

THE ROLE OF INSURANCE IN SPECIAL NEEDS PLANNING

PART 2

In my previous article, I addressed the importance of life insurance in special needs planning. I would now like to discuss the role long term care insurance in planning for your disabled child.

Whereas the purpose of life insurance is to create an immediate estate, the primary objective of long term care insurance is to provide a source of income for long term care and thereby protect your assets. Long term care insurance is often used in special needs planning to ensure that assets which you have accumulated during your lifetime, some of which may be earmarked to fund your child's Special Needs Trust (SNT)—are not depleted in order to pay for long-term care.

As an example as to how long term care insurance may work, let's revisit Bob, Carol and their disabled son, Jimmy, who I introduced to you in my previous article. Carol is the primary caregiver to Jimmy and provides many of the necessary services required for his care.

Let's assume that Bob and Carol had the foresight to purchase long term care policies while still in their 50s, so as to reduce the premium cost and avoid future insurability issues. Knowing that skilled nursing home care on Long Island costs on average \$12,000 per month (\$400 per day) or \$144,000 per year, they decide to purchase, with the help and advice of their insurance professional, a daily benefit of \$300 per day. (In order to keep the policy cost down, they decide they will accept the \$100 per day co-pay.) They also accept the recommendation to take the compound inflation rider so that their daily benefit will keep up with rising costs of care. And they decide on a three-year benefit period (the length of time the policy will pay the maximum daily benefit) after being advised of the statistics relating to the average home care period and nursing home stay.

Twenty-five years later Bob develops medical problems which activate his long-term care policy. He is able to stay at home and receive care which enables Carol to maintain her quality of life, part of which includes visiting her son Jimmy, who now resides at a nearby group home. Also, they do not have to invade their principal or use income to address the cost of home care.

After one year of home care, Bob's needs can no longer be met at home, and he is transferred to a nursing home. He resides therefore nine months before passing away. During that period of time, the only financial responsibility on the part of Bob and Carol is to pay the difference between the daily cost of the nursing home and the daily benefit provided by their policy which has been compounding at the rate of 5% per year. Any life insurance that Bob had will now go to Carol and/or the special needs trust. The assets have been protected due to the long term care insurance and will be used to fund the special needs trust upon Carol's death.

Long term care insurance may also, in certain cases, act as a type of disability insurance for the nonworking spouse. Disability insurance is typically available only for someone who is generating an earned income. Therefore, the nonworking spouse who, in many cases, is providing valuable services for the disabled child, is unable to obtain disability insurance. If that spouse becomes disabled requiring those services to be paid for, the family is likely to experience a financial hardship. Should the disability affect at least two activities of daily living (ADL's), the long-term care policy could potentially be activated so as to provide a source of income to the family.

In the case of Bob and Carol, had Carol become disabled at any time and met the criteria of two ADL's, she could have activated her LTC policy. This would have paid for Carol's cost of care, which may not have been affordable if they were paying for Jimmy's care as well.

A properly designed long-term care policy will allow for better estate planning and protection of your assets and income. Long term care insurance can be a useful tool in special needs planning in order to provide a better quality of life for you and your special needs child.