

A photograph of an elderly couple embracing in a field at sunset. The woman is on the left, wearing a white sweater, and the man is on the right, wearing a dark sweater. They are both seen from behind, looking towards the bright sun on the horizon. The background consists of a field of tall grass and some trees, all bathed in the warm, golden light of the setting sun.

# *Living a Long Life*

PLANNING FOR LONGEVITY

# *Long-Term Care Insurance*

How it Works

What is Long-Term Care?

*Safety*

Frailty PHYSICAL &  
COGNITIVE\*



85

1 in 3 people, 85 and older, have Alzheimer's.<sup>1</sup>

*\*For specific Long-Term Care Insurance qualifying definitions refer to contract language.*

*1. Alzheimer's Association, alz.org*

# LTCI Triggers:

*Safety Concerns - Cognitive and ADLs*

*2 Standby*

# ADLS

*Balance*

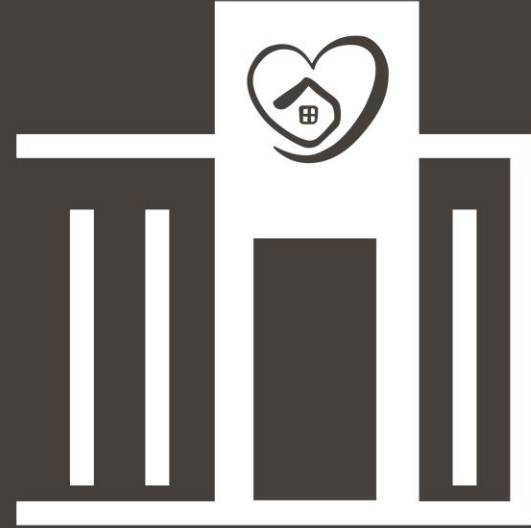
- BATHING Fall
- DRESSING Fall
- TRANSFERRING Fall
- TOILETING Fall
- CONTINENCE
- EATING







HOME



NOT HOME

What is Long-Term Care?

*Longevity*

Frailty PHYSICAL &  
COGNITIVE\*

65

85

1 in 3 people, 85 and older, have Alzheimer's.<sup>1</sup>

\*For specific Long-Term Care Insurance qualifying definitions refer to contract language.

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□ Family BECOMES Caregiver  
☒ Family HIRES Caregivers





# *Long-Term Care Trust Act*

*(2019)*

Washington State

*Why?*

WA will spend \$4B/yr on Medicaid by 2030

# What It Is:

## *Payroll Tax and Qualifications*



- 0.58% PAYROLL TAX w/NO CAP *(Starts 1/1/22)*
- 500+ HRS/YR FOR 10YRS w/5 CONSECUTIVE YRS OR
- 3 OF THE LAST 6YRS\*
- \$100 w/WA CPI, \$36,500 (1YR)
- NOT PORTABLE *(Out of WA >5yrs, Forfeit Premium/Benefits)*
- MANDATORY FOR W-2 EMPLOYEES

*\*Test Applied at Benefit Eligibility Unless Actively at Work Default Becomes Paid 5 Consecutive Years*

# Who Participates:

*Mandatory, Opt-Out, Opt-In*



- PAID 100% BY THE EMPLOYEE
- OPT-OUT (*Owners of Private LTC Insurance*)\*
- OPT-OUT (*Must Apply 10/1/21 to 12/21/22*)\*
- EXEMPT/NOT ELIGIBLE (*<18, Retired or Self-Employed*)
- OPT-IN (*Self-Employed/Independent Contractors*)\*\*
- OPT-IN IRREVOCABLE (*1/1/22 to 1/1/25*)

*\*Current Recommendations: Opt-Out for Those Who Owned LTCI Prior to "Enactment of the Law" or the "Last Day of Session" (July 24<sup>th</sup>, 2021)*

*\*\* Self-Employed: "self-employed person, including a sole proprietor, independent contractor, partner, or joint venturer, may elect coverage under this chapter."*

# Opt-Out Questions

Final Word on Opt-Out Date

Definitions of Self-Employed

Definition of Long-Term Care Insurance

# *Viability Concerns*

Tax Rates

Reserving Practices

Participation / Opt-Outs







"We project a 0.58% premium rate to be insufficient to keep the program solvent for 75 years if SJR8212 fails, as the program's account balance decreases below program outgo for this scenario."

Milliman Report, 2020 Long-Term Services and Supports Trust Actuarial Study,  
commissioned by the Office of the State Actuary, Oct 15, 2020

# Senate Joint Resolution 8212 (SJR8212)

Rejected by a vote of 52.7% to 47.3%

Trust Program already finds itself underfunded one year before it's levied its first payroll tax and four years before paying its first benefit.

Back on the Ballot?

## Opt-Out Recommendation (Jan 1, 2021):

Fear of Participation Loss to Private LTCI Market

Adverse Selection (Net Cost .02% to .03%)

Increase Payroll Tax from .66% to .68% or .69% (If Opt-Out is Preserved)

SHB 1323 – Proposed to Guarantee Opt-out Provision (Reinstate date of 12/21/22 – FAILED in HOUSE)

Opt-Out until “Effective Date of Act” / “Last Day of Session” (90 days post session ~ 7/24/21?)

# What It Is:

## *Payroll Tax and Qualifications*



- 3 OF 10 ADLS (*Cognitive is an ADL*)\*
- NO SEPARATE COGNITIVE TRIGGER
- BENEFITS SUBJECT TO CHANGE
- APPROVED PROVIDERS (*Medicaid Rates*)
- BENEFITS PAID AT MEDICAID RATES

*\*Bathing, Dressing, Transferring, Toileting, Eating, Cognitive Impairment, Medication Management, Body Care, Ambulation/Mobility*

# When It Starts:

## *Payroll Deductions & Education*



- EMPLOYER EDUCATION *(2020-2021)*
- PAYROLL DEDUCTIONS *(1/2021)*
- PUBLIC OUTREACH *(2024)*
- CLAIM FOR BENEFITS *(1/2025)*
- PERFORMANCE REPORT *(1/2026)*



# By HIPAA Standards it's NOT Long-Term Care

Care Duration 2yrs or More

Portability

Guaranteed Benefits

Cognitive Trigger (1 of the 3 ADLs Needed)

Reimbursement Limits (Medicaid)



# Age 45:

*Male, Standard, Married*

## Income \$75,000

- WA TAX: \$435/yr (at 0.58) or \$495/yr (at 0.66) (\$100/day, WA CPI, 1 yr)
- LTCI \$567.84/yr (\$100/day, 3% comp, 2 yr, Lifetime-Pay)

## Income \$150,000

- WA TAX: \$870/yr (at 0.58) or \$990/yr (at 0.66) (\$100/day, WA CPI, 1 yr)
- LTCI \$ 567.84/yr (\$100/day, 3% comp, 2 yr, Lifetime-Pay)

## Income \$250,000

- WA TAX: \$1450/yr (at 0.58) or \$1650/yr (at 0.66)(\$100/day, WA CPI, 1 yr)
- LTCI \$567.84/yr (\$100/day, 3% comp, 2 yr, Lifetime-Pay)

# Age 45:

*Female, Standard, Married*

## Income \$75,000

- WA TAX: \$435/yr (at 0.58) or \$495/yr (at 0.66) (\$100/day, WA CPI, 1 yr)
- LTCI \$1054.08/yr (\$100/day, 3% comp, 2 yr, Lifetime-Pay)

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# Age 55:

*Male, Standard, Married*

## Income \$75,000

- WA TAX: \$435/yr (at 0.58) or \$495/yr (at 0.66) (\$100/day, WA CPI, 1 yr)
- LTCI \$1,050.00/yr (\$100/day, 3% comp, 2 yr, Lifetime-Pay)

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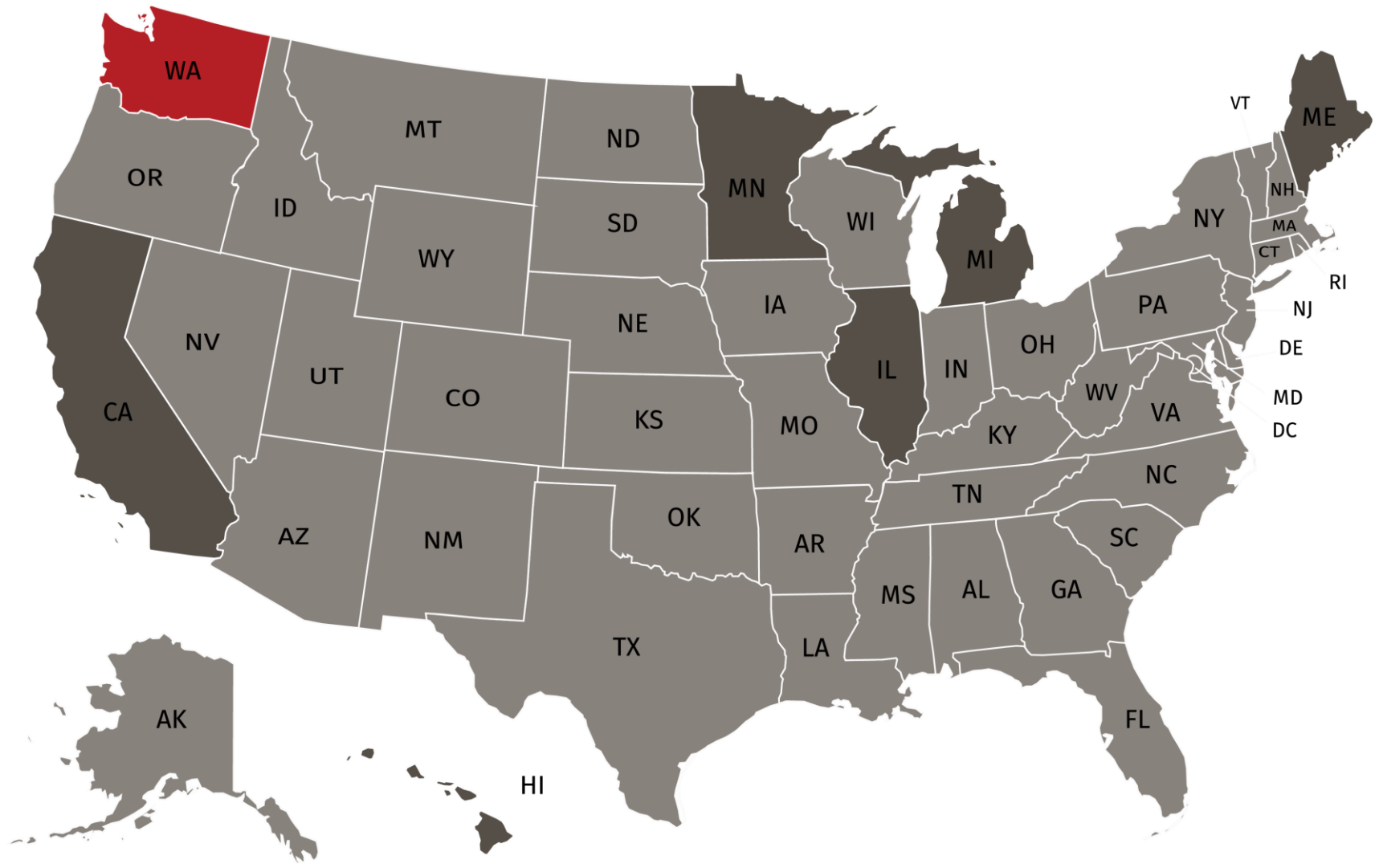
- WA TAX: \$435/yr (at 0.58) or \$495/yr (at 0.66) (\$100/day, WA CPI, 1 yr)
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*Partnership Programs*  
Medicaid Protection

# Medicaid

## SPOUSE NOT APPLYING

1/2 Assets (*up to State Cap*)

All Income (*in Individual's Name*)



Home Equity  
(*to MAX Allowance*)

## SPOUSE APPLYING

2k

Personal Needs  
Allowance

LTC PARTNERSHIPS: \$ for \$ Asset Disregard







# Pre-Tax Funding

Self-Employed & HSAs

# The Best Kept Secret for Executive/Owner Benefits

- Imagine An Executive Benefit...
  - **Deductible** to the Employer (*IRC § 162*)
    - < 2% Shareholders Always 100% Deductible (Reasonable Compensation)
      - Before and After Retirement (post-retirement benefits)
      - As part of a Severance Package
      - To the Spouse and dependents of Deceased Employees
  - **Not Income** To The Employee/Executive (*IRC § 106(a)*)
    - Flow-Through Entities - Counted As Income and deducted as Self-employed Medical For >2% Shareholders
    - W-2 Or < 2% Shareholders - Not Income (*subject to Reasonable Compensation*)
    - C-corps - is Not Income /Dividends to Shareholder-EE
  - **Tax-Free Benefits** (*IRC § 7702(B)*)
    - Can be provided to the Non-employee Spouse
    - Allows For Discrimination

# Tax-Advantaged Executive/Owner Carve-Outs

- Can Discriminate (*No Non-discrimination Regs.*)
  - Must be provided to Employees in their Role as Employees (*IRC § 162*)
- Class Carve-outs
  - Income
  - Job description / Title
  - Tenure
- Must Have A “Written Plan” (*IRC § 162(1)(2)*)
  - Corporate Resolutions, Employee Benefit Memorandums
- Must be considered Reasonable Compensation

## Fact Pattern #1

# C-Corporations or LLCs (taxed as C)

- C-Corp Can Deduct TQ LTCI Premiums  
For Employees (spouse and dependents), (*IRC § 162*)
  - Owners and Employee 100% Deductible
  - Subject to Reasonable Compensation
- Premiums Are Excludable From Income For Employee's  
(*IRC § 106(A)*)
  - Before and after Retirement (Post-Retirement Benefits)
  - As part of a Severance Package
  - To the Spouse and Dependents of Deceased Employee

*Neither Wolf & Associates, nor its representatives, are authorized to give legal and/or tax advice.*

Fully Deductible

Fact Pattern #2

# S-Corps, Sole Props & LLCs

Flow-through Entities (>2% Shareholders),  
Itemized Medical, HSAs

<b>AGE BEFORE YEAR END</b>	<b>2021 ANNUAL LIMIT</b>
40 or Younger . . . . .	\$450
Over 40, but less than 51 . . . . .	\$850
Over 50, but less than 61 . . . . .	\$1,690
Over 60, but less than 71 . . . . .	\$4,520
Over 70 . . . . .	\$5,640

Note: Deduction limits for >2% owners of flow through entities are found in IRC Sections 213 & 162. Source: <https://www.irs.gov/pub/irs-drop/rp-15-53.pdf>  
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Partial Deductions

## Fact Pattern #3

# Sole Proprietors & LLCs

- All Benefits Purchased for W-2 Employees 100% Deductible (If < 2% Shareholders)
- LLC's and Sole-proprietors – No Stock Attribution Rules
- Employee Benefit Offering to Classed Employee (Employee Spouse)
- Reasonable Compensation

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**SAVE**

**UP TO  
40%  
OFF**

**WITH  
PRE-TAX  
FUNDING**

**SAVE**

**UP TO  
40%  
OFF**

**WITH  
PRE-TAX  
FUNDING**





*Questions?*





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# *Old Challenges Revisited*

Lapse Rates (no Portability/Vesting)

*Product Design*  
Shared Risk

# Product Design

Maximum  
Lifetime  
Benefit

2

3

4

5

6

8

10

SHARED

Maximum  
Daily Benefit

\$100

110

120

130

140

\$150

160

170

180

190

\$200... TO \$500

Inflation

1 %

2 %

3 %

4 %

5 %

Comp or  
Simple

Elimination  
Period

0

30

60

90

180

365

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Home  
Care %

0

50

60

75

80

100

*Note: Actual product options vary by Insurance Company*

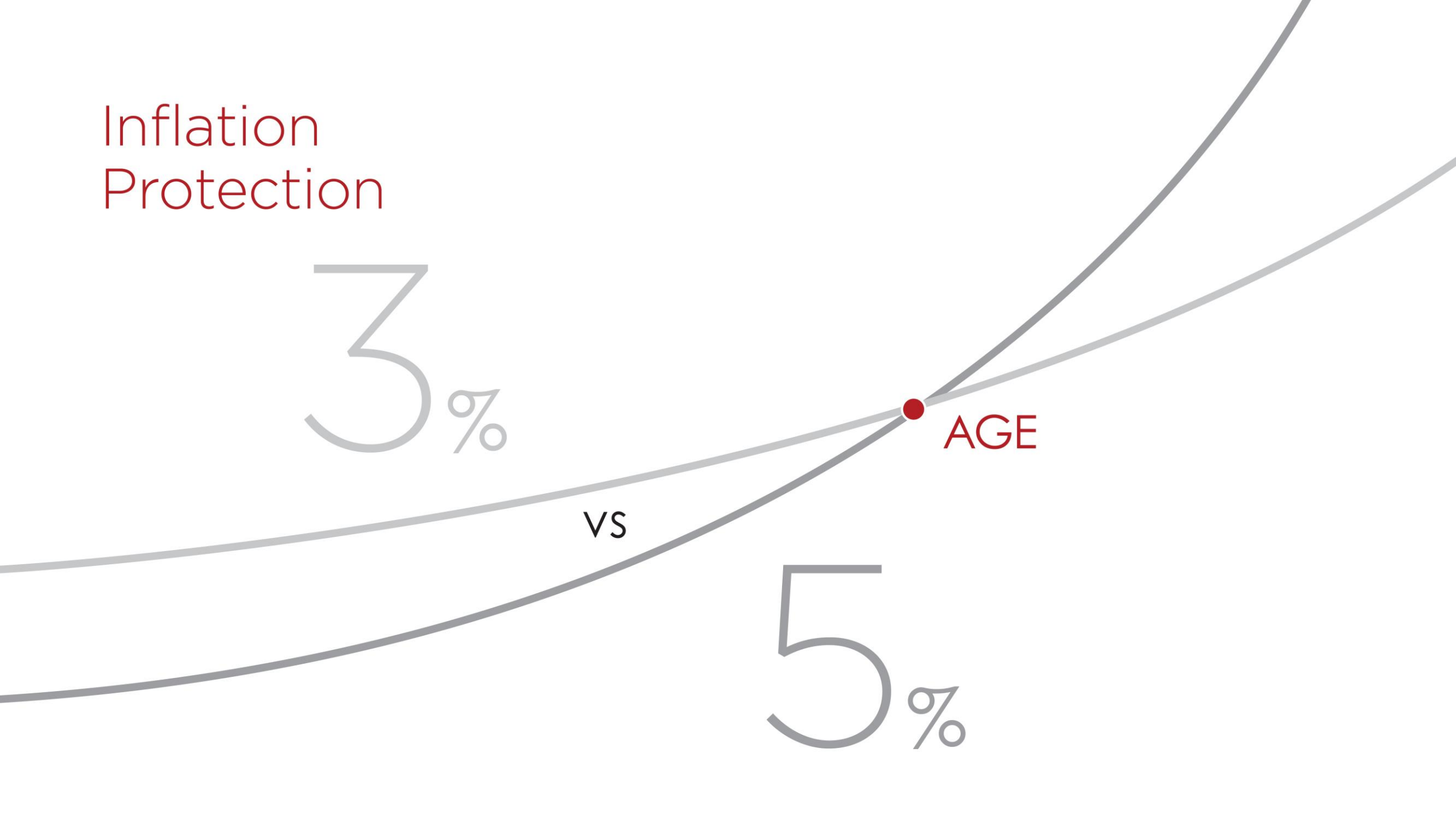
# Inflation Protection

3%

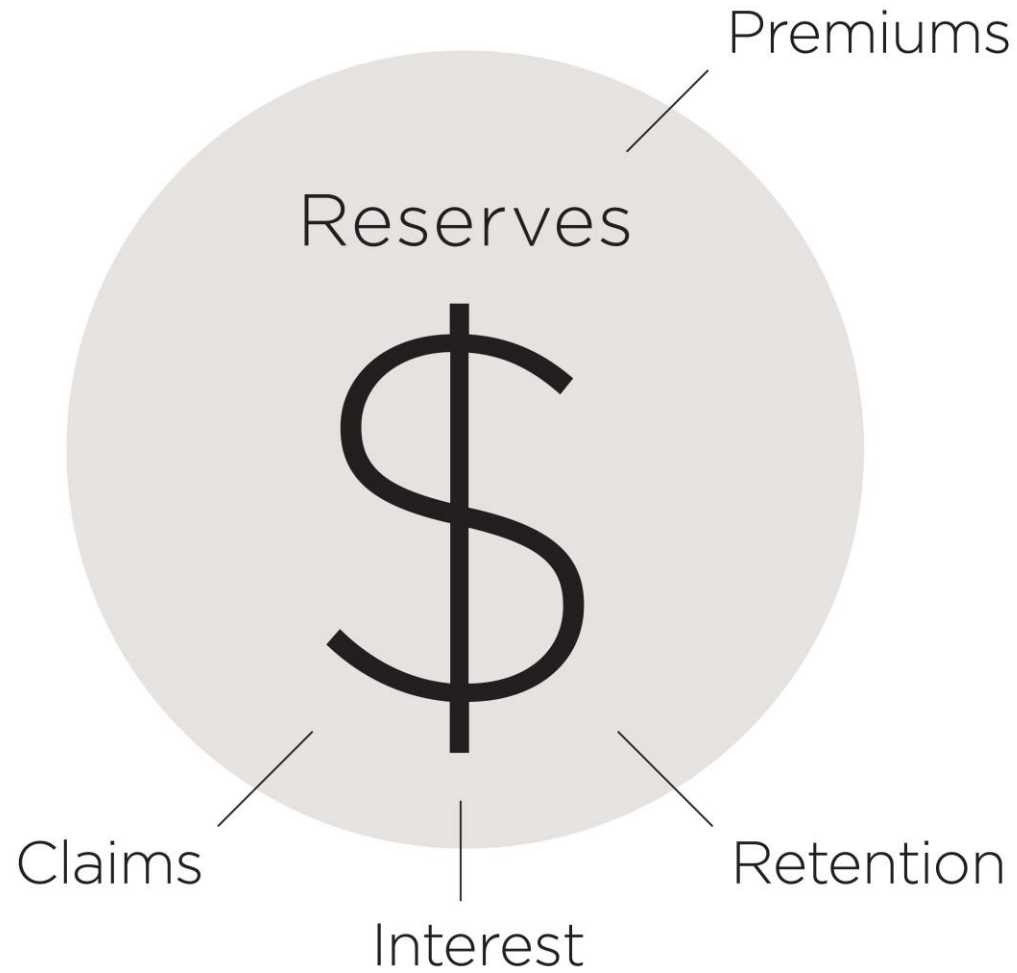
vs

5%

AGE



# LTCI Pricing



TIMELINE:





# Premium Stability

40% 30% 10%

Monte Carlo

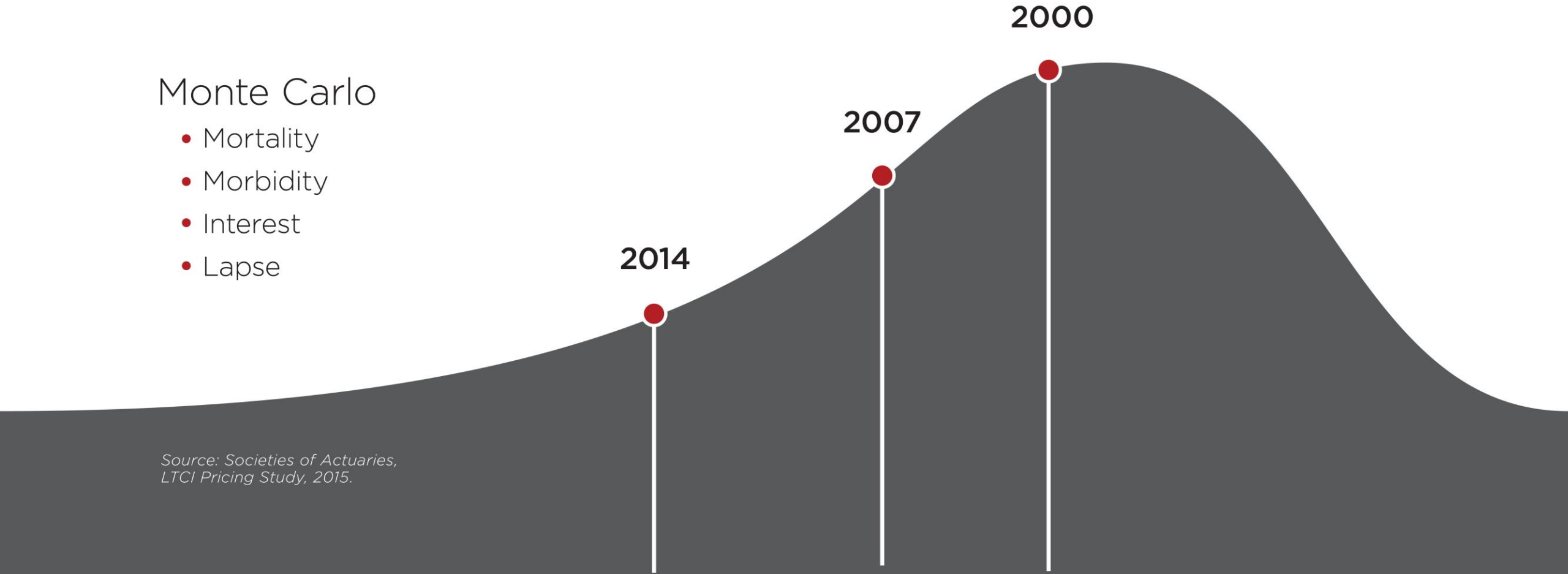
- Mortality
- Morbidity
- Interest
- Lapse

2014

2007

2000

*Source: Societies of Actuaries,  
LTCI Pricing Study, 2015.*



# Life/LTC

●  
**LIFE**

●  
**LIFE/  
ADB**

●  
**COMBO  
& LTC**

●  
**LTC**

## Actuarial Risks

- Mortality
- Morbidity

## Consumer Demands

- Rate Guarantees
- Money Back if Not Needed  
(Not “use it or lose it”)





EUGIA

# Evolution of Care Delivery

- Home Care
- Assisted Living
- Memory Care

- Nursing Home



*Cost of Care*  
Seattle, WA

# Cost of Care

	COST RANGE		
	MINIMUM	AVERAGE	MAXIMUM
<b>HOME</b>			
Homemaker Services <b>Hourly Rates</b>	\$26	<b>\$27</b>	\$30
Home Health Aide Services <b>Hourly Rates</b>	\$25	<b>\$26</b>	\$29
<b>FACILITY</b>			
Assisted Living Facility <i>(Single Person Occupancy)</i> <b>Daily Rates</b>	\$99	<b>\$193</b>	\$341
Memory Care Facility <i>(AL License - Single Person Occupancy)</i> <b>Daily Rates</b>	\$123	<b>\$227</b>	\$363
Nursing Home <i>(Private Room)</i> <b>Daily Rates</b>	\$325	<b>\$365</b>	\$462

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# Self-Insuring

*1 Year of Care*

	Home Care* (8hrs/day)	Assisted Living**	Nursing Home**
Current	\$78,236	\$61,862	\$122,775
In 10 Yrs	\$105,143	\$100,766	\$199,988
In 20 Yrs	\$141,303	\$164,138	\$325,760
In 30 Yrs	\$189,900	\$267,363	\$530,629
In 40 Yrs	\$255,210	\$435,506	\$864,338

\* Represents a **3% inflation** assumption

\*\* Represents a **5% inflation** assumption

**NOTE:** Inflationary assumptions are estimates only

# Self-Insuring


## 5 Year of Care

	Home Care* (8hrs/day)	Assisted Living**	Nursing Home**
Current	\$348,908	\$637,571	\$345,822
In 10 Yrs	\$468,903	\$1,038,536	\$563,307
In 20 Yrs	\$630,167	\$1,691,666	\$917,567
In 30 Yrs	\$846,892	\$2,755,546	\$1,494,621
In 40 Yrs	\$1,138,152	\$4,488,494	\$2,434,579

\* Represents a **3% inflation** assumption

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**NOTE:** Inflationary assumptions are estimates only

The image features two hands, one on the left and one on the right, rendered in a soft, golden-brown color. They are positioned to hold a white rectangular card in the center. The card contains the text 'Is insurance really an effective tool?' in a simple, black, sans-serif font. The background is a light, warm gradient, and the overall composition is clean and minimalist.

Is insurance really an  
effective tool?

Washington  
Long-Term  
Care Trust  
Act (2019)

No Separate Cognitive Trigger



WA CPI:

*Subject to Legislative Change*  
Seattle CPI

INFLATION