

# The Sgroi Financial

Volume6 Number 1

Winter 2000 Newsletter

Planning for Today and Tomorrow

## ***ESTATE PLANNING: LONG TERM CARE***

*This is the first of a three part series dealing with the subject of Estate Planning and related topics. This article deals primarily with the subject of Long Term Care Insurance.*

When we speak of ones estate, we are referring to all that one owns. This would include such things as stocks, bonds, mutual funds, retirement accounts, annuities, real estate, money in the bank, privately owned businesses, personal possessions and even life insurance policies. The purpose of estate planning is to preserve and protect the value of such assets so that they benefit the desired people or institutions. For instance, most people want their money to pass to family members, friends or favorite charities as opposed to State and Federal Government Tax Collectors.

As one advances in years, the chances of needing medical treatment and other services naturally increases. Often times home health care or nursing home services are required. It is estimated that sixty percent of Americans will need long term care assistance at some point in their lives. Generally speaking, these services are very expensive and making provisions for such costs is a key element of estate planning.

In the Western New York area, the cost of staying in a skilled nursing facility, a nursing home, ranges from \$60,000 to \$75,000 per year. Home health care will vary depending on the level of care needed. It is not hard to see that an extended stay in a nursing home could easily consume significant amounts of ones assets.

Long term care is a general term that covers a variety of different services. As our population ages and the demand for such services increases the number of options available has also increased. In addition, advances in medical technology and care for the elderly have greatly increased the level of sophistication of that care.

**When long term care is needed** Long term care is the assistance a person needs when they are unable to care for themselves and need help with certain basic functions, called *Activities of Daily Living (ADLs)*. Activities of Daily Living include dressing, washing, walking, using the bathroom and eating. The level of care needed is generally related to the ability to perform these activities, as

determined by a qualified medical professional. In addition a severe cognitive impairment, such as Alzheimer's, will often necessitate long term care.

Nursing home care is provided based on the health condition of the individual. A *skilled nursing facility* provides *daily* nursing care by skilled medical professionals, nurses and medical technicians under the direction of a doctor. Intermediate care includes nursing and rehabilitative care by skilled professionals, also under a physicians direction but less frequently. *Custodial care* is help with performing the Activities of Daily Living. It must also be done under a doctors direction but may not require skilled medical professionals. Custodial care is the type most people will require at some point.

Often a person needs care but need not be placed in a nursing home. In these cases, home health care or an assisted living facility will suffice. These options are becoming more and more popular as people would much rather stay at home for as long as possible. An *assisted living facility* is an institution that provides professional care to those with less severe needs. The level and cost of care at an assisted living facility is normally much lower than a nursing home. Home health care is care provided either by a professional or a family member, right in an individual's home.

**Paying for long term care** As stated earlier, the cost of long term care can be immense. As the level of service increases, so to does the expense. Home health care is the least expensive option with skilled nursing care being the most intensive and thus most expensive.

Currently long term care services are funded from three different sources: private pay, Medicaid or long term care insurance. Private pay means that the individual is responsible for the cost of care themselves. Medicaid is a joint federal and state social welfare program that pays the medical expenses of the poor. To qualify for Medicaid, one would first pay for their own care until their assets had been reduced to certain limits. Once their assets and current income have been spent, Medicaid could begin. *continued on page two*

# A personal letter from Joe

Dear Friend,

Hello, happy new millennium and thank goodness “Y2K” proved to be a complete non-event (as expected). I hope that all is well with you and your loved ones.

My firm enjoyed another outstanding year of growth and success in 1999 and I want to thank each of you for your support. We have a number of exciting plans for this year and beyond but just to keep the record straight, I will not be retiring this year or any time in the near future. In fact I have no plans to retire at all. The best comment I’ve heard on this subject came from my son Patrick when he said that he expects to retire before I do ☺. I am trying to take Sundays off though. Betsy and I would like spend a little more time together. My bride of thirty three years has also “suggested” that most new clients be seen by one of my associates and then, if needed, I will be brought in. My three associates, Patrick, John Clouden and Jeff Hahn have been personally trained by me and are each incredibly competent with unparalleled integrity. So the gray haired guy (me ☺☺) can usually stay on the sidelines, but is always there when needed. We work together as a team dedicated to servicing your needs and will continue to do so for generations to come.



Financial planning is a team activity and you are a member of the team. The closer we work together, the more success we will achieve. Our research clearly shows that clients who meet with us at least every two years build significantly more wealth than those who do not. So if you have not been in for awhile, please take it upon yourself to give us a call and schedule an appointment.

In January we conducted a seminar on the subject of long term care insurance and how it fits in with your estate planning. This issue’s main article addresses the same subject. I’d like to take a moment to thank Mike Zarillo from First Unum for his presentation at our seminar. Mike is a great guy and we really appreciate his help. The seminar was very well received and a number of those attending have already met with me and secured their long term care insurance. We will be having more seminars on estate planning and other related topics and hope you will be able to attend.

Receiving care in a nursing home or assisted living facility is very expensive. My experience has been that most of our clients’ estates can handle the cost of home health care but the cost of a nursing home will generally be too much and consume too large a part or all of the estate. Planning for these possibilities is something you should consider. It can be tragic to see the assets accumulated over a lifetime of work be expended during a few years of nursing home care. Long term care insurance can help maintain your financial independence, dignity and lifestyle while protecting your estate. If you have any questions on this, please feel free to call or we’ll review them during your next appointment.

Please also keep in mind that April 15th is fast approaching. If you are eligible to make contributions to a traditional or Roth IRA and have not, please call soon. If you have questions on either of these programs, please come in and we’ll help you out. Roth IRAs are a fantastic, new investment opportunity, understood by only a few. They are just about the only investment that provides us with tax free growth and tax free withdrawals of all deposits and earnings as long one waits until fifty nine and a half or later. Roth IRAs should be considered by all eligible.

All the Best,

# LONG TERM CARE

In the case of a single individual applying for Medicaid, they are allowed to keep \$3,600 in cash assets, \$1,500 in life insurance and \$50 per month of income. All other assets and income are used for the cost of their care. For a married couple, if both were applying for Medicaid, they can each, individually, keep the amounts just mentioned.

In a case where one spouse will be receiving care under Medicaid and the other spouse will not, different rules exist. The spouse not receiving care is called the "community spouse" as he or she is said to be remaining in the community. That spouse may keep the primary residence, one vehicle, \$74,820 in assets and \$2,103 per month in income. These amounts are subject to change, usually on an annual basis.

Where there have been transfers of assets, such as gifts to children, any amount transferred within three years of applying for Medicaid is considered an available asset. This is referred to as the three year "look back" period. Transfers to Irrevocable Trusts have a five year "look back" period.

**Long Term Care Insurance** As stated earlier, long term care insurance provides coverage for the costs of long term care services. The cost of coverage is determined by a variety of factors. The list includes ones age, the condition of their health, length of coverage in terms of years and the amount of coverage as offered in daily dollar amount.

The length of time one can receive coverage is called the benefit period. The options available are usually three years, six years or an unlimited length of time, called a lifetime benefit period. Cost naturally increases as the benefit period gets longer. Current statistics indicate that the average stay in a nursing home lasts about three and a half years. However, given the advances of medical science and increases in life expectancy, we will generally encourage a longer benefit period, if possible.

The daily dollar amount of benefit can range from \$50.00 to \$350.00. To put this into perspective, a nursing home that costs \$60,000.00 per year would cost \$165.00 per day. Typically, the home care benefit will equal fifty or sixty percent of the total daily benefit. Hence if the plan you purchase provides a nursing home benefit of \$150.00 per day, there would likely be \$75.00 to \$90.00 per day for home health care.

Obviously, the factor that can't be exactly predicted is how much care will cost in the future. To protect against rising costs there are inflation protection options available. For example one might purchase a plan with a daily benefit of \$160.00 which then

increases five percent annually. There would be a cost for this feature but it may make sense in some cases, especially for those who purchase at an earlier age.

Another factor in determining cost is termed the elimination period. When one goes into a nursing home or starts receiving home health care, their long term care plan may not start paying benefits until after an initial time period has passed. This time period is referred to as the elimination period and usually ranges from twenty to one hundred days. The longer the elimination period chosen the lower the cost of the policy. Quite often our firm will recommend a longer elimination period as a way of reducing cost so that a greater daily benefit can be afforded.

It should also be noted that Medicare, the national health insurance plan for the elderly, will cover the first twenty days of skilled nursing care fully and the next eighty days partially in most cases. This is another valid reason for accepting a longer elimination period as part of your long term care policy.

When a married couple both apply for long term care a spousal discount is offered by most companies. The company we recommend offers a ten percent discount.

To briefly summarize these three main features, benefit period, daily benefit and elimination period: the longer the years of coverage (the benefit period) the greater the amount of coverage (daily benefit) and the sooner coverage starts (elimination period) the more the policy will cost.

**Tax Advantages** Since 1996 the cost of long term care insurance may be included in your medical expense deductions for income tax purposes. There is a formula, of course, and your tax advisor can help you figure it out. It should be noted though that the Health Insurance Portability Act of 1996 emphasizes the importance of private long term care insurance. That same legislation also made it much more difficult to legally impoverish oneself in order to qualify for Medicaid. .

There are several other options and features available and we can advise you of them on an individual basis. The financial planning service you receive from **H. Joseph Sgroi and Associates** is designed and intended to handle all of your financial planning and investment needs. Every client receives our in-depth fact-finding interview and analysis to determine their financial condition which provides us with the needed information to formulate the best financial plan for them. You will want your hard earned assets protected and ultimately to go where you desire. Long term care insurance may play a part in your plan. We can establish that when you come in for your next appointment. ☺☺☺☺☺



### Roth IRAs

Named after a U.S. Senator, Roth IRAs represent a fantastic opportunity that can be taken advantage of by many of us.

People with earned income, that is income they worked for, may contribute up to \$2,000 per year to a Roth IRA. (Single individuals with incomes above \$110,000 and couples above \$150,000 are not eligible.)

Your Roth IRA deposits are not tax deductible but the growth inside your account is fully tax exempt! These are the only type of widely available investment accounts that allows for tax exempt income, capital growth and likely tax free withdrawals.

While being especially attractive for younger investors, Roth IRAs can also make sense for those with large balances in 401(k) plans, TSAs and traditional IRAs, as those plans are taxable when withdrawals are taken. We encourage you to call and find out how Roth IRAs will fit into your financial plan.  
*Best Wishes, Jeff Hahn*

### 403(B) Corner

As most of our Tax Sheltered Annuity Clients have witnessed lately, there has been an increased amount of paperwork to do when it comes to contributing to their TSA. We would love to tell you that this will become less burdensome to you soon, unfortunately, we cannot. The Internal Revenue Service has decided that 403 (b) accounts should be monitored at higher levels, thereby forcing school systems to be more precise in an effort to have more control. The days of companies estimating (we have always used the MEA calculations for our clients) the amounts that can be contributed to a TSA are over. There is too much liability to the employee and employer. We are currently helping many of our 70+ school systems become compliant to the 403(b) tax laws. Most school systems, unfortunately not all, have now adopted some form of control on their TSA system. This is why many of you have been introduced to the Maximum Exclusion Allowance forms that must now be calculated and signed for all participants. We know that this can be an inconvenience to you, but we feel that it is a necessary step in insuring the compliance of both the employee and the school system. The new paperwork is designed to put the responsibility of 403 (b) calculations back on the companies doing 403(b) business with the school systems. So, when the paperwork is sent to you, don't get mad at your payroll department, it is likely H. Joseph Sgroi and Associates encouraged them to do so.

As always, for our clients, we will do all of the calculations required to make sure each of you are in compliance. If you have any questions please feel free to call the office.

**The overall limit for 403(b) has been increased to \$10,500 for the year 2000. This also increases the catch-up limit to \$13,500.**

*Best Regards, Pat and John*



### Recipe For Success Broccoli and Mushroom Chowder A Betsy Favorite

Melt 3/4 cup of Butter in a heavy 6 quart pan. Sauté 1 cup of chopped celery until tender then add 1/2 cup of onions and cook until tender.

Remove from heat and stir in 3/4 cup of flour. Cook for 1 to 2 minutes then stir in 1 quart of milk and 1 quart of Half and Half.

Cook until the mixture thickens.

Cut 1 bunch of broccoli into 1 inch pieces and steam in 2 cups of light chicken stock (or 2 chicken bouillon cubes dissolved in 2 cups of water). Save one cup of the liquid and add it to the chowder base.

Add the broccoli, 2 cups of cubed and cooked potatoes and 1 pound of quartered mushrooms to the chowder base.

Simmer for 10 minutes.

Salt and pepper to taste.

*If you have any suggestions for the newsletter or questions you would like answered, please call our office at 674 - 6700.*