiple for long-term care coverage. You would then have \$900,000 for long-term care, but still have full control over the initial \$300,000. The \$300,000 would be in a fixed rate account, and if you never used the long-term care benefit, this amount would be fully available to you or your beneficiaries.

Unfortunately, only a few carriers are still offering this product, but one A+ rated carrier, State Life, can write the policy jointly with your spouse.

Confinement Care Riders

If you go to a bad-chicken-dinner annuity seminar or watch annuity Internet videos, part of the too-good-to-be-true sales pitch will involve income rider payments that can increase for confinement care. Anytime there are no tests or qualifications to receive a benefit, then it's common sense that the coverage is not that robust. In other words, if you can fog a mirror, you can get a confinement care rider benefit.

Income riders are attached benefits to a deferred policy (commonly a variable or indexed annuity). The rider is a separate calculation from the policy's accumulation value and can only be used for income. Because health care is a hot-button issue, carriers are now offering this confinement care enhanced benefit if you cannot perform two of the six basic daily living functions (listed in the accompanying box).

Depending on the policy, if you qualify for the enhanced

The Six Activities of Daily Living (ADLs)

A person is considered dependent when substantial assistance from another person is required to complete any one of these activities. Being dependent for two or more of these activities can trigger the benefit clause in confinement care riders. (Read the contract for the specific terms and conditions.)

- **Bathing:** Getting into or out of a tub or shower and washing your body and hair.
- **Dressing:** Putting on and taking off any necessary item of clothing (including undergarments) and any necessary braces, fasteners or artificial limbs.
- **Transferring:** Getting into and out of a bed, chair or wheelchair.
- **Toileting:** Getting to and from the toilet; getting on and off the toilet; and performing associated personal

hygiene.

- **Continence:** Maintaining control of bowel and bladder function, or, when unable to maintain control of bowel or bladder function, performing associated personal hygiene (including caring for catheter or colostomy bag).
- **Eating:** Feeding yourself by getting food into your mouth from a container (such as a plate or cup), including use of utensils when appropriate (such as a spoon or fork) or when unable to feed yourself from a container, feeding yourself by a feeding tube or intravenously.

Sources: Stan Haithcock and the Federal Long Term Care Insurance Program (www.ltcfed.com).

payout, the income stream might double for a specific period of time or increase by another formula to help with confinement care coverage. In essence, you are getting your money back faster. It's important to point out that this type of coverage does not have the same tax benefits as traditional long-term care insurance and should never be used as primary coverage.

Medicaid-Compliant Annuities

An article in The Wall Street Journal addressed a complex Medicaid-compliant annuity strategy as a way to “play the system” in order to take advantage of Medicaid coverage if you have a substantial asset base (“When a Medicaid Eligibility Becomes Urgent,” April 13, 2015). This “gaming” of the rules is a little controversial to say the least.

If you are interested in this unique

type of single-premium immediate annuity (SPIA), you need to consult with a qualified elder law attorney. I would also advise getting a very good CPA involved, as well as an insurance agent who has some experience in this complex planning area.

The reason for needing this level of expertise is that most states require that the single-premium immediate annuity used in Medicaid planning should be issued as both non-transferrable and non-assignable. If improperly structured, you will have a tax nightmare on your hands. Just a handful of carriers currently issue these types of policies, so do your homework and spend the money to hire experts before any decisions are made.

Health Care Longevity Risk

With over 10,000 baby boomers

retiring every day, and our life expectancies continuing to increase, health care coverage is now the gorilla in everyone's room. Annuities can be efficiently used to transfer this longevity health care risk to the issuing carrier and to take away an unwanted burden from your family members.

Annuity companies are well aware of this concern, and they are scrambling to provide those targeted contractual guarantees and absorb that long-term care or confinement care risk.

End-of-life issues can be a stressful part of your overall financial plan because of the unknowns involved in the coverage decisions. Maybe these unique annuity types can help by providing the peace of mind that all of us are looking for concerning long-term care and confinement care.

It might be worth taking a closer look. ▲

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