

# Paying for Long-Term Care with Company Dollars

by Daniel Ritter  
President, The Stratford Financial Group Inc.  
Fairfield, NJ

**What if a business owner could get long-term care insurance for himself with no medical questions, have the premiums paid through company dollars, get a substantial corporate tax deduction, and select which other employees (plus spouses and immediate families) would be eligible for this coverage? Thanks to the passage of the Health Insurance Portability and Accountability Act in 1996—and the federal government's support of employer-sponsored long-term care—all of this is possible.**



Though HIPAA has been in effect for more than six years, many companies have not taken advantage of employer-sponsored long-term care, probably due to a lack of awareness. This comes at a time when insurance brokers, financial planners and the media have been highlighting the importance of long-term care insurance, given the skyrocketing costs of nursing homes and home care. Today, employer-sponsored long-term care can be a win-win for companies and their employees. Here are some reasons:

## **The Company Gets a Tax Deduction**

Since premiums for employer-sponsored long-term care are paid with company dollars, the firm gets a significant tax deduction. C-corporations get a 100% corporate tax de-

duction, while other business types can deduct the premiums on the same basis that they deduct their health insurance. To help policyholders reduce their tax burdens, the company should select a tax-qualified long-term care plan, thus ensuring that the proceeds (to pay for long-term care) are not regarded as income and can be received tax-free.

## **The Owner Chooses the Terms**

Company-paid long-term care is totally discretionary, enabling the owner to select which individuals—including principals and salaried employees—are eligible. The owner can also establish the conditions for each person's policy, such as the percentage of premium to be paid by company dollars and whether spouses and family members can enroll in the long-term care policy.

## No Medical Questions Are Asked

If a business owner is older and perhaps not in the best medical condition, he or she cannot be turned down for coverage in a company-paid long-term care policy—provided there are at least 10 enrollees (not including spouses or other family members). Naturally, premiums for an older individual would be higher than for a younger person but they could not be raised due to a medical condition.

## Employees Can Retire and Stop Paying Premiums

Long-term care policies can be structured so the policyholder finishes paying premiums in a designated number of years (usually 10 or 20) or at age 65. Premiums stop regardless of any rate increases that occurred over the life of the policy. This feature is ideal for business owners whose companies are profitable now—thus can afford to pay premiums—but who want to plan their retirements with the peace of mind of knowing that long-term care protection will continue for the rest of their lives without paying a single dollar more.

## Sobering facts about long-term care

- ➔ The average person has a 5 to 2 chance of using long-term care insurance at some point in his or her lifetime—far more likely than the odds of using automobile liability insurance (250 to 1) or fire insurance for a home (1,200 to 1).
- ➔ The average cost of a nursing home is \$40,000 to \$80,000 a year, depending on the location, and is expected to double in the next 10 years.
- ➔ More than half of those who need long-term care use up their savings within one year.
- ➔ Medicare pays less than 2% of nursing home costs and limited skilled nursing care, and generally pays only for limited convalescent skilled nursing care and some limited home health care under restrictive, short-term conditions.
- ➔ Medicare supplemental insurance pays only for Medicare deductibles and co-insurance.
- ➔ Medicaid will only pay for restrictive long-term care if the individual is impoverished.

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## A Great Benefit for Employees

It's not just employers that reap the advantages of company-paid long-term care insurance. Employees get an opportunity to receive a critical benefit that every person in their 50s or older should seriously consider. Many of them may never think of long-term care insurance until many years later when the premiums would be far higher and when they could be declined for coverage due to failing health.

To promote participation in an employer-sponsored long-term care program, a company should conduct employee meetings to discuss the terms of the program and the importance of this critical benefit. The presentation should include a discussion about the definition of long-term care, addressing the misconception that it does not necessarily mean care in a nursing home.

Employees should also know about the enormous costs associated with home care, especially if many hours a day of care are required. They shouldn't count on their spouses—who may also be old and sickly at the time—to provide care. Plus, care delivered by a friend or family member can be costly in terms of lost wages for the caregiver. The good news is that most employer-sponsored long-term care policies pay for caregiver training.

Without long-term care insurance, many individuals could find their assets depleted and could be forced to depend on Medicaid to pay for care, in which case they could wind up in less-than-desirable facilities. Adult daycare, assisted-living facilities, Alzheimer's facilities and the like can be very expensive, with costs ranging from a couple of hundred dollars a week to thousands of dollars a month. Moreover, most of these facilities are not Medicaid-eligible. So a person living in this type of facility who runs out of money could be forced to move to a Medicaid-eligible nursing home—and receive inadequate care. ■



*Daniel Ritter is president of the Stratford Financial Group, an employee benefits broker. He has extensive experience with long-term care. He can be reached at 973-890-8830, extension 202, or [dritter@stratfordlink.com](mailto:dritter@stratfordlink.com).*