

The Tarnol Advisory Group

Private Wealth Enhancement Advisors

CASE STUDY: LONG TERM CARE

Problem: Husband and Wife need Long Term Care coverage, but the annual costs are high.

Solution: As their CD funds were currently earning only 1%, we looked into an alternative investment to help fund the LTC coverage.

- Current CD value \$175,000
- Annual cost of LTC policy \$5,000.

Our first step was to have them pay the first years LTC premium out of the CD funds, this now leaves them with \$170,000. We then had them purchase a fixed annuity offering a 10% upfront bonus, and a 3% interest rate.

The fixed annuity was purchased for \$170,000. They received an immediate \$17,000 bonus, bringing their account value to \$187,000. The \$187,000 now earned a 3% interest rate for that year, ending with an account value of \$192,610.

As this annuity allows up to a 10% free withdraw each year, we withdrew \$6500 in year 2, paid the taxes, then paid the LTC premiums. The account value was now \$186,110.

Year 2, \$186,110 earning 3% interest = \$191,693 - \$6500 = \$185,193
Year 3, \$185,193 earning 3% interest = \$190,749 - \$6500 = \$184,249
Year 4, \$184,249 earning 3% interest = \$189,776 - \$6500 = \$183,276
Year 5, \$183,276 earning 3% interest = \$188,774 - \$6500 = \$182,274
Year 6, \$182,274 earning 3% interest = \$187,742 - \$6500 = \$181,242
Year 7, \$181,242 earning 3% interest = \$186,679 - \$6500 = \$180,179
Year 8, \$180,179 earning 3% interest = \$185,584 - \$6500 = \$179,084
Year 9, \$179,084 earning 3% interest = \$184,457 - \$6500 = \$177,957
Year 10, \$177,957 earning 3% interest = \$183,296 - \$6500 = \$176,796
*Cash value end of year 10 = \$176,796.

After year 10, their account value is close to their original CD amount, they were able to pay for 10 years worth of LTC coverage, and as the annuity has now reached maturity, the couple has the option of moving all their funds elsewhere, or they may choose to repeat this strategy for another 10 years.

*The cash value could be higher or lower depending on overall returns, interest rates are guaranteed never to be lower than 0%.

Note: LTC policies offer waiver of premiums, so should one of them go on claim, their premiums could be waived. Should premiums be waived, they may not need to withdraw funds during that period of time.

The option below demonstrates an individual going out on their own and locating an investment that will offer them a 3% interest rate over the next 10 years.

				AFTER TAX	YEAR END	AFTER LTC
	RATE OF	INTEREST	INTEREST	INTEREST	ACCOUNT	PREMIUMS
	RETURN	EARNED	EARNED	EARNED	VALUE	PAID
Year 1	3.00%	\$ 5,100	\$ 3,825	\$ 173,825	\$ 168,825	
Year 2	3.00%	\$ 5,065	\$ 3,799	\$ 172,624	\$ 167,624	
Year 3	3.00%	\$ 5,029	\$ 3,772	\$ 171,395	\$ 166,395	
Year 4	3.00%	\$ 4,992	\$ 3,744	\$ 170,139	\$ 165,139	
Year 5	3.00%	\$ 4,954	\$ 3,716	\$ 168,855	\$ 163,855	
Year 6	3.00%	\$ 4,916	\$ 3,687	\$ 167,541	\$ 162,541	
Year 7	3.00%	\$ 4,876	\$ 3,657	\$ 166,199	\$ 161,199	
Year 8	3.00%	\$ 4,836	\$ 3,627	\$ 164,825	\$ 159,825	
Year 9	3.00%	\$ 4,795	\$ 3,596	\$ 163,422	\$ 158,422	
Year 10	3.00%	\$ 4,753	\$ 3,564	\$ 161,986	\$ 156,986	
INITIAL INVESTMENT			\$ 170,000			
ACCOUNT VALUE AT END OF YEAR 10			\$ 161,986			