Overview and Learning Objectives

This module provides an overview of alternatives to long-term care (LTC) insurance for financing LTC needs. It briefly explains the various options, focuses on who may be best suited for each option, and lists the considerations counselors should keep in mind when discussing these financial tools with consumers.

At the conclusion of this module, you will:

- Understand the benefits and potential drawbacks of each option;
- Understand the variables that impact whether the option is the right choice; and
- Have a framework for helping consumers determine which option(s) might be appropriate for them to explore further.

Self-Assessment

Activity: List any LTC financing options you have heard of.

Activity: What variables impact whether an option is right for you (e.g., age)?

Variety of Options

There are many options, besides LTC insurance, that an individual can choose from to finance LTC expenses. However, not everyone will qualify or have the means for all of these options. It will be important to assess the individual's physical and economic circumstances when helping to evaluate options that best suit them.

The options have been categorized to assist in differentiation.

Table 1. Private Long-Term Care Financing Options

Life Insurance	LTC Annuities	Home Equity	Trusts	Assets/ Income	Other
Accelerated Death Benefits‡	Deferred*†	Reverse Mortgage *†	Medicaid Disability Trusts*‡	Self Pay*	Continuing Care Retirement Community (CCRC)†
Life Settlements†	Immediate*‡	Reverse Annuity Mortgage *†	Charitable Remainder Trusts*		Medicaid Estate Planning*
Viatical Settlements ‡		Sell Home*			Special Purpose Loans*
Single Premium Life/LTC		Leaseback*			

* Does not require health screening
† Appropriate for older adults
‡ Option for those in poor health

Details of these options are discussed on the following pages along with considerations counselors should keep in mind when determining if the option will meet the consumer's needs.

Use of Home Equity

Home Equity Conversion (Reverse Mortgage)

A reverse mortgage (RM) is a type of home equity loan that enables homeowners age 62 and over to convert some of the equity in their home (single family or condominium) into cash and continue to own and live in the home. It operates similar to a traditional mortgage, but in reverse. Instead of paying the lender, the lender pays the homeowner.

Unlike home equity loans, RMs do not require repayment of the principal, interest, or servicing fees as long as you live in the home. Since the borrower retains ownership, he or she is responsible for taxes and repairs. When the homeowner dies or moves out, the loan is paid off by the sale of the property. An individual can never owe more than the home’s value. Any leftover equity goes to the heirs or the homeowner.

The amount borrowed is based on age, life expectancy, the equity in the home, location of the home, and the interest rate. Maximums range from 50 to 75 percent of the home’s fair market value (depending on lender). There are no income or credit qualifications. However, the home must be completely or nearly paid off to qualify.

The RM funds may be paid in a lump sum, in monthly advances, through a line of credit or a combination of the three. This money is non-taxable. It does not count towards income or affect Social Security, Medicare, or Medicaid benefits as long as the RM payments are spent within the month they are received. However, interest on RM is not tax deductible until the debt is paid.

There are three types of reverse mortgages:

1. FHA-Insured

2. Lender-Insured

3. Uninsured

FHA-Insured

These loans, insured by the Federal Housing Administration (FHA), are offered by banks, mortgage companies and other private-sector lenders. Since they are insured, the government is required to make the payments if the lender goes out of business.

Home Equity Conversion Mortgage (HECM)

The most widely available plan is the Federal Housing Administration's Government-insured Home Equity Conversion Mortgage (HECM) program. To qualify for a HECM loan, homeowners must be at least 62 and live in a single-family home or condominium that is their principal residence. Under this program, the amount of equity homeowners may borrow against depends on where they live, as well as on prevailing interest rates. Counseling is required before homeowners can apply for a HECM loan. This counseling allows homeowners to discover whether a reverse mortgage is really the best answer to their cash-flow problems.

This plan offers several payment options:

- Monthly loan advances for a fixed term, or for as long as you live in the home,
- A line of credit, or
- Monthly loan advances plus a line of credit.

Quick Facts

- Repayment of this type of reverse mortgage is not due as long as an individual lives in his/her home.
- With the line of credit option, an individual may draw amounts, as needed over time.
- Closing costs, a mortgage insurance premium, and sometimes, a monthly servicing fee are required.
- Interest is at an adjustable rate on the loan balance. Interest rate changes do not affect the monthly payment, but rather how quickly the loan balance grows.

Pros

- An individual can change the way payments are received at little cost.
- Loan advances are guaranteed to continue if lender defaults

Cons

- It may provide smaller loan advances than lender-insured plans.
- Loan costs may be greater than with uninsured plans.

Lender-Insured

Lender-insured reverse mortgages offer monthly loan advances or monthly loan advances plus a line of credit for as long as an individual lives in his/her home. One example is the Federal National Mortgage Association's Homekeeper product.

Homekeeper

Federal National Mortgage Association (FNMA)

This program may be available to people who have homes that are more expensive or who need to borrow more. The Federal National Mortgage Association (commonly known as Fannie Mae) has a program that grants larger reverse mortgages on home equity.

Quick Facts

- Interest rates may be assessed at a fixed or adjustable rate.
- Additional loan costs can include a mortgage insurance premium (which may be fixed or variable) and other loan fees.

Pros

- Loan advances from a lender-insured plan may be larger than those provided by FHA-insured plans.

- Lender-insured reverse mortgages also may allow an individual to mortgage less than the full value of his/her home, thus preserving home equity for later use by an individual or his/her heirs.

Cons

- Loans may involve greater loan costs than FHA insured, or uninsured loans.

- Higher costs mean that the loan balance grows faster, leaving an individual with less equity over time.

<u>Uninsured</u>

The uninsured reverse mortgage is dramatically different from FHA and lender-insured reverse mortgages. It is important to keep in mind that most private reverse mortgages are not insured. Only the strength of the lender backs whatever promises it makes as to payments and other terms. Thus, if the objective of a RM is future income, rather than a lump sum up front, a federally insured program is better.

Quick Facts

- Provides monthly loan advances for a fixed term only – a definite number of years selected by an individual when the loan is first taken out.
- The loan balance becomes due and payable when the loan advances stop.

- Interest is usually set at a fixed interest rate and no mortgage insurance premium is required.

Pro

- If an individual has a short-term but substantial cash need, the uninsured reverse mortgage can provide a greater monthly advance than the other plans.

Cons

- Individual must pay back the loan by a specific date, it is important to have a source of repayment.
- If unable to repay the loan, an individual may have to sell home and move.

Counseling Considerations

- Financial resource option for those who would not qualify for insurance.
- Funds can be used to purchase LTC insurance or pay for LTC needs.
- Provides cash flow for someone who is “house rich”/”cash poor”.
- Heirs can retain home by repaying reverse mortgage.
- Since LTC needs/extent is unknown, loan may be insufficient.
- Loans do not adjust for inflation = gap between LTC costs and loan amount.
- Home may need to be sold to pay for LTC needs in excess of loan amount.
- If contract does not provide lifetime tenancy, may outlive terms.
- Responsible for taxes, insurance, repairs, and maintenance
- Not an option if want to leave home, free and clear, to heirs.
- The costs of obtaining a RM can be very high and may have to be paid in cash.
- RM options are confusing and numerous.
- If considering moving in the near future, a RM may not be appropriate.

- If already ill or have a shorter-than-average life expectancy, an individual will not receive the full benefit that a healthy person with the same house would experience.

- Clarify with the lender how long an individual is allowed to be away from the home – extended trip, few months in a nursing home.

Consumer Tips

- One size does not fit all – the amount of cash you get and the real cost can vary from one RM plan to another.
- Examine all options – there are major differences among the plans. In most cases, the HECM provides the most cash at the lowest cost.

- Compare total costs – the total annual loan cost (TALC) rate is the best way to compare the true, total cost. TALC rates decline over time and can vary substantially from one plan to another.

- Credit lines are not equal. Credit lines offered by different plans are not equal. The HECM credit line is the only one in which the remaining available credit grows larger every month at no additional cost to the borrower, provided the value of the home increases.

- A RM is a non-recourse loan, which means that when seeking repayment the lender does not have recourse to anything other than the collateral securing the loan – in other words, the house. The loan amount is limited to the value of the house.

- Refer to the Appendix for a list of “shopping questions”.

Using a HECM to Pay for LTC Insurance

Anyone who qualifies for a HECM RM today can use it to pay for the premium cost of buying LTC insurance. Most people today, however, use a RM to pay for other things, or to pay for the cost of LTC services, but not to purchase insurance for future LTC needs.

Here are the key elements that are being considered in the HECM program:

- In the future, up-front loan costs may be less if a reverse mortgage is used to pay for LTC insurance.
- This loan amount cannot exceed the cost of the LTC insurance premiums. Even if the homeowner would qualify for a larger loan amount, he or she will only be able to obtain a HECM loan amount equal to the cost of the LTC insurance selected.
- HUD has statutory authority to allow a waiver of the 2 percent mortgage insurance fee.
- However, the regulation to implement this provision has not yet been promulgated.

Reverse Mortgage Annuity

In a RM annuity, part of the lump-sum loan amount obtained from the RM is used to purchase an annuity. Even if the borrower sells or moves from the home, annuity payments will continue. The loan must be paid off when the owner dies, or sells or moves from the home. The annuity payments from the separately-purchased annuity can continue.

Counseling Considerations

- Annuity payments may be taxable and affect eligibility for Supplemental Security Income (SSI) and Medicaid.
- Additional charges based on increases in the value of the home during the term of the loan may be included, if an equity participation option is chosen by the borrower in order to lower the interest rate.
- Caution: The term "reverse annuity mortgage" (RAM) is used to refer to RMs that are structured with a monthly income option. Consumers must be cautioned to fully understand what type of RM they are considering so that the full impact of taxation issues, loan repayment requirements, and monthly payment promises is understood.

Sell Home and Move

One way of using one's home to pay for LTC is to sell it. The proceeds can be invested to produce a continuous income, to pay for LTC expenses or to purchase a LTC insurance policy.

This option may be well suited to a single person who does not have any heirs or a couple that wants a lifestyle or location change. Someone who has the alternative of less costly living arrangements may also find this a viable option.

Counseling Considerations

- Many people are uncomfortable selling a major asset.
- Unable to pass the family home to children as an inheritance.
- Proceeds from the sale may be insufficient to cover LTC expenses.
- If the seller waits to sell the home until the time the cash value of the asset is needed, the seller is then dependent upon the market circumstances that determine the price. It may not be the best time to sell.

Leaseback

A leaseback occurs when an investor purchases a home below market value and the investor agrees to rent the house to the seller on a long-term lease. The seller no longer has to worry about maintenance or repairs to the home or paying taxes, and the proceeds of the sale can be used as desired, to finance LTC needs or to purchase insurance.

The investor is partially reimbursed for giving a long lease through the difference between the selling price and a possibly higher fair market value. Long-term leases, or even a life estate, have definite economic value that can be reflected in the sale price of the home. The responsibility of taxes and property maintenance also falls on the investor. Possession of the property goes to the investor once the seller stops living there.

Counseling Considerations

- This may be an option to allow the home to stay in the family by allowing children to take on the role of investor and purchase the home from their parents.

- Seller may have to pay taxes on proceeds of the sale.

- Low-income homeowners may lose public assistance funds.

- If property is neglected, seller may find it difficult to live there and not have funds or the authority to correct the situation.

Use of Life Insurance

There are financing options that allow access to the death benefit of a life insurance policy prior to death. Certain conditions and requirements apply; therefore, they are not appropriate for all consumers.

- Accelerated Death Benefits
- Life Settlements
- Viatical Settlements
- Single Premium Life/LTC Policy

Accelerated Death Benefits

What is an accelerated death benefit?

Accelerated death benefits, often referred to as acceleration-of-life-insurance benefits, provide a special benefit under a life insurance contract that advances all or a portion of the death benefit. This benefit provides cash advances against the death benefit while the insured is still alive. It is accomplished by adding an Accelerated Death Benefits (ADB) rider to the life insurance policy for little or no cost.

Under what conditions are death benefits accelerated?

Accelerated benefits can occur in three circumstances:

1. **Terminal illness** is an illness or physical condition, including a physical injury, that can reasonably be expected to result in death in two years or less.

2. **Specified disease** is an illness or physical condition that is likely to cause permanent disability or premature death, including, but not limited to the following:
    - AIDS,
    - A malignant tumor,
    - A condition requiring organ transplantation,
    - A coronary artery disease resulting in acute infarction or requiring surgery,
    - A permanent neurological deficit resulting from cerebral vascular accident, or
    - A condition of similar severity as specified in the life insurance contract, which would be expected to impair the insured's quality or length of life in the absence of appropriate medical attention.

3. **Long-term care illness** is an illness or physical condition that results in the inability to perform the activities of daily living or the substantial and material duties of any occupation. Evidence of a long-term care illness includes, but is not limited to, illnesses or conditions

which require confinement in a convalescent nursing home, residential care, intermediate nursing facility or the use of adult day care or home health care services.

The life insurance policy will clarify whether one or all circumstances are qualifiers or triggers for accelerated death benefits.

How do accelerated death benefits affect my contract?

The contract will specify how benefits are affected by the acceleration of death benefits. Generally, any death benefits paid under an accelerated death benefit will reduce any cash value, loan value, or death benefit under the contract on a pro rata basis.

Accelerated death benefits may also impact eligibility for public assistance and may or may not qualify for favorable tax treatment. It is encouraged that consumers consult a qualified tax advisor concerning the impact of an accelerated death benefit.

There are different types of ADB for different purposes. A catastrophic illness ADB is paid when the insured suffers one of several specified medical conditions that require extensive or extraordinary treatment. The ADB must be used to pay for the medical expenses not covered by health insurance. A LTC accelerated death benefit is paid when the insured needs LTC and money must be used to pay for that care. As of 1997, these policies represented 7 percent of total LTC policies sold.

Consumers should check their policies to determine whether they are tax-qualified. Those that meet the criteria of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) will receive the benefits income tax free because they are treated as proceeds payable on account of death. However, non-qualified policies are being sold, so consumers need to understand what they have purchased and how the benefits are treated.

ADB policies will specify what condition(s) must occur in order to trigger accelerated benefits as well as how benefits may be used. ADB may work in the following ways:

- The majority of ADB specify only one type of condition that will trigger benefits (i.e. terminal illness);

- Other policies provide benefits if one or more than one of several conditions occur;

- Approximately 20 percent of policies make an ADB provision available for people who need LTC:

  - 2/3 of these pay for permanent confinement in a nursing home;

  - Smaller portion will pay for home and community care.

Consumers should review their policy to determine when the ADB applies and what benefits will be paid.

The amount of the ADB is based on the provisions of the insurance contract and conditions triggering the benefits. Typically, the accelerated benefit payment amount is capped at 50 percent of the death benefit, although some policies allow the full amount to be used. For ADB policies that cover LTC, the monthly benefit is typically equal to 2 percent of the face value for nursing home care and 1 percent for home care. For example, if the face value is $200,000, the monthly benefits would be $4,000 for nursing home care and $2,000 for home care.

Some policies may pay the same monthly amount for care, regardless of the setting. Older policies were primarily indemnity plans. These policies paid 2 percent regardless of the charge. Newer policies tend to be reimbursement based. This means they pay actual charges up to the available benefit (available benefit is equal to 2 percent of the face value).

ADB's paid to terminally or chronically ill people are not subject to income tax.

The amount of the ADB is subtracted from the amount payable to beneficiaries on the death of the insured. In addition, the insurance company charges for the expense they incur by paying benefits early instead of keeping the money invested. The insurer charges for this benefit in three ways:

1. Additional Premium – Charged for including the ADB option in the policy.

2. Discounted Death Benefit – The amount paid as ADB is less than what would have been paid at death.

3. Interest – The benefits are treated as a lien against the policy and interest is charged.

Counseling Considerations

- If ADB is included at time of life insurance purchase, it may help obtain coverage for someone who might not otherwise qualify for a traditional LTC insurance policy.

- ADB policy benefits are often more limited than typical LTC insurance, the consumer therefore needs to consider that these benefits may not cover the type of services the person may desire.

- Is the face value amount of life insurance large enough to allow ADB payment sufficient to cover LTC needs? The benefit payments may be lower and duration shorter than what is required to cover LTC expenses.

- Inflation protection is infrequently offered. The ADB payment may be insufficient to cover the LTC costs at the time of need for care, requiring the individual to use other supplemental means to pay for services.

- An ADB policy can lapse if premiums are not paid. Consumers should consider whether funds will be available to continue premium payments.

- If the individual wants to leave an inheritance, they should consider whether this is the right option for them since there may be little or no death benefit remaining for survivors.

- If the individual is on public assistance or plans to be in the near future, this option may affect Medicaid eligibility.

Life Settlements

Life Settlements (also known as Senior Settlements, Elder Settlements or High Net Worth Settlements) give older individuals the ability to adapt to changes in health, goals or life circumstances by selling their life insurance policy. They may no longer need the death benefit because the original reason they purchased the insurance no longer exists or the insurance premium may be unaffordable after retirement.

Females age 74 or older and males age 70 and over that have any type of life insurance can sell their policies to a life settlement company for the present value of the policy. Some companies may purchase a life insurance policy of a 65 year old if the life expectancy is in the 12-year range. The types of policies that can be sold are: group, individual, term, whole life, universal life, policies held in irrevocable life insurance trusts, buy-sell agreements, and “key-man” policies. In addition, one need not be dying or in poor health to take advantage of a Life Settlement.

The use of the proceeds is unrestricted and can be used for anything the person wishes. For example, LTC expenses can be paid for someone who may be otherwise uninsurable or LTC insurance can be purchased.

There are tax implications for this type of option. The difference between the settlement payment and the cash surrender value is taxed as a capital gain, while the difference between the total premiums paid and the cash surrender value is taxed as ordinary income. Consumers considering this option should discuss their individual situations with a tax professional.

While the popularity of Life Settlements has increased, they are not for everyone. Consideration should be given to the impact that the sale of the life insurance policy will have on the original beneficiaries. They will not receive a death benefit. If cash is needed, a loan on the policy’s cash value or reducing the death benefit in order to be able to afford to continue paying the premiums may be better options.

Counseling Considerations

- Because the proceeds can be used for anything, if LTC is not required, the settlement can be left as an inheritance or used for other purposes.

- The consumer does not have to be ill in order to take advantage of this option. Therefore, they may qualify to purchase LTC insurance with the proceeds.

- If LTC is anticipated, the settlement amount may be insufficient to cover all the LTC expenses. Other financing options to pay for the care may still be required.

- Depending upon the consumer's income status, this may not be the best option, given the tax liabilities.

Viatical Settlements

Largely in response to the AIDS epidemic in the 1980's, viatical settlements and accelerated death benefits were created by the insurance industry to allow cash payouts prior to the death of the insured. The difference between a Life Settlement and a Viatical is a matter of time and health. A viatical is the sale of a policy by someone who has a life expectancy of two years or less while someone with a Life Settlement has a life expectancy of greater than two years but less than 13 years. The tax consequences also differ. Viatical settlements are usually tax-free, whereas Life Settlements are not.

Under a viatical settlement, the insured assigns all or a portion of the proceeds of his/her life insurance policy to a viatical settlement provider in exchange for a cash settlement. This cash settlement is less than the value of the death benefit. The life expectancy of the insured is used to compute the cash settlement, with a higher percentage payout for those closer to death. In some states, the viatical settlement provider pays the premiums until the death of the insured, at which time the provider receives the death benefit of the policy. However in Texas, the insured has the right to retain an interest in the policy and may continue paying a portion of the premium. For a more detailed treatment of the option of retaining an interest in the policy, see 28 Texas Administrative Code 3.1709(e).

As the life expectancy of AIDS patients has increased due to recent drug therapies, the viatical settlement industry has begun to tap new markets: those suffering from cancer, ALS, Alzheimer's, or other "catastrophic or life-threatening illnesses" and conditions. These "catastrophic" or "life-threatening" illnesses are defined again at 28 Texas Administrative Code 3.1702(a)(3).

Although each viatical company has different rules regarding the life insurance policies it will buy, some considerations are:

- The policy has been owned for at least two (2) years and has a large value; most companies have a minimum policy size, such as $100,000 or $250,000.
- The individual has a terminal illness.
- The current policy beneficiary has signed a waiver.
- The policy is issued from a well-known insurance company.

The insured's medical records will also be required to help determine the cash settlement.

The National Association of Insurance Commissioners (NAIC) has developed a Viatical Settlements Model Act governing the licensing and regulation of viatical companies. Many states have adopted this act in whole or in part. Counselors should check whether their state has adopted these guidelines. If adopted by states, viatical companies would be licensed by state insurance departments. Full disclosure, especially regarding tax implications, would be required. Viators would need to be informed that the sale of their death benefit may disqualify them for public assistance. The act establishes guidelines for the payment to the viator.

Table 2. NAIC Guidelines for Viatical Payments

Life Expectancy	% of Death Benefit Paid
1-6 months	80%
6-12 months	70%
12-18 months	65%
18-24 months	60%
Over 24 months	50%

Other factors influencing the amount of the viatical payments are:

- Insurer's Rating – Lower payment to viator if life insurance company has an A.M. Best rating of B+ or lower

- Waiver of Premium – Higher payment to viator because viatical company does not have to pay premium on policies that have a waiver of premium when the policyholder becomes disabled

- Capitalization of the Viatical Company – Viator likely to get a better deal with a well-capitalized company

- Case Diversification of Viatical Company – Viator likely to get a better offer from companies with a diversified consumer base

Tax Treatment, Legislation, Regulation

In 1995, legislation was passed that exempts both viatical settlements and accelerated death benefits from federal income tax.

Under HIPAA 1996, viatical settlements are not subject to income and capital gains taxes.

Also in 1995, The Securities and Exchange Commission ruled that viatical settlements are securities and require registration. SEC maintains that if a firm solicits investors and represents viatical settlements as an investment, the firm is selling an unregistered security. It also ruled that if an agent refers a consumer to a viatical settlement firm, the person is considered to be selling insurance and is therefore not currently affected by SEC rulings.

Standard and Poor's has developed criteria to rate securities issued by viatical settlement companies. Among the criteria used are:

- Fair market value for the policy
- Company's track record
- Licensing status of the companies offering to purchase

Consumers should be cautioned not to make hasty decisions. These consumer guidelines should be considered before any action is taken:

1. Avoid companies that use a hard sell/high pressure approach. Some states require a period of time between offer of issuance and policy owner acceptance.

2. Shop around. Review offers from several companies. Generally, if the insured has a life expectancy of less than two years, the payout is 60 percent of face value. For those expected to live less than six months, the payout is 80 percent.

3. Respect of policyholder privacy. During negotiations, the broker is to respect the privacy of the insured. Companies, unrelated to the negotiations, should not be contacting the insured.

4. Insure Funds availability. Use an escrow agent to ensure that the buying company has the funds to complete the transaction.

5. Check with State's DOI. Viatical settlement companies must be registered in the state to do business.

Counseling Considerations

- If the person lives longer than expected, their funds may be exhausted.
- The settlement may be insufficient for type and amount of LTC. Viatical settlements are for those terminally ill. Someone needing LTC is not necessarily terminally ill.
- Survivors will not receive any proceeds from the policy, which should be considered if leaving an inheritance is important.
- The consumer may not qualify for this option since greater than 50 percent of applicants for viatical settlements are declined.

Refer to the Appendix for frequently asked questions involving viatical settlements, as well as a discussion of fraud issues in the viatical business.

Summary of Texas Viatical Settlements & Life Settlement Transactions

What are viatical and life settlements?

A viatical settlement is a contractual transaction wherein an individual with a catastrophic or life-threatening illness sells their life insurance contract.

A life settlement is a contractual transaction wherein an individual without a catastrophic or life-threatening illness sells their life insurance contract.

What is a catastrophic or life-threatening illness?

A catastrophic or life threatening illness is an illness or physical condition, as diagnosed by a physician that can reasonably be expected to result in death in 24 months or less from the date of certification.

How do I locate someone to get information about selling my life insurance?

The Texas Department publishes a list of registered viatical and life settlement entities on its webpage at http://www.tdi.state.tx.us/life/viaintro.html

How does the Texas Department of Insurance regulate viatical and life settlement transactions in Texas?

Texas Insurance Code, Chapter 1111 and Texas Administrative Code §§3.1701-3.1717 regulate the viatical and life settlement industry in Texas. The Texas Department of Insurance has responsibility to:

- provide consumer protection in a viatical or life settlement transaction for a viator or life settlor and owner who engages in, or attempts to engage in, a viatical or life settlement transaction;
- establish requirements for registration of entities involved in viatical or life settlement transactions and review forms used in transactions for compliance with state law;
- define prohibited practices for persons involved in viatical or life settlement transactions;
- ensure that the rights of any viator, life settler, or owner under the Texas Insurance Code and the Texas Administrative Code remain protected if a viatical or life settlement provider assigns, sells, or otherwise transfers a policy;
- protect the confidential information of viators or life settlors and owners; and
- provide enforcement mechanisms to ensure that persons engaged in, or involved in transactions relating to the business of viatical or life settlements comply with the Texas Insurance Code, the Texas Administrative Code, or any other applicable law of this state or the United States.

Single Premium Life/LTC Policies

Unlike traditional LTC policies that can require premiums (that can change) to be paid for life or until care is needed, the Single Premium Life/LTC policies are funded through a lump sum payment, which is guaranteed not to change. The single premium deposit can be made with cash, CDs, money market accounts, non-qualified and qualified annuities, or IRAs and Keogh plans. Issue ages can vary based on the source of the premium. For example, an issue age of 59 ½ or higher might be required for transfers from qualified annuities, IRAs and Keoghs. In addition, the cash value from a life insurance policy may be able to be moved into a combined policy without adverse tax consequences.

Minimum deposits can be in the $10,000-$20,000 range, but for a meaningful benefit based on today's costs, the deposit should be in the $100,000 range for a 60-year old couple. If a person is willing to self-insure a portion of LTC expenses or have other ways of financing LTC, a smaller deposit can be made.

Inflation coverage may be included in the lump sum deposit or paid separately and on a continuing basis, depending on the insurance company.

Purchasing a Policy:

1. Age 80 is usually the maximum issue age.

2. A joint policy can be issued if both people fall within certain age parameters.

3. A lump sum payment ("deposit") by an individual purchases a death benefit.

Receiving Benefits:

1. At least double the amount of the deposit becomes available for LTC expenses.

2. There are no age limits for benefit payments once the policy is issued.

3. If LTC is needed immediately, the policy could pay as much as four years of benefits at 2 percent of the LTC amount per month.

4. The longer the policy is held without claim being filed, the more accumulation occurs and the longer the benefit period.

   – A certain amount of money is available each year and can be accessed without surrender penalties (surrender penalties disappear after 10 years).

   – Withdrawals are subject to income tax.

<u>Counseling Considerations</u>

- The consumer would need a substantial single premium for the LTC benefit to be meaningful. They should compare this financing option with other choices to determine which makes the best financial sense.

- If care is needed in the policy's early years, the benefit may be insufficient to cover costs.

- Planning for inflation is difficult and may require additional payments. The offer of inflation may not continue after it is declined.

- Unlike traditional LTC insurance policies, this type of insurance policy pays a death benefit.

- It should be noted that different versions of this type of policy may be available and that not all states may have approved all types of "hybrid" policies for sale. Consumers should be encouraged to pursue the help of insurance professionals specializing in this type of product if the concept seems attractive.

Long-Term Care Annuities

An annuity is a series of regular payments over a specified and defined period of time. Annuities can help people pay for LTC who cannot qualify for LTC insurance due to age or health problems. There are two types of LTC annuities: deferred and immediate.

Deferred Annuity with LTC benefits

This annuity is available for persons up to age 85 and has seven broad health questions that most people can satisfy. One example of this hybrid product might consist of two funds. The first fund is for LTC expenses and it grows at a high interest rate with a five-year guarantee. It then grows at the current interest rate thereafter. The second fund grows at 3 percent guaranteed and is a regular cash fund.

The purpose of the separate LTC fund is to allow immediate use of the funds for licensed LTC services. Otherwise, early withdrawals from a regular deferred annuity are limited or can be penalized. The benefits might pay no more than actual expenses up to a monthly limit for a minimum of 36 months and begin after a 7-day waiting period. The amount of the monthly benefit is determined by dividing the LTC fund balance by a factor of 34.5. A lifetime rider may be available for an additional premium.

An individual may make annual withdrawals of 10 percent from the cash fund to pay for additional expenses, such as prescription drugs, not covered as eligible expenses under the LTC fund. (Withdrawals greater than 10 percent may be penalized). Additionally, the cash fund is reduced proportionately when money is withdrawn from the LTC fund. For example, a $3,000 withdrawal from the LTC fund means a $1,500 withdrawal from the cash fund. If the LTC fund is not exhausted at the time of death, any remaining money in the cash fund will be passed to the beneficiary outside of probate.

<u>Tax Rules</u>

- Earnings on the money are tax deferred, however the individual is taxed on the gain as withdrawals are made.

- These hybrid-deferred annuities are non-tax qualified LTC policies. Therefore, there is a risk of being taxed on the money from the fund that is used to reimburse LTC expenses.

Note: A tax professional should be consulted when determining whether this option is the right choice to finance LTC costs.

There is also a type of hybrid deferred annuity/LTC product that would act as a standard deferred annuity with a LTC insurance rider attached. The LTC insurance rider could be accessed, after the passage of a six-year waiting period, through traditional ADL and cognitive impairment benefit triggers. It would pay monthly benefits based on a percentage of the amount that had accrued in the annuity portion but would not reduce the annuity portion of the contract. The money coming from the LTC insurance rider is the insurance company's money, paid as a LTC benefit for up to three years; the money in the annuity portion is the consumer's money, which could be accessed as a regular annuity to supplement the LTC insurance rider payments (or not, as needed). The money from the LTC insurance rider is considered taxable. Since there is no medical underwriting required, this might be an option for someone who is uninsurable with traditional LTC insurance with a condition that might not require care for six or more years (early stage Parkinson's, for example).

Summary of Texas Annuities with Long-Term Care Insurance

What kinds of annuities come with long-term care insurance?

The Texas Department of Insurance recognizes two basic forms of annuities with long-term care, which are distinguishable by the permitted usage of contract funds:

- enhanced contract values are only available for long-term care benefits and
- enhanced contract values are available for surrender, death, annuitization, and/or long-term care benefits.

What are some of the things I might see in these products?

The contract must define a multitude of terms in order to clearly determine eligibility for benefits. Terms that may be defined include, but are not limited to:

- Activities of daily living – bathing, continence, dressing, eating, toileting and transferring.
- Bathing – washing oneself by sponge bath or in either a tub or shower, including the task of getting into or out of the tub or shower.
- Continence – the ability to maintain control of bowel and bladder function; or, when unable to maintain control of bowel or bladder function, the ability to perform associated personal hygiene (including caring for catheter or colostomy bag.)
- Dressing – putting on and taking off all items of clothing and any necessary braces, fasteners or artificial limbs.
- Eating – feeding oneself by getting food into the body from a receptacle (such as a plate, cup or table) or by a feeding tube or intravenously.
- Toileting – getting to and from the toilet, getting on and off the toilet, and performing associated personal hygiene.
- Transferring – sufficient mobility to move into or out of a bed, chair or wheelchair or to move from place to place, either via walking, a wheelchair or other means.
- Impairment of Cognitive Ability – the deterioration or loss in intellectual capacity requiring substantial supervision for protection of self and others, as established by the clinical diagnosis of any licensed practitioner in this state authorized to make such a diagnosis. Such diagnosis shall include the patient's history and physical, neurological, psychological and/or psychiatric evaluations, and laboratory findings.
- Adult Day Care – a social and health-related services program provided during the day in a community group setting, for the purpose of supporting frail, impaired elderly, or other disabled adults who can benefit from care in a group setting outside the home.
- Home health care services – medical or non-medical services provided to ill, disabled or infirm persons in their residences. Such services may include homemaker services, assistance with activities of daily living, respite care services, case management services, and maintenance or personal care services.

- Chronically Ill Individual – any individual who has been certified within the preceding 12 month period by a licensed health care practitioner as:
    - o being unable to perform (without substantial assistance from another individual) at least 2activities of daily living for a period of at least 90 days due to a loss of functional capacity,
    - o having a level of disability similar to the level of disability described in clause (i), or
    - o requiring substantial supervision to protect such individual form threats to health and safety due to severe cognitive impairment.
- Licensed Health Care Practitioner – any physician (as defined in section 186(r)(1) of the Social Security Act) and any registered professional nurse, licensed social worker, or other individual who meets such requirements as may be prescribed by the secretary.
- Qualified Long-Term Care Services – necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative services, and maintenance or personal care services which: are required by a chronically ill individual, and are provided pursuant to a plan of care prescribed by a licensed health care practitioner.
- Disclosure – The rider or provision must disclose that the policy is not a Long-Term Care policy and that a tax advisor should be consulted, as there may be tax consequences associated with withdrawals.

<u>Counseling Considerations</u>

- ▪ The benefit amount may not adequately cover all LTC expenses. This is especially likely if LTC is needed close to the time the annuity is obtained and before the fund has grown, or before the separate LTC insurance rider is available for access.

- ▪ Enough money should be put into the annuity to accommodate inflation.

- ▪ Consumers should be advised to speak with a tax professional.

- ▪ Again, not every version of these hybrid products may be available in every state and the state version that is available may differ greatly from those illustrated. The purpose here is to alert counselors to the fact that these types of products exist and to give a brief overview of what the product might accomplish. If the benefits appear attractive, the consumer must seek the help of professionals who have an in-depth knowledge of these financial tools and also seek their tax professionals' advice.

Immediate Annuity

Immediate annuities are available to people with uninsurable health conditions or those who may already be receiving LTC, as well as those in good health. A single premium payment is converted to a monthly income stream guaranteed for the life of the policyholder or for a minimum guarantee period, life plus a minimum guarantee period or even a joint and survivor annuity option. The named beneficiary(ies) would receive a portion of the money if the policyholder died earlier than the expiration of the minimum guarantee period.

In some states, the annuity pay-out schedule is based on age and gender. However, in Texas, the pay-out schedule may be for a period certain or interest only.
If the annuity is medically underwritten, the person with impaired health would receive a larger monthly payout because of the actuarially-determined shorter life span of the individual. However, medically-underwritten annuities are fairly new to the U.S. and not available in every state.

Counseling Considerations

- Annuity income can pay for LTC needs, however if inflation is not adequately planned for, resources may be insufficient at the time care is needed.
- Annuities are available to someone who is uninsurable and already receiving LTC.
- Impaired health can work to the advantage of the consumer in securing higher annuity payments than regular immediate annuities which have no medical questions asked.
- Income stream may be insufficient since the type and amount of LTC needs may be unknown at the time of choice of the annuity.
- If a health condition that requires LTC does not reduce life expectancy (e.g. cognitive impairment) the annuity payments may not be any better for a medically-underwritten annuity than for a regular annuity.
- Annuity can continue paying to your beneficiaries after your death if an annuity with a minimum guarantee period is chosen and not a "life only" option.
- Tax treatment of immediate annuities is complicated. A tax professional should be consulted.

Trusts

A trust is a legal arrangement by which one person, the grantor, transfers assets to another, the trustee, for the benefit of one or more third parties, the beneficiary(ies). The trustee holds title to the assets and manages them, acting in the best interest of the beneficiary(ies). Trusts may provide some options to partially fund LTC needs. Primary examples are Medicaid Disability Trusts and Charitable Remainder Trusts.

Medicaid Disability Trusts

This is the only type of trust exempt from rules regarding trusts and Medicaid eligibility. All other irrevocable trusts currently created with the intent to transfer assets without spending down run the risk of being disqualified.

There are two types of Medicaid Disability Trusts, both are limited to disabled individuals.

- Trust for Disabled Person Under Age 65 – It can be established by a parent, grandparent or legal guardian for the benefit of a disabled individual under 65. This trust might be set up to provide benefits to enhance the life of an individual who is qualified for public benefits. If Medicaid benefits are paid on behalf of the disabled individual, any amount remaining in the trust at the individual's death is recoverable by the state up to the amount of such benefits.

- Pooled Trust Managed by a Non-Profit Association – Again, the purpose is to be able to use trust assets to enhance the life of the disabled individual while maintaining eligibility for public benefits. A separate account must be maintained for each beneficiary although funds are pooled for investment and management. Upon the beneficiary's death, the state must be reimbursed for the Medicaid benefits paid on behalf of the beneficiary. The account is for the benefit of a disabled person who can be over 65 at the time of the establishment of the trust.

Counseling Considerations

- These trusts are limited to persons with disabilities; therefore, not everyone will qualify.
- Medicaid benefits must be reimbursed upon the death of the recipient, therefore not all the money put in the trust will be sheltered.
- Consumers should be counseled to discuss this option with their legal and tax advisor.
- The trusts must be properly drafted to effectively accomplish the desired goal. Consumers must seek competent legal counsel.

Charitable Remainder Trusts

These trusts allow individuals to use their own assets for LTC with an added benefit of reducing taxes. This trust is limited to affluent people with specific types of assets that are gifted to a public charity at fair market value. The grantor receives a tax deduction based on the market value of the amount gifted.

The payments to the grantor from the charity are also based on the current market value. These payments can be used to fund LTC expenses while reducing taxes. Upon the grantor's death, the charity receives the balance of the trust.

Counseling Considerations

- Few people have the assets for this type of trust.
- Payments received by the grantor may be insufficient to cover LTC unless the gift is rather large.
- Assets transferred to the trust are subject to a 60-month look-back period, which may make the grantor ineligible for Medicaid.

Using One's Personal Assets and Income

Self-Pay

Individuals with considerable investment assets and income may consider paying for their LTC needs as they arise or save for future LTC services. If an individual wanted to save enough money for LTC costs, an adequate level of assets would need to be set aside – in today's dollars, approximately $286,000, is needed to fund a five-year nursing home stay. These assets should be invested to assure growth that will keep up with the rising costs of LTC. However, since it is unknown when LTC needs will occur and how long services will be required, it's difficult to determine when investing should begin.

Self-insuring is not the same as insurance. It does not provide the short-term protection that an insurance policy does. Insurance protects you from the possible risk of needing LTC before adequate resources are accumulated. Since no one knows when LTC will be needed, it is difficult to determine when to start investing.

Counseling Considerations

- Individual can retain full use of funds if not used for LTC.
- Works if it is a conscious choice made years in advance of need.
- Gives more choice and control over care.
- Do not have to worry about qualifying for LTC insurance or about making the right buying decision.
- Unknown when/if LTC needs will arise and for how long.
- Need to be aware of rules about when/how investments can be accessed.
- Amount saved may be insufficient to cover LTC needs.
- May be saving up for LTC needs that do not occur.
- Cannot always control rate of return on savings.

- Need to start early to ensure enough time for money to grow.

- Need to be disciplined and have discretionary income and assets to afford to set funds aside.

- Ties up funds you could use for something else since “risk pooling insurance” requires smaller monthly outlays than self-insurance.

Other Financing Options

Continuing Care Retirement Community

A continuing care retirement community (CCRC) provides a full continuum of care in a variety of settings, allowing an individual to "age in place". As the needs of the resident change, the services the CCRC provides change from independent living to assisted living to nursing home care – all in the same location. The intent of most residents is to live the rest of their lives at the CCRC.

Usually, a resident pays an entrance fee and monthly payments to the community in exchange for housing and defined LTC services for the life of the resident. These fees vary by the size of the unit (studio, one-bedroom, two-bedroom, larger) and by the location and type of CCRC. A recent industry survey reports that average entrance fees for one- and two-bedroom apartments range between $59,000 and $121,000. These fees are subject to periodic increases as the operating costs of the complex increase.

A percentage of the entrance fee is usually reimbursed to the residents or their estates when they move or die. Typical refund rates may be 70 percent to 90 percent and is specified in the contract. The interest earned is not paid to the resident, although the resident may be responsible for paying income tax liability on the interest income.

The monthly service fee may be level for all residents or increase as the amount of care increases. Even under a uniform fee, it normally increases over time, as costs rise. In many cases, LTC insurance is bundled into the monthly fee. The CCRC collects a benefit to provide LTC to the resident. Since the CCRC is planning on residents not needing care for a certain amount of time, in order to keep fees reasonable, residents must be relatively healthy to enter.

<u>Types of CCRC Contracts</u>

While similar in concept, contract provisions differ. It will be important for a consumer to review the contract carefully to determine the services included in the entrance and monthly fees the resident is expected to pay. The contract should also state the conditions that allow for increases/decreases in monthly fees and procedures for adjusting fees when living accommodations change. If a resident moves to a nursing facility, the contract should state how long living quarters are maintained and the conditions under which the spouse stays in the living quarters. Should the contract include a termination clause, the terms and procedures should be clearly stated. Contract review requires legal and financial assistance.

	All Inclusive	Fee for Service	Modified
Entrance Fee/ Monthly Payment	Covers housing and all LTC fees usually higher than for other types of CCRC.	Housing, social and recreational services. Access to LTC services. Less expensive than All Inclusive.	Housing, social services and physical assistance included along with a specified amount of nursing home care.
Not Included/ Incremental	Medical services which are usually covered by Medicare or supplemental health insurance.	LTC and medical services are paid for by resident as required. None of the services are pre-paid.	Additional LTC services available for fee.

Counseling Considerations

- May not need to worry about LTC needs depending on the CCRC. If CCRC does not provide for all LTC, resident needs to consider other financing options.
- Ask whether the entrance fee is refundable at death or when the independent living unit is occupied by a new resident. In most CCRCs, the resident does not “own” his/her independent living unit. The large entrance fee is deposited with the community and may or may not be partially refundable.
- CCRC may provide little or no home care.
- May have specific requirements that must be met with respect to health and ability to live independently to remain in living unit.
- CCRC usually has pre-defined parameters for when care is received.
- All-inclusive Life Care Contract may not be available.
- Need to understand terms of the contract.

- Cost of facilities may be out of reach for many people.
- Campus lifestyle does not appeal to everyone.
- Health screen usually required.
- Consumers should be counseled to ask about the history of rate increases in the monthly service fee.
- Inquire as to whether the monthly fee is reduced if the resident owns LTC insurance.
- Residents also need to consider what would happen if the CCRC goes bankrupt.

The Appendix contains a worksheet consumers can use to compare CCRCs.

Texas Program of All-Inclusive Care for the Elderly (PACE)

The PACE center team provides preventive, rehabilitative, curative, and supportive services in day health centers, homes, hospitals, and nursing homes. All PACE center teams must include the following members:

- primary care physicians and registered nurses,
- physical and occupational therapists,
- social workers,
- recreational therapists or activities coordinators,
- personal care attendants,
- dietitians,
- drivers, and
- PACE center manager.

PACE Characteristics

- Maximizes independence

PACE programs provide comprehensive health care that is responsive to the needs of the individual rather than to the constraints of the funding agency. It emphasizes helping older people remain at home as long as medically, socially, and economically feasible. The key elements of the service delivery strategy are preventive care, maximum rehabilitation, and substitution of low-cost services for high-cost services.

- Exclusively serves people who are frail and elderly

The PACE model serves only adults age 55 and older who are certified as needing nursing home care and who reside in a defined geographic area.

- Consolidates service delivery

A multidisciplinary team assesses needs, then plans and directly delivers all services via program staff or under fixed-rate contracts with hospitals, skilled nursing facilities, and medical specialists. The risk-based PACE differs from the brokerage model, which depends on others to provide services.

- Provides comprehensive and all-inclusive services

PACE provides all health or health-related services needed including, but not limited to

- inpatient and outpatient medical care,
- specialty services including dentistry and podiatry,
- social services,
- in-home care,
- meals, and
- transportation.

- Combines payments from Medicare, Medicaid, and program participants

Each PACE site bears 100-percent financial risk for the complete care of its locked-in census. Medicare, Medicaid, and the individual each pay a monthly "premium" based on the individual's entitlement. The average per capita rate is lower than traditional long-term care costs. PACE integrates the long-term care financial responsibilities of Medicare, Medicaid, and the individual into a single unrestricted pool of funds. The model places cost control responsibility in the hands of the service providers without externally imposed cost constraints, such as limits on eligibility or benefit packages. It is designed to give positive incentives to these providers to use resources appropriately and efficiently.

PACE Sites in Texas

Currently, there are two PACE site in Texas — Bienvivir Senior Health Services in El Paso and the Basics at Jan Werner in Amarillo.

Medicaid Estate Planning

In order to qualify for Medicaid, individuals can first spend down their assets and use the proceeds to pay for LTC before Medicaid begins to pay. Spend down means liquidating assets. States have different maximum asset levels that individuals may keep.

Some people reduce their assets by gifting them to family members or others, or set up irrevocable (unchangeable) trusts, instead of using these assets to pay for care. They hope to continue using the assets with the cooperation of their relatives or enable others to benefit from the assets.

Medicaid Estate Planning is the legal practice of rearranging finances so that the Medicaid program pays for nursing home care and the individual's assets are preserved through change of ownership. Medicaid "look-back" rules apply when assets are transferred for less than fair market value by applicants for Medicaid and to transfers made by the applicant's spouse or someone else acting on their behalf. Medicaid benefits may be withheld for a period of time determined by the amount of the transfer. These rules apply to "gifts" made 36 months or less before the application for Medicaid and 60 months or less for transfers to irrevocable trusts.

For a general overview of the Texas and federal rules and laws governing Medicaid, visit the Texas Department of Aging and Disability Services website: http://www.dads.state.tx.us/services/dads_help/paying_for_care/medicaid.html.

A qualified elder law attorney should always be consulted when considering this type of LTC financing option.

Counseling Considerations

- This form of financing for LTC can be complicated because of the look-back rules. Transfers must be done more than 36 months in advance (60 months in some states and/or if using a trust). Therefore, any Medicaid Estate Planning should be done by a licensed elder law attorney, and should be completed in advance of the look-back period to avoid penalties.

- An individual can lose control of his or her assets. Can consumers be sure they will still have access to the assets that are transferred? If assets can be accessed, Medicaid will consider them “countable” for purposes of Medicaid qualification.

- Transferring assets for less than fair market value may disqualify an individual from Medicaid for a specified time, based on the amount transferred.

- Relying on Medicaid may limit access to care .

- .In general, Medicaid Estate Planning does not protect “income”. There are however provisions in Texas law to protect a spouse from being impoverished (called spousal impoverishment provisions). Consult a qualified elder law attorney to learn more about spousal impoverishment provisions, including increasing the monthly minimum needs allowance and protecting assets.

Special Purpose Loans

There are many loans available in the public sector known as deferred payment loans (DPLs), property tax deferrals, or split loans. These low interest loans are available to those with low to moderate income.

Local government agencies offer DPLs, which provide a one-time, lump-sum payment to be used for home repair or improvements. The types of improvements are usually specified. They include things such as the installation of ramps, grab bars, and rails. These loans are low interest and usually do not have the fees and premiums of reverse mortgages. The loan is repaid when the borrower no longer lives in the home.

These loans cannot be used to finance LTC, but they may help finance home modifications so that someone can remain independent at home and/or receive care there.

<u>Counseling Considerations</u>

- Loan cannot be used to finance LTC needs.
- If the borrower is moved to a nursing home, the loan repayment is due. It may leave nothing for the individual to use to cover LTC expenses.

Counseling Exercise

For each scenario, determine the financing option(s) that may be considered. For each scenario, think about what else you might need to know about the individual before you could help them evaluate these possible financing options.

Mary is 65 and lives by herself. She owns her home and is in relatively good health. She's concerned about her future because she has no family to take care of her if she needed LTC. What options might she consider? Why?

Philip is 77 and in poor health. He has considerable assets, owns his home and has 4 children. He doesn't want to burden his children or his spouse with his LTC needs. What options might he consider? Why?

Connie is 83 and barely making ends meet. She owns her home and does not want to move. She has been diagnosed with Parkinson's disease. What options might she consider? Why?

Module Exercise

1. Which of the following is an important advantage of some of the other private financing options for LTC as an alternative to traditional LTC insurance?

   a. Someone in poor health is not excluded from many of these options.
   b. Someone who is very wealthy would be wasting their money if the individual just bought traditional insurance.
   c. These options are easier to shop for than LTC insurance, so you do not have to worry about making a wrong purchase decision.
   d. All of the above.

2. What is the minimum age for obtaining a home equity conversion mortgage, also called a reverse mortgage?

   a. 57
   b. 60
   c. 62
   d. 65

3. For each of the options listed below, please indicate whether there is health screening for that option. For example, LTC insurance requires health screening, but some of these other private finance options do not. Health screening can mean either that you must be in good health or you must have a certain health condition to be eligible for the option. Which of the following options do NOT require any health screening? (Circle all that apply).

   a. Home equity conversion mortgage
   b. Reverse mortgage annuity
   c. Home sale to generate cash flow
   d. Leaseback
   e. Accelerated death benefit
   f. Life settlement
   g. Viatical settlement
   h. Single premium life/LTC policy
   i. Deferred annuity with LTC benefits
   j. Immediate annuity
   k. Continuing Care Retirement Community

4. Which of the following best describes the amount you can borrow through a reverse mortgage?

   a. Any amount up to the value of the home.
   b. An amount based on age, life expectancy, equity remaining in the home, location of the home and the interest rate.
   c. An amount based on your age, life expectancy and the value of the home minus any outstanding loan balance.
   d. Any amount up to 50 percent of the appraised value of the home at the time the loan is taken out.

5. Which of the following best describes the payback provisions of a reverse mortgage available through the HUD/HECM program?

   a. You do not have to pay back the loan until you die or move out of the home. The amount you owe can never be more than the home's value at the time repayment is due.
   b. You make monthly payments on the loan while you continue to live in the house.
   c. The first loan payback installment is due after you have had the loan for 5 years. Thereafter you make annual payments to reduce the loan amount you owe.
   d. You do not have to pay back the loan until you die or move out of the home. You owe the full amount of the loan, plus any closing costs that you have financed along with the loan, regardless of the home's value at the time repayment is due.

6. Which of the following is the most widely available reverse mortgage program?

   a. Federal National Mortgage Association (FNMA)
   b. Fannie Mae Loan Program
   c. Uninsured loans through local lenders
   d. Federal Housing Administration's Home Equity Conversion Mortgage (HECM).

7. Which of the following best describe potential drawbacks of using a reverse mortgage to pay for LTC costs or to buy LTC insurance?

   a. Loan amount may not be enough to cover costs.
   b. You will not be able to leave your home free and clear for your heirs.

c. The loan amount doesn't increase for inflation, so it may not be able to keep up with LTC costs.
d. All of the above.

8. Who might NOT be a good candidate for a reverse mortgage?

a. Someone who is in poor health.
b. Someone with limited financial means.
c. Someone planning to stay in his or her home a long time.
d. Someone planning to move within the relatively near future.

9. One consideration in choosing a private finance option is tax implications. Which of the following finance options produce payments that are or might be taxable as income? (Circle all that apply)

a. Reverse mortgage loan
b. Single premium life/LTC policy
c. Home leaseback
d. Accelerated death benefit
e. Life settlements
f. Viatical settlements
g. Deferred annuity with LTC benefits

Resources

Long Term Care Insurance, Texas Department of Insurance, July 2004

Understanding Life Insurance, Texas Department of Insurance, August 2003

Understanding Annuities, Texas Department of Insurance, January 2005

Long-Term Care Planning, The Complete Idiot's Guide, Marilee Driscoll, 2003.

Long-Term Care, *Your Financial Planning Guide*, Phyllis Shelton, 2001.

Planning for Long-Term Care, United Seniors Health Council, A Program of the National Council on the Aging, Inc., 2002.

Long-Term Care: Knowing the Risk, *Paying the Price*, Health Insurance Association of America, 1997.

Financing Long-Term Care Needs, Exploring Options and Reaching Solutions, Health Insurance Association of America, 2002.

Web Sites

www.tdi.state.tx.us

www.dads.state.tx.us

http://www.aarp.org/money/revmort/

www.reversemortgage.org

www.viatical.org

www.tlsc.org

The Texas Secretary of State provides free electronic access to the Texas Administrative Code:

http://www.sos.state.tx.us/tac/