Long-Term Care Insurance as a Corporate Benefit

Preserving and Protecting Employees' Retirement Assets

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Note: LTC policies discussed are individual contracts, individually written and subject to state insurance laws.

PRESERVING AND PROTECTING EMPLOYEES RETIREMENT ASSETS WITH LONG-TERM CARE INSURANCE

Protect Your Employees' Retirement Plan from the Cost of Long-Term Care

Businesses today face a myriad of challenges on a daily basis - competition, business planning, staffing, productivity, cost containment, etc. Some of the biggest obstacles these businesses face are recruiting, developing and maintaining a nucleus of key employees who confront day-to-day business challenges and position the company for future success. Business owners can ill afford to spend years attracting and cultivating employees only to lose them to an industry rival.

Many employers do not realize there is a huge hole in their employee retirement savings plan - the risk of their employees needing long-term care services. In fact, a survey of attitudes about long-term care reveals: [1]

82% think it is irresponsible not to plan for one's own long-term care needs.

76% say the cost of long-term care would significantly reduce their retirement income and assets.

67% believe the cost of long-term care is the greatest risk to their standard of living during retirement.

12% have made financial preparations for their long-term care needs.

It is critical that employees plan during their working years when insurance is affordable. Furthermore, they look for confirmation and encouragement from their employers to begin the planning process - the same trusted resource that is helping them plan for retirement.

Employer-based long-term care insurance (LTCI) is an essential part of a comprehensive benefits package. From the federal government to S&P 500 companies, many are now offering long-term care insurance to their employees. In addition, executive carve-out plans are vastly becoming a popular way to attract, reward and retain your highly compensated employees.

> 6,576 employers installed a group long-term care insurance plan in 2004. This represents a **411%** growth over seven years. [2]

This information is subject to interpretation of the Health Insurance Portability and Accountability Act of 1996.
Consult your tax advisor, accountant or financial advisor on tax issues.

LONG-TERM CARE PLANNING

Long-term care planning is an important component of most people's overall financial plan. With costs for a Home Health Aide averaging $18.65 an hour nationally, and a private room in a nursing home averaging $70,912 per year nationally, lack of this important protection could have a major impact on retirement planning. [3]

A benefit plan utilizing Tax-Qualified Long-Term Care Insurance offers employers a way to reward and retain the loyalty of their hard-working key people.

Tax-Qualified Long-Term Care Insurance occupies a unique status in IRS code. In certain cases, when purchased by an employer for selected employees, the premium payment may be deductible to the employer (IRC Sec. 162(I)). Employer paid premium generally does not generate additional taxable income to the employee even though the employee is the owner of the long-term care insurance policy (IRC Sec. 106(a)). Benefits from the Tax-Qualified Long-Term Care Insurance policy paid to the employee may be likewise income tax free. (IRC Sec. 105b). The same results apply to a Tax-Qualified Long-Term Care Insurance policy purchased by the employer for the employee's spouse along with retirees and their spouses. There are few products with as many tax advantages as Tax-Qualified Long-Term Care Insurance purchased through the employer.

Consider the Savings

- Cost of replacing a managerial employee can reach 250% of annual salary. [4]
- Cost of replacing a non-managerial employee can reach 150% of annual salary. [5]
- U.S. businesses lose as much as $29 billion annually in lost productivity due to caregiving. [6]

What is an Executive Carve-Out?

An executive carve-out is a method whereby an employer may favor only selected employees for certain benefits, and exclude others. It is a way to offer certain benefits to select employees on criteria determined in advance by the owner.

Select employees appreciate this type of protection because it can help protect their planning, saving and accumulating of funds for retirement.

Further, when retired, long-term care insurance helps to protect income streams and conserve assets. For business owners, it also helps to protect business values, personal assets and retirement plan values.

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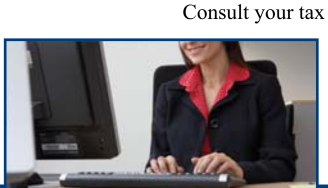


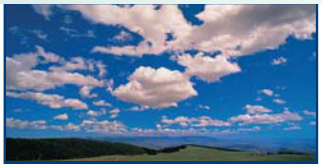


HOW LTCI PLANS BENEFIT BOTH THE EMPLOYER AND THE EMPLOYEE

Benefits for the Employer

- Rewards and recognizes employees for their hard work and dedication.
- Gives employers flexibility to include select employees without violating any anti-discrimination rules.
- The program can include owners, employees, spouses, dependents and retirees.
- May allow for 100% deduction if the qualified long-term care insurance premiums are paid by the business for employees, their spouses and dependents.
- Helps avoid potentially costly business disruptions.

> "With long-term care as a financial risk of highest concern for employees, they look to their employer as the primary source for information and availability of long-term care." [7]

Benefits for the Employee

- Rewards and recognizes employee for their hard work and dedication.
- Provides one of the most desired benefits for employees and their families.
- Premiums paid by the business generally do not count as income for the employee.
- Benefits received for long-term care services are generally tax-free.
- Helps ease the financial and emotional strain of caring for a loved one.
- Offers employees a way to help prevent family and friends from being burdened with their long-term care needs.
- Many long-term care insurance plans include built-in care advisory services to help aging parents.

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WHAT IS LONG-TERM CARE?

Long-term care assists people with chronic conditions or limitations that restrict them from living independently. Long-term care differs from traditional medical care in that it serves to maintain a standard of independent living, while not improving or correcting a medical condition.

> "A study by the U.S. Department of Health and Human Services indicates that people of age 65 face at least a 40% lifetime risk of entering a nursing home. About 10% will stay there 5 years or longer." [9]

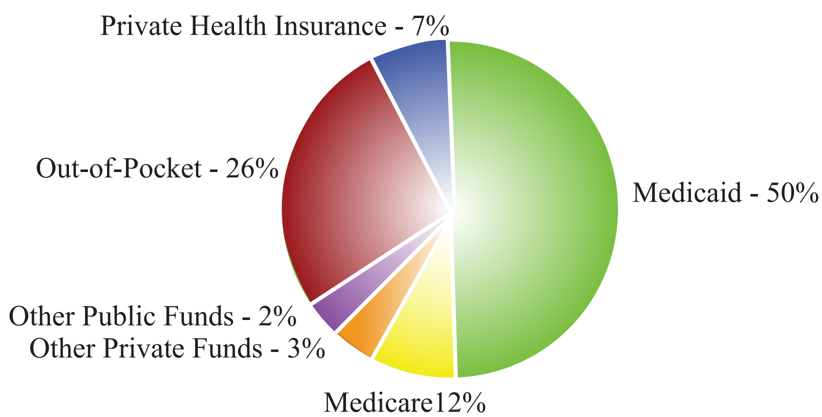
Approximately 57% of people in need of long-term care are aged 65 and older, while 40% are working-age adults aged 18 to 64.[8] Often times, long-term care becomes necessary with the onset of major illnesses such as strokes, heart attacks or Alzheimers.

With millions of Americans approaching retirement, many still have decisions to make as to how they would deal with the potentially devastating health care costs to come. Our government clearly does not wish to assume responsibility for these impending costs. Instead, they hope to transfer this risk by creating incentives for employers to develop corporate sponsored LTC benefit plans.

Who pays for Long-Term Care?

Individuals pay for long-term care. Although State Medicaid programs may pay for as much as half of the costs of nursing home care nationally, there are very strict eligibility factors that affect Medicaid qualification - mainly one's income level (Medicaid assists low income and poverty level persons and families). These programs may not pay for care received outside of a nursing home.

Long-Term Care Spending [10]



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Will Medicare Help?

Many people assume that Medicare will pay for long-term care, however, Medicare was never designed to cover chronic care or disabilities due to old age, but instead was designed to cover acute medical care. The following is criteria for coverage of nursing home stays under the Medicare program:

- Only in a skilled nursing facility.
- The skilled nursing facility must be Medicare approved.
- Nursing facility stay must follow a hospital stay.
- Must enter the skilled nursing facility within 30 days of discharge from the hospital, and you must enter for the same reason which you were hospitalized.

Many employees make the mistake of relying on government programs like Medicare and Medicaid to fund their long-term care expenses. They may not realize that there are certain criteria to qualify for either program and that the benefits provided may not suit their needs. In addition, both programs are straining under rising demand.

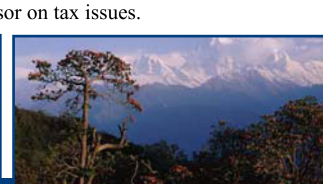
Taking personal responsibility for potential long-term care needs may be the wisest course of action. In fact, the federal government is trying to encourage the purchase of private insurance by offering the Federal Long-Term Care Insurance Program (FLTCIP) to its own employees and their family members. The FLTCIP has been well received and is the largest employer sponsored long-term care insurance plan in the nation with over 250,000 insureds.

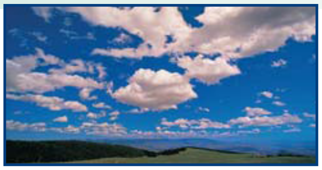
Will Medicaid Help?

Medicaid is the joint federal and state program to pay health care costs for the poor. For those who qualify, Medicaid will pay for the custodial long-term care.

- Medicaid is welfare.
- Assets and income must be low enough to meet the qualification rules. Typically, nursing homes do not provide the same level of care and services as they do for privately insured patients.
- Being a Medicaid patient may limit one’s choice of nursing homes or other care facilities, since many prefer not to take Medicaid patients due to low reimbursement levels.
- At the death of a Medicaid beneficiary, the state paying the benefits can recover them from the individual's estate.
- Medicaid rules vary by state.






ENHANCING YOUR EMPLOYEE'S BENEFITS PACKAGE

As good as your benefits package is, it may have gaps when it comes to protecting employees and their family members from the high costs of long-term care.

Health benefits are designed to cover the costs of treating acute illnesses; they do not cover the cost of an assisted living facility stay. Disability insurance is there as income replacement; it does not pay the cost of home health care. Long-term care insurance can enhance your benefits package by providing employees with important coverage that these other benefits do not.

Long-Term Care Insurance is the Answer

It helps protect assets - Long-term care insurance saves an average of $1,668 in out-of-pocket expenditures per month for insureds who use home-care and $2,458 per month for insureds who need skilled nursing facility.[11]

It gives people a choice about care - collecting private home-care benefits would allow approximately 52 percent of long-term care recipients to remain at home.[12]

It eases the burden on family members - 68 percent of informal caregivers reported a decrease in stress when the care recipient had long-term care insurance.[13]

It gives piece of mind - 98 percent of enrollees said they felt more secure about their future.[14]

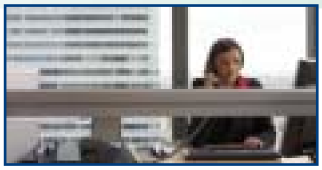
Recruiting and Retention

A corporate sponsored long-term care benefit plan offers a huge recruiting and retention advantage to any employer in today's fiercely competitive labor market. Increasingly, such plans are being established for employees and highly compensated professionals who otherwise have considered self-funding as their primary defense.

Attract, Reward and Retain

Companies of all sizes provide supplemental benefits to their employees. The program that was not included and is expected to be the most sought after benefit is long-term care.

The Federal Government has provided many tax incentives for the establishment of these plans. Now is the time for all of us to consider insuring this major risk. Recent incentives for the private sector to foster long-term care coupled with the evolution of quality products, corporate long-term care benefit plans are fast becoming a desirable option in today's workplace.

BENEFITS THAT BUILD VALUE

Deciding to purchase long-term care insurance for your employees is just the first step. Building them a long-term care plan that builds value and preserves assets is the next. Plan configuration is key when designing a long-term care plan for executives. Benefit options such as Return of Premium, Limited Pay, and Spousal Coverage can provide your executives with a plan rich in value that will work for them beyond their years of employment.

Return of Premium

The Return of Premium Rider can result in substantial benefits for the estate of an executive. With the Return of Premium Rider, all the long-term care insurance premiums, less any benefits paid, will return to the policy owner's estate, or the designated beneficiary, upon death. Options vary by carrier selected.

Limited Pay Options

Limited Pay Options are a perfect fit for many executive carve-out plans. A 10-pay premium rider is an attractive feature for employers because the long-term plan will be fully paid-up after 10 years. The plan's portability feature allows executives to take the plan with them fully paid up upon retirement. If employees terminate employment prior to the coverage being paid-up, they can still retain the coverage at their own expense.

For C-Corporations with excess earnings, limited pay options allow the corporation, in most situations, to fully deduct the premium amounts.

Extending Coverage to Spouses

Long-term care insurance coverage can be extended to spouses of the employees. Extending coverage to spouses allows for significant premium discounts and is an attractive executive perk. Spousal coverage can also be deductible to the corporation. According to one survey executives performance is impaired if their spouse needs long-term care: [15]

- 56% said they were less productive at work.
- 51% had to take time off during the work day.
- 30% reported being absent for at least a full day.
- 10% had to give up work entirely.
- $34 billion in lost productivity annually.[16]

LONG-TERM CARE INSURANCE (LTCI) TAX BENEFIT SUMMARY

	C-Corporation	S-Corporation	Partnerships
		Applies to shareholders owning 2% or more (also includes Professional Corporations and Personal Service Corporations)	Includes Family Limited Partnerships and Limited Liability Companies
Corporate Tax Benefit	100% of premium is deductible	100% of "total" premiums paid for employees, spouses & dependents are deductible	100% of premiums is deductible
Personal Tax Benefit For Owner(s) [17]	None	Owners of 2% or more can deduct 100% of "eligible" premiums paid for themselves, their spouses & dependents on their personal tax returns	Partners can deduct 100% of "eligible" premiums paid for themselves, spouses and dependents on their personal tax returns.
Income Tax To Employee	Generally no income tax to employees	Generally no income tax to employees	Generally no income tax to employees
Income Tax To Owners	Generally no income tax to owners	Premiums paid on behalf of 2% or more owners, their spouses and dependents are treated as taxable income to the owners	Premiums paid on behalf of Partners, their spouses and dependents are treated as taxable income to the Partners
Taxation Of Benefits Received	Generally tax free. May be taxable if per diem is received in excess of Qualified LTCI expenses incurred and/or Internal Revenue Code maximum	Generally tax free. May be taxable if per diem is received in excess of Qualified LTCI expenses incurred and/or Internal Revenue Code maximum	Generally tax free. May be taxable if per diem is received in excess of Qualified LTCI expenses incurred and/or Internal Revenue Code maximum

*Employers should consult with their own tax and legal advisors.

Age at End of Taxable Year	Premium Limit 2008 Amount
40 or less	$310
41 through 50	$580
51 through 60	$1,150
61 through 70	$3,080
71 or older	$3,850

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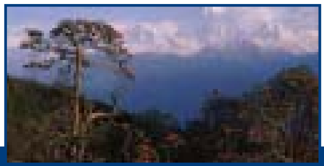

FIVE IMPORTANT REASONS TO ADD LONG-TERM CARE INSURANCE TO YOUR EMPLOYEES' BENEFIT PACKAGE

1 Take advantage of tax benefits.

Generally, benefits from employee-paid tax qualified plans are non-taxable. Under The Health Insurance Portability & Accountability Act ("HIPAA"),when a C-Corporation pays the premium on tax qualified long-term care insurance for employees, their spouses and dependents, the C-Corporation may be able to deduct the full premium as a reasonable business expense, regardless of whether the employee has ownership in the business.

2 Quality coverage as employer-paid or voluntary benefit

Whether you choose to have long-term care insurance as a voluntary benefits, which your employees pay for, or you select your top employees and pay their premiums, you're giving your employees access to quality coverage that helps them protect their financial future.

3 Get the best talent. Keep the best talent.

A benefits package that offers long-term care insurance is likely to give you a competitive advantage in today's tight labor market. If trends continue, this sort of coverage may increasingly be viewed as essential, and for that reason alone, it's wise to begin making it available now.

4 Show that you understand and are responsive to your employees' needs

When Long-Term Care insurance is offered through an employer, the policies are available to spouses, children 18 and older, parents, parents-in-law, step-parents, grandparents, step grandparents and grandparents in law of its employees and retirees. However, each person will be individually underwritten and are not guaranteed issue.

5 Improve your bottom line.

When it is all said and done, offering your employees an effective way to manage long-term care costs helps them focus on their careers, which can have a positive effect on your company's bottom line.

1. CNN Custom News, "Long-Term Care Generation Gap Sacrifice to Care for Parents Despite Elder's Wishes," 3/23/99
2. LIMRA. U.S. Employer-Sponsored Group Long Term Care Insurance Sales Report, 1996-2004
3. Genworth Financial 2006 Cost of Care Survey, October 2004
4. Work and Family 12/00, citing management consultant William Bliss
5. Work and Family 12/00, citing management consultant William Bliss
6. National Caregiving Alliance before the U.S. Senate Finance Committee, 3/27/01
7. LTCI: An Industry at the Crossroads, LIMRA International, 2004
8. U.S. General Account Office 1996
9. HIAA LTC Guide 1996/1997
10. Kaiser Commission on Medicaid and the Uninsured, "Medicare and Long-Term Care," May 2004
11. Health Insurance Association of America, "Benefits of Long-Term Care Insurance: Enhanced Care for Disabled Elders, Improved Quality of Life for Caregivers and Savings to Medicare and Medicaid," p.7, 9/02
12. Department of Human and Health Services, "A Descriptive Analysis of Patterns of Informal and Formal Caregiving among Privately Insured and Non-Privately Insured Disabled Elders in the Community," Final Report to the Assistant Secretary for Planning and Evaluation, aging and Disability Policy, Department of Health and Human Services. (Washington, D.C., Department of Health and Human Services, 4/99)
13, Department of Health and Human Services, Informal Caregivers of Elders with Long-Term Care Insurance." Final Report to the Assistant Secretary for Planning and Evaluation, aging and Disability Policy, Department of Health and Human Services. (Washington, D.C., Department of Health and Human Services, October 2000)
14. Health Insurance Association of America, "Who Buys Long-Term Care Insurance in the Workplace? A Study of Employer Long-Term Care Insurance Plans, 2000-2001" (Washington, D.C., Health Insurance Association of America, 2001)
15. Centers for Medicare & Medicaid Services (CMS), "When Employees Become Caregivers: A Manager's Workbook," December 2002
16.The Wall Street Journal, "Employers' Cost For Elder Caregiving Is on The Rise", Kelly Greene, July 11, 2006
17. No deduction allowed on coverage for the owner, spouse or dependents if the owner is eligible to participate in any other employer subsidized (wholly or partially paid by an employer) plan including that of a spouse's employer.

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Long-Term Care Insurance Benefit Recommendation

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CARRIER SELECTION GUIDELINES

POLICY SELECTION GUIDELINES

Due to the unique features of long-term care insurance products and the long-term impact on both your company and its employees, the following criteria should be reviewed before choosing a long-term care insurance carrier.

Strength of Contract

- Comprehensive plan - covering home care (professional medical care, personal care, homemaker), adult day care, assisted living, and nursing home.
- Enhanced policy features
- Liberal home care benefits
- Care advisory services

Underwriting Options

- Availability of simplified or modified underwriting
- Multiple benefit buy-up options

Company Profile

- Strong financials including an A- rating or better by A.M. Best
- Length of time offering long-term care insurance
- Volume of long-term care business
- Significant claims payment record
- Strong ability to pay claims

EXAMPLE OF A STANDARD INDIVIDUAL LTC POLICY

Covered Services	Basic Features	Optional Features
Home and Community Care • Home health care • Homemaker service • Caregiver training • Respite care • Adult day care • Hospice care in home Facilities Care • Assisted living • Skilled Nursing • Alzheimer units • In-patient hospice care Care advisory services	Insurable ages 18 - 84 Daily benefit - i.e. $200/day Benefit period (length of benefit payment) - 2 years to lifetime Elimination (deductible) period - 0 to 365 days Waiver of premium Non-forfeiture clause Inflation protection options Discounts • Worksite discount • Spouse discount • Preferred health discount Tax Qualified Guaranteed renewable Portable	Monthly benefits - $6,000/month Partner discounts Alternate plan of care Home modifications Cash benefits Survivorship rider Joint waiver of premium Informal caregiving Accelerated premiums Return of premium Shared benefit

These figures are based on an average among carriers and plans.

Sample Policy: Mary Blake, Vice President, age 53

Ms. Blake has chosen the following comprehensive (all services) policy:

Benefit period:	5 years of care (after the elimination period is met)
Monthly benefit	$6,000/month
Elimination period	30 days (one time only)
Inflation protection	Compound 5%

The immediate value of her policy ("maximum lifetime benefit")	$360,000 income tax-free
If she needs care in 30 years at age 82, the value will be	$1,556,000 income tax-free
If she needs care in 40 years at age 92, the value will be	$2,414,100 income tax-free

If she did not purchase this long-term care insurance policy, and needs care in her later years, these costs will be paid by her taxable assets. For many, this means depleting total savings and applying for Medicaid.

SUGGESTED PLAN DESIGN

Steven Sanders has come up with a suggested plan design based upon the demographic profile of your company and cost for premium care services in your area. The sample plan design below reflects a comprehensive plan with rich benefits. Please note that the following pages illustrate alternative plan designs that may fit and still offer a high level of benefits.

Employee Plan

Monthly Benefit $4,500

100% Comprehensive Policy

3 year Benefit Period

5% Simple Inflation

90 Day Elimination Period

Single Rates

Standard Health Rates

Monthly Benefit:	The maximum amount of money available to cover your long-term care needs on a monthly basis.
100% Comprehensive policy:	A comprehensive policy pays the same benefit amount for each care setting; home health case, assisted living and nursing home costs.
Benefit Period:	This can be thought of as your “benefit multiplier”. *Example: 3 years x 12 (months) x $4,500 (monthly benefit) = Initial Benefit Amount*
5% Simple Inflation:	Your Monthly Maximum and Lifetime Maximum Benefit increase each year by 5% of the original benefit amount.
Elimination Period:	This is like a “deductible”, meaning you will pay for the cost of your care for a limited period of time before the policy coverage