

# Mapping Your Financial Future

**John and Jane Knight**

**123 Easy Street  
Anywhere, WA 99000**



*Presented by:*

Mr. David M. Bailey, CSA, AAI, FICF, FIC

1/3/2008

# Introduction

*When thinking about your future financial security, it is important to set goals, initiate action, and periodically review your progress.*

*Remember...a sound financial strategy can be more important than a lifetime of work!*

*This analysis uses the information you have shared about your current financial situation and your goals for the future.*

*The following pages analyze your needs:*

- *In the event of death*
- *For college funding*
- *For your retirement years*
- *For long-term care*



## Important Note...

This financial analysis compares your investments and savings strategies with your financial priorities and concerns. It provides only a broad, general guideline, which may be helpful in shaping your financial thinking about investment objectives and risk tolerance. The reports and graphs are dependent upon the quality and accuracy of data furnished by you.

This analysis is for estimating purposes only and must be reviewed periodically. Past performance is not indicative of future results. Your attorney and accountant should be consulted regarding legal and tax implications.

No liability is assumed resulting from the use of the information contained in this analysis. Responsibility for financial decisions is assumed by you. It is important to revise your plans periodically in light of your experiences and changing goals.



# Personal Information Summary

This financial needs analysis report is based on the information and assumptions you provided.

## Personal Data

Name	Date of Birth	Contributing to Social Security	Annual Employment Income
John Q. Knight	6/1/1968	Yes	\$33,216
Jane Q. Knight	4/1/1970	Yes	\$18,000

Married: Yes

### Address

123 Easy Street  
Anywhere, WA 99000

Phone: (509) 555-1212

E-Mail john@comcast.com

## Occupation

John:	Able Electric Electrician (509) 555-1313 Ext	Jane:	Catholic Credit Union Teller (509) 555-1234 Ext
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## Children

Name	Date of Birth
Andrew	5/1/1992
Alice	3/1/1994

## Assets

Owner	Asset Name	Amount	Monthly Savings	Rate of Return
John	Vanguard Mutual Funds	\$6,000	\$25	6.00%
Jane	Mellon Mutual Funds	\$3,000	\$25	5.50%
Both	Savings Account	\$5,000	\$25	1.50%
John	Annuity with Knights of Columbus	\$4,500	\$25	4.00%
Jane	Annuity with Knights of Columbus	\$2,800	\$25	4.00%

Total..... \$21,300  
Monthly Savings..... \$125  
Average Rate of Return..... 4.19%

## Retirement Funds

Owner	Asset Name	Amount	Monthly Savings	Company Match	Rate of Return
John	401(k) At Work	\$25,000	\$50	\$25	5.10%
Jane	401(k) At Work	\$3,000	\$25	\$13	5.50%
John	IRA with Knights of Columbus	\$6,000	\$25	\$0	4.00%

Total..... \$34,000  
Monthly Savings..... \$100  
Average Rate of Return..... 4.94%

## Liabilities

Name	Amount	Monthly Payment	Final Payment Due	Interest Rate
Washington Mutual	\$104,380	\$733	5/1/2030	7.20%
Truck Loan	\$15,319	\$527	2/2/2006	4.90%
Car Loan	\$2,006	\$257	3/1/2004	7.00%
Visa Credit Card	\$2,300	\$100	7/1/2004	9.90%

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**Needs In The Event Of Death**

Income Needs Objective      With children at home: 70.00%      No children at home: 55.00%  
 Provide Income for          Lifetime  
 Fund Children's Education    Yes

**Life Insurance Policies**

Name	Company	Insurance Benefit	Annual Premium	Type
John	Aetna	\$75,000	\$0	Group
John	Knights of Columbus	\$100,000	\$300	Whole Life
John	Knights of Columbus	\$50,000	\$640	Whole Life
Jane	CUNA Mutual	\$50,000	\$0	Group
Jane	Knights of Columbus	\$25,000	\$540	Whole Life

**College Funding**

Child's Name	School	Annual Amount (in Today's Dollars)	Years Needed	Percent Want To Provide
Andrew	Eastern Washington University	\$3,636	4	100%
Alice	Eastern Washington University	\$3,636	4	100%

Total Funds Presently Available	Monthly Savings	Rate of Return
\$15,000	\$100	5.00%

**Retirement Needs**

	John	Jane
Desired Retirement Age	67	67
Employer Offers Retirement Plans	Yes	Yes
Maximum amount being contributed	No	No
Percentage of pre-retirement income during retirement	70.00%	

**Long-Term Care**

Estimated monthly long-term care costs:      \$5,500

**Assumptions Used In This Analysis**

Rate of Return on Assets	
During Retirement.....	5.00%
In the Event of Death.....	5.00%
For College Needs.....	5.00%
Number of month's income to set aside for emergency reserves.....	3
Long-term inflation rate.....	3.00%
Long-term inflation rate for College Costs.....	5.00%
Life expectancy age.....	80
Final Expenses.....	\$10,000

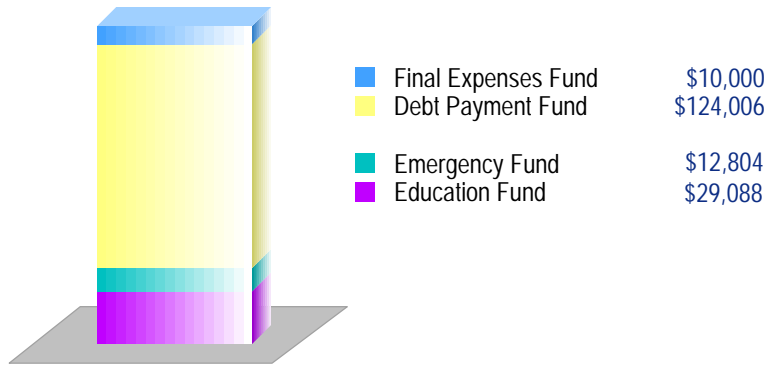


# Financial Needs in the Event of John's Death

This survivor needs analysis shows the impact John's death can have on your family. Funds need to be available for both Cash Needs and a family's continuing Income Needs. John and Jane, you need \$175,898 for your immediate cash needs. Cash Needs include:

- A Final Expenses fund for medical, legal, funeral, and other expenses
- A Debt Payment Fund to pay off your debts, including your mortgage
- An Emergency Reserve Fund for unexpected bills not readily payable from current income
- An Education Fund to provide for your children's education

Total Immediate Cash Needs: \$175,898

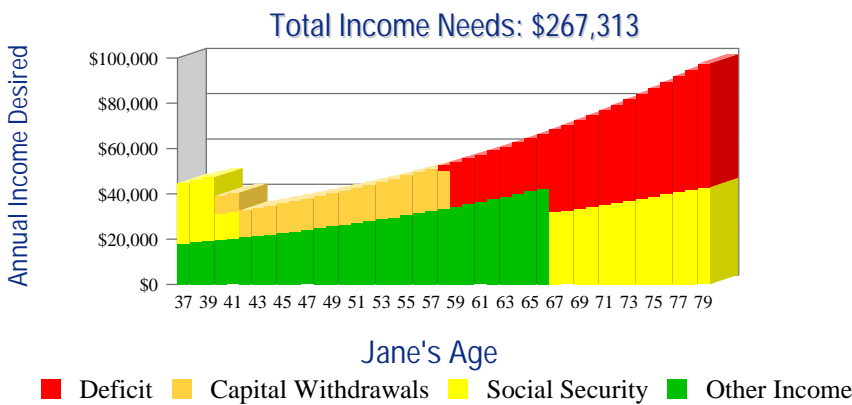


After a death, income generally comes from four different sources:

- Social Security
- Savings and Investments
- Life Insurance Proceeds
- Survivor's Earnings

You indicated that 70% of total household income be available after the death of a wage earner while there are children at home, and 55% thereafter.

Based on the above assumptions, this survivor needs analysis suggests that you may not meet your goals. Your current household income is \$51,216. If John were to die today, it is estimated that your assets would be sufficient to meet your family's Immediate Cash Needs. However, your family's Income Needs will only be 83% satisfied. To provide for your family's needs in the event of death you will need approximately \$147,911 of additional capital.



<i>Summary</i>	
Cash Needs:	\$175,898
Income Needs:	267,313
<i>Less Present Funds</i>	<i>295,300</i>
<b>Additional Capital Needs</b>	<b>\$147,911</b>



# Survivor Needs Analysis Detail

## In the Event of John's Death

<b>Immediate Cash Needs</b>		
<i>Final Expenses</i>		\$10,000
<i>Debt Payment Fund</i>		\$124,006
Mortgage:	\$104,380	
Truck Loan	15,319	
Car Loan	2,006	
Visa Credit Card	2,300	
<i>Emergency Reserve Fund</i>		\$12,804
<i>Education Fund</i>		\$29,088
Andrew: Lump Sum needed today	\$14,544	
\$3,636 needed for 4 years starting in 3 years.		
Alice: Lump Sum needed today	\$14,544	
\$3,636 needed for 4 years starting in 5 years.		
<b>Total Immediate Cash Needs</b>		<b>\$175,898</b>

<b>Capital Available</b>	
<b>Asset Name</b>	<b>Market Value</b>
Education Funds	\$15,000
Vanguard Mutual Funds	6,000
Mellon Mutual Funds	3,000
Savings Account	5,000
Annuity with Knights of Columbus	4,500
Annuity with Knights of Columbus	2,800
401(k) At Work	25,000
401(k) At Work	3,000
IRA with Knights of Columbus	6,000
Life Insurance	225,000
<b>Total Capital Available</b>	<b>\$295,300</b>

<b>Capital Available for Income Needs</b>	<b>\$119,402</b>
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# Survivor Needs Analysis Detail

## In the Event of John's Death

<b>Income Objective</b>					
Jane's Age	Income Need %	Annual Need (Today's Dollars)		Annual Need (Future Dollars)	Capital Value
37	70%	\$35,851		\$35,851	\$168,757
42	55%	28,169		32,655	681,120
<b>Total Capital Needed to Provide Income Objective</b>					<b>\$849,877</b>

<b>Income Sources</b>						
Jane's Income Sources	Payment In Today's Dollars	From	To	COLA	First Year's Payment	Capital Value
Employment	\$18,000	37	67	3.00%	\$18,000	\$405,154
Social Security	26,716	37	80	2.50%	26,716	177,410
<b>Total Income Sources</b>						<b>\$582,564</b>

**Capital Needed to Meet Income Goals** **\$267,313**

**Total Capital Needed to Meet Objectives** **\$443,211**

**Additional Capital Needed to Meet Objectives** **\$147,911**

<b>Assumptions</b>	
Income Replacement % of Total Household Income with Dependents	70%
Income Replacement % of Total Household Income without Dependents	55%
Inflation	3.00%
Survivor Rate of Return	5.00%
Jane's Mortality	80

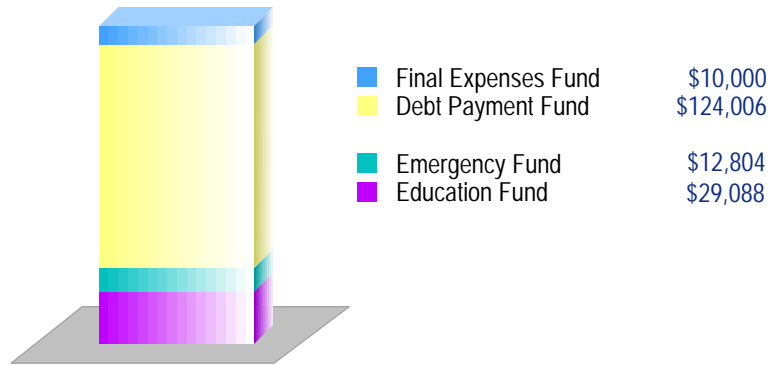


# Financial Needs in the Event of Jane's Death

*This survivor needs analysis shows the impact Jane's death can have on your family. Funds need to be available for both Cash Needs and a family's continuing Income Needs. John and Jane, you need \$175,898 for your immediate cash needs. Cash Needs include:*

- A Final Expenses fund for medical, legal, funeral, and other expenses
- A Debt Payment Fund to pay off your debts, including your mortgage
- An Emergency Reserve Fund for unexpected bills not readily payable from current income
- An Education Fund to provide for your children's education

Total Immediate Cash Needs: \$175,898

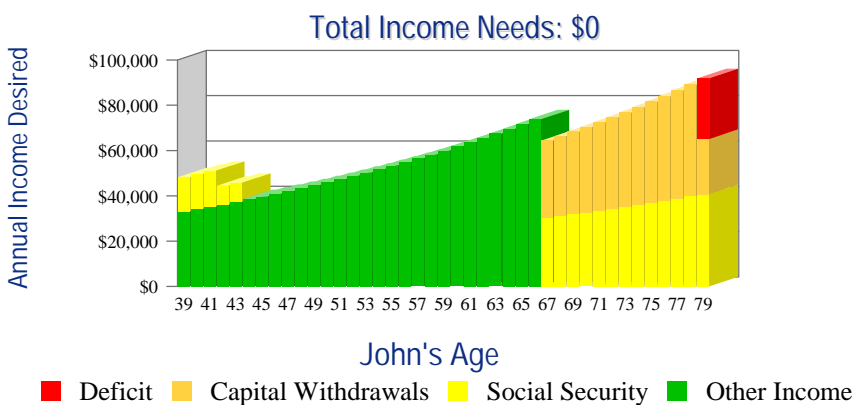


*After a death, income generally comes from four different sources:*

- Social Security
- Savings and Investments
- Life Insurance Proceeds
- Survivor's Earnings

*You indicated that 70% of total household income be available after the death of a wage earner while there are children at home, and 55% thereafter.*

*Based on the above assumptions, this survivor needs analysis suggests that you may not meet all of your goals. Your current household income is \$51,216. If Jane were to die today, it is estimated that your assets would be insufficient to meet your family's Immediate Cash Needs. Your family's income needs will be satisfied. To provide for your family's needs in the event of death you will need approximately \$30,598 of additional capital.*



<i>Summary</i>	
Cash Needs:	\$175,898
Income Needs:	0
<i>Less Present Funds</i>	<i>145,300</i>
<b>Additional Capital Needs</b>	<b>\$30,598</b>



# Survivor Needs Analysis Detail

## In the Event of Jane's Death

<b>Immediate Cash Needs</b>		
<i>Final Expenses</i>		\$10,000
<i>Debt Payment Fund</i>		\$124,006
Mortgage:	\$104,380	
Truck Loan	15,319	
Car Loan	2,006	
Visa Credit Card	2,300	
<i>Emergency Reserve Fund</i>		\$12,804
<i>Education Fund</i>		\$29,088
Andrew: Lump Sum needed today	\$14,544	
\$3,636 needed for 4 years starting in 3 years.		
Alice: Lump Sum needed today	\$14,544	
\$3,636 needed for 4 years starting in 5 years.		
<b>Total Immediate Cash Needs</b>		<b>\$175,898</b>

<b>Capital Available</b>	
<b>Asset Name</b>	<b>Current Value</b>
Education Funds	\$15,000
Vanguard Mutual Funds	6,000
Mellon Mutual Funds	3,000
Savings Account	5,000
Annuity with Knights of Columbus	4,500
Annuity with Knights of Columbus	2,800
401(k) At Work	25,000
401(k) At Work	3,000
IRA with Knights of Columbus	6,000
Life Insurance	75,000
<b>Total Capital Available</b>	<b>\$145,300</b>

<b>Capital Available for Income Needs</b>	<b>(\$30,598)</b>
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# Survivor Needs Analysis Detail

## In the Event of Jane's Death

<b>Income Objective</b>				
John's Age	Income Need %	Annual Need (Today's Dollars)	Annual Need (Future Dollars)	Capital Value
39	70%	\$35,851	\$35,851	\$168,757
44	55%	\$28,169	\$32,655	\$656,316
<b>Total Capital Needed to Provide Income Objective</b>				<b>\$825,072</b>

<b>Income Sources</b>						
John's Income Sources	Payment In Today's Dollars	From	To	COLA	First Year's Payment	Capital Value
Employment	\$33,216	39	67	3.00%	\$33,216	\$710,086
Social Security	15,044	39	80	2.50%	15,044	141,964
<b>Total Income Sources</b>						<b>\$852,050</b>

**Capital Needed to Meet Income Goals** **\$0**

**Total Capital Needed to Meet Objectives** **\$175,898**

**Additional Capital Needed to Meet Objectives** **\$30,598**

<b>Assumptions</b>	
Income Replacement % of Total Household Income with Dependents	70%
Income Replacement % of Total Household Income without Dependents	55%
Inflation	3.00%
Survivor Rate of Return	5.00%
John's Mortality	80



# College Funding Techniques

**Qualified State Tuition Programs (Section 529 Plans)** - Section 529 Plans are authorized under Internal Revenue Code Section 529 and are sponsored by the individual states. These programs allow parents, grandparents and non-relatives to contribute money to an account of which the child is the beneficiary. There are two types of plans: a prepaid tuition plan and a savings plan. Prepaid tuition plans guarantee that the investment will at least keep pace with increases in college tuition. Restrictions may apply regarding who may contribute to the prepaid plan and which schools are eligible. Savings plans are managed investment funds that can be more flexible. Income inside these plans is not currently taxable. Funds withdrawn to pay for qualified education expenses are also free from federal income tax. Other, nonqualified withdrawals are subject to ordinary income tax and may be subject to an additional 10% penalty tax. The child may attend almost any accredited college, university, or trade school regardless of location. These plans, having no income restrictions, are available to almost anyone. Unlike UGMAs and UTMA's (discussed below), the donor retains control over the funds. Tax-free rollovers from one plan to another are allowed for the benefit of the same beneficiary once per year. Because contributions are considered completed gifts, the plans may offer estate planning advantages. Some plans offer preferential state tax treatment. Funds may be transferred, if necessary, to certain family members of the beneficiary without penalty. Taxable withdrawals may avoid the additional 10% penalty tax if they occur on account of death, disability or receipt of a scholarship.

The availability of the tax or other benefits mentioned above may be conditioned on meeting certain requirements.

**Investors should consider the investment objectives, risks, charges and expenses associated with 529 plans carefully before investing. More information about 529 plans are available in the issuer's official statement, which should be read carefully before investing. The availability of the tax or other benefits mentioned above may be conditioned on meeting certain requirements.**

**Coverdell Education Savings Accounts** - Taxpayers may deposit up to \$2,000 per year into a Coverdell Education Savings Account (ESA) for a child under age 18. Parents, grandparents, other family members, friends, and children themselves may contribute to the Coverdell ESA, provided that the total contributions during the taxable year do not exceed the \$2,000 limit. Amounts deposited into the account grow tax-free until distributed, and the child will not owe tax on any withdrawal from the account if the child's qualified higher education expenses at an eligible educational institution for the year equal or exceed the amount of withdrawal. Eligible expenses also include elementary and secondary school (K-12) costs and the cost of computer equipment, internet services, and software. If the child does not need the money for post-secondary education, the account balance can be rolled over to the Coverdell ESA of certain family members who can use it for their education expenses. Amounts withdrawn from a Coverdell ESA that exceed the child's qualified education expenses in a taxable year are generally subject to income tax and to an additional tax of 10%.

**Uniform Gift to Minors Act (UGMA) and Uniform Transfer to Minors Act (UTMA)** - A donor may make an outright gift to a custodial account for the benefit of a minor child. The parent or custodian may retain responsibility of management of the assets in the account subject to the terms of the act. The standard rules regarding gift tax exclusions apply, including the annual \$12,000 limit. The donor may choose to contribute from a number of assets, such as stocks, bonds, mutual funds or real estate. The funds may be used for any purpose, including education. One possible problem with the UGMA and UTMA is that upon reaching a certain age, specified by each state's laws, the child has full discretionary control over the accumulated assets and may choose to use such assets for purposes other than college funding.

**Cash Value Life Insurance** - Parents, grandparents, or other family members may gift premiums, and the cash value build-up inside the policy is tax deferred during the accumulation period. When the time for college arrives, the needed cash may be withdrawn from the policy (generally on a tax-free basis up to the amount of the premiums paid), or the cash values can be borrowed from the policy. In most cases, loans or withdrawals will reduce the policy's cash value and death benefit. If the policy is surrendered or lapses, taxes may be due. If the insured dies before the child goes to school, then the life insurance proceeds can be used to fund education expenses.

*Continued...*



**U.S. Savings Bonds** Interest earned by U.S. Series EE Savings Bonds is free from state income taxes. All or some of the interest may also be free from federal income taxes if the bonds are used for qualified higher education expenses. The exclusion from federal tax is subject to an income phaseout. The bonds must be registered in the parent's name and redeemed in the same year as the eligible tuition and fees are paid.



# College Costs - by Region

	Tuition and Fees		10 Year Change	Percentage Change
	1996-1997	2006-2007		
<b>National</b>				
Two-Year Public	\$1,465	\$2,272	\$807	55%
Four-Year Public	2,975	5,836	2,861	96%
Four-Year Private	12,994	22,218	9,224	71%
<b>New England</b>				
Two-Year Public	2,299	3,363	1,064	46%
Four-Year Public	4,315	7,658	3,343	77%
Four-Year Private	17,219	28,386	11,167	65%
<b>Middle States</b>				
Two-Year Public	2,528	3,483	955	38%
Four-Year Public	3,909	6,860	2,951	75%
Four-Year Private	13,886	23,327	9,441	68%
<b>South</b>				
Two-Year Public	1,080	2,176	1,096	101%
Four-Year Public	2,425	4,739	2,314	95%
Four-Year Private	11,320	19,455	8,135	72%
<b>Midwest</b>				
Two-Year Public	1,702	2,831	1,129	66%
Four-Year Public	3,263	7,075	3,812	117%
Four-Year Private	12,670	20,793	8,123	64%
<b>Southwest</b>				
Two-Year Public	871	1,702	831	95%
Four-Year Public	2,160	5,462	3,302	153%
Four-Year Private	9,654	18,280	8,626	89%
<b>West</b>				
Two-Year Public	901	1,309	408	45%
Four-Year Public	2,588	4,646	2,058	80%
Four-Year Private	12,893	21,765	8,872	69%

All data are enrollment-weighted averages, intended to reflect the average costs that students face in various types of institutions.

Source: Annual Survey of Colleges, The College Board, New York, NY. Copyright © 2006 by College Entrance Examination Board. All rights reserved.

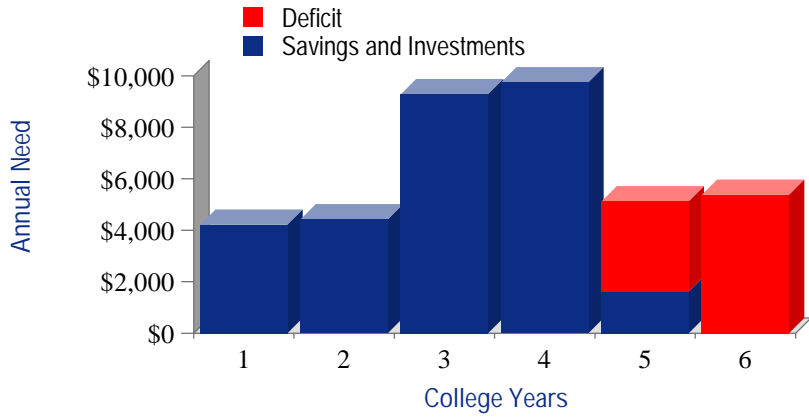


# College Needs Analysis

*Will you have enough money when it is time to send your children to college? The earlier you begin setting money aside for college, the more likely you are to achieve your goals.*

*You currently have \$15,000 set aside and you are saving \$100 a month at 5.00% for college expenses.*

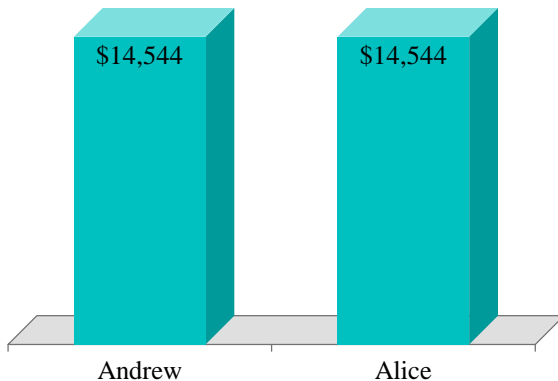
*This college needs analysis suggests that you may not meet your goals. In order to fully fund your children's college expenses, you will need to begin saving an additional \$77 a month.*



Projected College Costs

Andrew	\$18,142
Alice	20,001
<b>Total</b>	<b>\$38,143</b>

Total College Cost in Today's Dollars



### Monthly savings alternative

Begin saving an additional \$77 per month for the next 8 years.

### Why should you begin preparing for college needs now?

*If you wait until it's time for college to begin, you lose the advantage of spreading the costs over many years.*

*If you have to borrow money to pay for college, the amount of the loan and interest will have to be repaid.*

*If you start now, the interest earned on your savings will reduce the total amount that you need to save.*



# College Needs Analysis Detail

<b>Goal Summary</b>							
Name/ School	Age	Annual Need (today's Dollars)	Years Until Needed	Number Years Needed	Present Value of Total Cost	Percentage To Be Funded	Present Value of Total Cost To Be Funded
Andrew Eastern Washington University	15	\$3,636	3	4	\$14,544	100%	\$14,544
Alice Eastern Washington University	13	3,636	5	4	14,544	100%	14,544
<b>Present Value of Total Need</b>							<b>\$29,088</b>

<b>Savings Summary</b>	
Current Savings	\$15,000
Monthly Savings \$100 per month for 8 years at 5.00% grows to \$11,767 In today's dollars that is:	\$7,964
<b>Present Value of Savings</b>	<b>\$22,964</b>

<b>Single Sum Needed Today to Fund Shortage</b>	<b>\$6,124</b>
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<b>Additional Monthly Savings Required</b>	
Starting Age	Amount Needed
<b>John's age 39 for 8 years</b>	<b>\$77</b>

<b>Assumptions</b>	
College Cost Inflation Rate	5.00%
Average Rate of Return	5.00%
This analysis assumes that savings will continue until the start of the last year of college.	



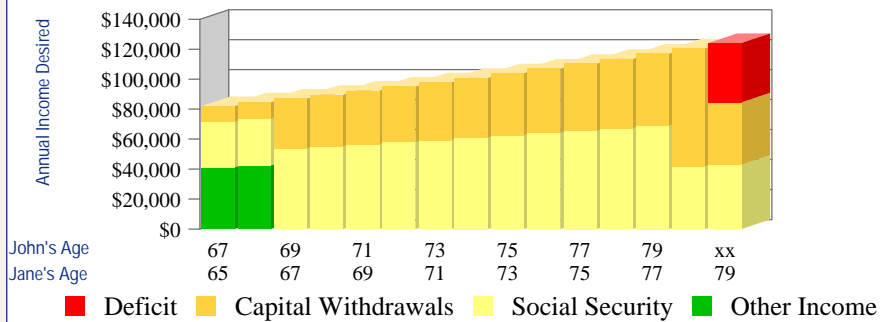
# Retirement Needs Analysis

Will you have enough money when you retire? The earlier you begin setting money aside, the more likely you are to achieve your retirement goals.

Retirement income generally comes from three different sources:

- Social Security
- Employer Sponsored Plans
- Savings and Investments

This retirement analysis suggests that you might not have enough money to retire. It is estimated that your assets will be **depleted** by age 79. At that time, your remaining income sources will be limited to Social Security and only provide 34% of your income.



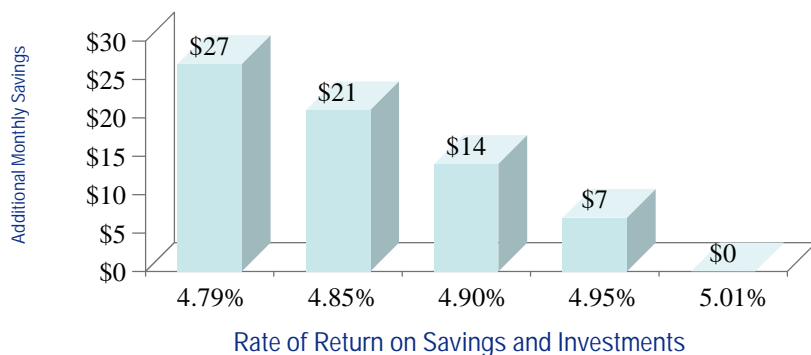
To provide for your desired retirement income, you will need additional capital at retirement age 67. In order to meet this need, you should consider:

- Saving more money
- Earning a higher return on your assets

If you are not able to accumulate this capital, you may need to consider:

- Postponing your retirement, or
- Reducing your standard of living

## Save More or Earn More



This chart shows various options in order for you to meet your objectives. Based on your current average rate of return of 4.79%, you would need to save an additional \$27 a month. Alternatively, if you could increase your average rate of return to 5.01%, your objectives would be met. It is important to understand that in order to achieve an increased rate of return, it is likely you will face increased risk.

If these options are not attainable, work towards doing a little bit of both; saving more money and earning a higher rate of return.

Assumptions: Income increases at 3.00% annually. Rate of return during retirement is 5.00%. Social Security benefits increase at 2.50%.



# Retirement Needs Analysis Detail

<b>Income Objective</b>				
	<b>Current Household Income</b>	<b>Annual Need (Today's Dollars)</b>	<b>Annual Need (At Retirement)</b>	<b>Capital Value</b>
At John's Age 67	\$51,216	\$35,851	\$82,025	\$1,055,363
<b>Total Value of Income Objective</b>				<b>\$1,055,363</b>

<b>Income Sources</b>						
<b>Income Sources</b>	<b>Payment In Today's Dollars</b>	<b>From</b>	<b>To</b>	<b>COLA</b>	<b>First Year's Payment</b>	<b>Capital Value</b>
Jane's Employment	\$18,000	65	67	3.00%	\$41,183	\$79,785
John's Social Security	15,169	67	80	2.50%	30,285	334,560
Jane's Social Security	10,416	67	80	2.50%	21,849	232,331
<b>Total Income Sources</b>						<b>\$646,675</b>

<b>Capital Needed to Meet Objectives</b>	<b>\$408,688</b>
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<b>Capital Available</b>					
<b>Asset Name</b>	<b>Market Value</b>	<b>Total Annual Contribution</b>	<b>Assumed Rate of Return</b>	<b>Value At Retirement</b>	
401(k) At Work	\$3,000	\$456	5.50%	\$44,407	
401(k) At Work	25,000	900	5.10%	155,515	
IRA with Knights of Columbus	6,000	300	4.00%	33,305	
Vanguard Mutual Funds	6,000	300	6.00%	51,891	
Mellon Mutual Funds	3,000	300	5.50%	33,855	
Savings Account	5,000	300	1.50%	18,014	
Annuity with Knights of Columbus	4,500	300	4.00%	28,807	
Annuity with Knights of Columbus	2,800	300	4.00%	23,827	
<b>Total Capital Available</b>					<b>\$389,621</b>

<b>Additional Capital Needed to Meet Objectives</b>	<b>\$19,067</b>
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<b>Assumptions</b>	
Income Replacement at Retirement in the year 2036	70%
Inflation	3.00%
Rate of Return for Assets during Retirement	5.00%
Mortality assumed for John and Jane	80 / 80



# Long-Term Needs Analysis



## Did you know...

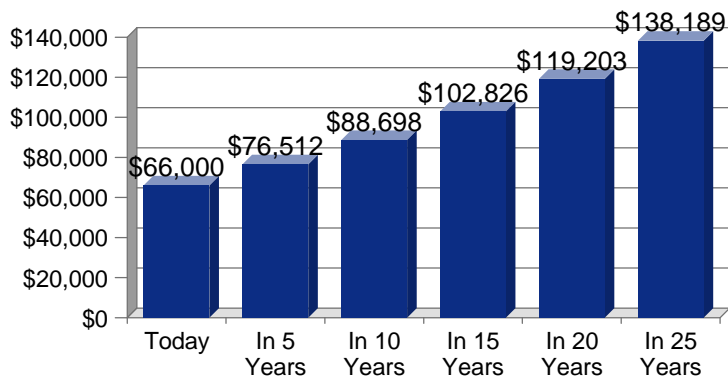
*Long-term care expenses may have a significant impact on a financial situation.*

*A study by the U.S. Department of Health and Human Services indicates that people age 65 face at least a 40 percent lifetime risk of entering a nursing home. About 10 percent will stay there five years or longer.<sup>1</sup>*

*John and Jane, since you do not have any long-term care coverage, you may need to deplete your savings and investments in order to meet long-term care expenses.*

- About 19 percent of Americans aged 65 and older experience some degree of chronic physical impairment. By the year 2020, 12 million older Americans will need long-term care.<sup>1</sup>
- The U.S. Government Accountability Office estimates that 40 percent of the 13 million people receiving long-term care services are between the ages of 18 and 64.<sup>1</sup>
- One year in a nursing home can average more than \$50,000. In some regions, it can easily cost twice that amount.<sup>1</sup>
- Disability income insurance will not cover most long-term care expenses.
- People will need to spend almost all of their assets in order to qualify for Medicaid benefits.

Projected Annual Nursing Home Costs\*



\* Assumes 3% annual increases in nursing home care costs.

<sup>1</sup> A Guide to Long-Term Care Insurance © Revised edition, 2003, 2004 America's Health Insurance Plans.

<sup>2</sup> Centers for Medicare & Medicaid Services, 2007 Medicaid Eligibility Policy.

## About Medicare...

Medicare pays only about 12% for short-term skilled nursing home care following hospitalization. Medicare also pays for some skilled at-home care, but only for short-term unstable medical conditions and not for the ongoing assistance that many elderly, ill, or injured people need.<sup>1</sup>

## About Medicaid...

The federal program that provides health care coverage to lower-income Americans - pays almost half of all nursing home costs. Medicaid pays benefits either immediately, for people meeting federal poverty guidelines, or after nursing home residents exhaust their savings and become eligible. Turning to Medicaid once meant impoverishing the spouse who remained at home as well as the spouse confined to a nursing home. However, the law permits the at-home spouse to retain specified levels of assets and income. <sup>1</sup> For 2007, the Medicaid maximum resource allowance for married patients is \$101,640 <sup>2</sup>

Any gifts of assets must occur at least 36 months prior to applying for Medicaid in order to meet the asset guidelines.



# Long-Term Care

**What is long-term care?** Long-term care goes beyond medical care and nursing care to include all the assistance you could need if you ever have a chronic illness or disability that leaves you unable to care for yourself for an extended period of time. You can receive long-term care in a nursing home, assisted-living facility, or in your own home. Though older people use the most long-term care services, a young or middle-aged person who has been in an accident or suffered a debilitating illness can also need long-term care.

**Are you likely to need long-term care?** You may never need long-term care. But about 19 percent of Americans aged 65 and older experience some degree of chronic physical impairment. By the year 2020, 12 million older Americans will need long-term care. Most will be cared for at home; family members and friends are the sole caregivers for 70 percent of elderly people. But a study by the U.S. Department of Health and Human Services indicates that people age 65 face at least a 40 percent lifetime risk of entering a nursing home. About 10 percent will stay there five years or longer. While certainly older people are more likely to need long-term care, your need for long-term care can come at any age. In fact, the U.S. Government Accountability Office estimates that 40 percent of the 13 million people receiving long-term care services are between the ages of 18 and 64.

**What does long-term care cost?** Long-term care can be very expensive and the real amount you will spend depends on the level of services you need and the length of time you need care. One year in a nursing home can average more than \$50,000. In some regions, it can easily cost twice that amount.

**Who pays the bills?** For the most part, the people who need the care pay the bills. Individuals and their families pay about one-third of all nursing home costs out-of-pocket. Generally, long-term care isn't covered by the health insurance you may have either on your own or through your employer. What about the government? Generally, neither Medicare nor Medicaid cover long-term care. People over 65 and some younger people with disabilities have health coverage through the federal Medicare program. Medicare pays only about 12 percent for short-term skilled nursing home care following hospitalization. Medicare also pays for some skilled at-home care, but only for short-term unstable medical conditions and not for the ongoing assistance that many elderly, ill, or injured people need. Medicaid - the federal program that provides health care coverage to lower-income Americans - pays almost half of all nursing home costs. Medicaid pays benefits either immediately, for people meeting federal poverty guidelines, or after nursing home residents exhaust their savings and become eligible. Turning to Medicaid once meant impoverishing the spouse who remained at home as well as the spouse confined to a nursing home. However, the law permits the at-home spouse to retain specified levels of assets and income.

**What are the types of long-term care policies?** Several types of policies are available. Most are known as "indemnity" or "expense incurred" policies. An indemnity or "per diem" policy pays up to a fixed benefit amount regardless of what you spend. With an expense-incurred policy, you choose the benefit amount when you buy the policy and you are reimbursed for actual expenses for services received up to a fixed dollar amount per day, week, or month. Today, many companies also offer "integrated policies" or policies with "pooled benefits." This type of policy provides a total dollar amount that may be used for different types of long-term care services. There is usually a daily, weekly, or monthly dollar limit for your covered long-term care expenses.

**What do long-term care insurance policies cover?** Long-term care services are provided when a person cannot perform certain "activities of daily living" (ADLs), or is cognitively impaired because of senile dementia or Alzheimer's disease. Most commonly the ADLs used to determine the need for services include bathing, dressing, transferring (getting from a bed to a chair), toileting, eating, and continence.

**What is not covered?** All policies contain limits and exclusions to keep premiums reasonable and affordable. These are likely to differ from policy to policy. Before you buy, be sure you understand exactly what is and is not covered under a particular policy.

\*Note: Insurance policies are legal contracts. Read and compare the policies you are considering before you buy, and make sure you understand all of the provisions. Marketing or sales literature is no substitute for the actual policy. Read the policy itself before you buy.

Source: A Guide to Long-Term Care Insurance © Revised edition, 2003, 2004 America's Health Insurance Plans.

