Smude & Associates Planning Points

News and Information To Keep You Informed -May 2011

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Many states are assisting their residents to buy LTC insurance.

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What it means, why it counts.

Quote of the Month

"Don't tell me where your priorities are. Show me where you spend your money and I'll tell you what they are."

-James W. Frick

PARTNERSHIP PLANS FOR LONG TERM CARE

A helping hand for a pressing need.

With the baby boom generation maturing, numerous studies and articles have pointed out the rising need for long term care. Some state governments have directly responded to it. Now, many states have created partnership programs to encourage their residents to purchase LTC insurance coverage. It only makes sense: if more people opt to privately insure themselves, a state will face less of a burden and less liability when it comes to its own eldercare programs and eldercare costs.

How the partnership plans work.

Essentially, these plans provide dollar-for-dollar asset protection when you buy an LTC policy. So for every dollar the policy pays out in benefits, you get an equal dollar amount in asset protection under a state's Medicaid spend-down regulations. What does this mean for you? It means that you are able to retain assets you would otherwise have to spend down before you could qualify for state Medicaid benefits. These partnership plans let you protect an amount of funds equal to the amount the policy pays out in benefits and still qualify for state Medicaid assistance (as long as you have used up all policy benefits and still require long term care). Typically, Medicaid kicks in only when you are destitute. But with these partnership programs, you don't have to be destitute to receive state assistance, even if your need for care outlasts your LTC policy benefits. With these programs in place, LTC insurance seems more and more attractive. That's important, because it has never seemed as essential as it does today.

Does your LTC policy qualify for a partnership plan?

You should find out if it does. Most LTC policies sold today do qualify for these partnership plans. A key factor is whether a policy has an age-related inflation protection benefit. In these policies, your daily or monthly LTC benefit amount is adjusted upward in response to inflation and increased cost of expenses. With these inflation-adjusted policies, your benefits typically go up each year, but your premiums may not. There's really not much incentive for state governments to partner with LTC policyholders whose policies aren't inflation-adjusted. What would happen is that with each passing year, the odds would rise of the policyholder using up the whole LTC benefit and leaning on a state Medicaid program, so the state would be poised to pick up more and more of the cost of eldercare with the passage of time.

What kind of long term care coverage do you have?

Do you have a policy that is eligible for a partnership plan? Do you have any LTC policy at all? It would be worth your time to find out. It may be essential for your long-range financial well-being. If you'd like help in looking further into this issue, give us a call, we'd be happy to help.

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Q&A
Should you have any questions concerning anything in this month's installment or to learn about upcoming events please contact our office.

A little phrase that may mean a big difference.

When you read about investing and other financial topics, you occasionally see the phrase “tax efficiency” or a reference to a “tax-sensitive” way of investing. What does that really mean?

The after-tax return vs. the pre-tax return.

Everyone wants their investment portfolio to perform well. But it is your after-tax return that really matters. If your portfolio earns you double-digit returns, those returns really aren’t so great if you end up losing 20% or 30% of them to taxes. In periods when the return on your investments is low, tax efficiency takes on even greater importance.

Tax-sensitive tactics.

Some methods have emerged that are designed to improve after-tax returns. Money managers commonly consider these strategies when determining whether assets in an investor’s account should be bought or sold.

Holding onto assets.

One possible method for realizing greater tax efficiency is simply to minimize buying and selling to reduce capital gains taxes. The idea is to pursue long-term gains, instead of seeking short-term gains through a series of steady transactions.

Tax-loss harvesting.

This means selling certain investments at a loss to counterbalance capital gains. In this scenario, the capital losses you incur are applied against your capital gains to lower your personal tax liability. Basically, you’re making lemonade out of the lemons in your portfolio.

Assigning investments selectively to tax-deferred and taxable accounts.

Here’s a rather basic tactic intended to work over the long run: tax-efficient investments are placed in taxable accounts, and less tax-efficient investments are held in tax-advantaged accounts. Of course, if you have 100% of your investment money in tax-deferred accounts such as 401(k)s or IRAs, then this isn’t a consideration.

How tax-efficient is your portfolio?

It’s an excellent question, one you should consider. But this brief article shouldn’t be interpreted as tax or investment advice. If you’d like to find out more about tax-sensitive ways to invest, be sure to give us a call and we can help you explore your options. What you learn could be eye-opening.

Citations.

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