Long-Term Care: To Fund or Not To Fund

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During most financial planning conversations, the topic of long-term healthcare events is sure to come up. As costs for long-term care (LTC) continue to climb faster than "normal" inflation, many of our clients frequently express concern about the impact of such events in the future. While appealing, insurance can sometimes be cost-prohibitive or impossible to obtain due to underwriting or health history challenges. As such, we recommend that our clients explore all goals and options before deciding to retain (self-fund) or transfer (insure against) LTC risk.

The most common LTC funding options:

Self-Funding: Pay out-of-pocket as needed for caregiving or other LTC needs. **Con**: This could become very costly should a family member need very long or extensive care.

Traditional LTC Insurance: Pay-as-you-go products. Ongoing annual premiums provide protection up to specified limits for specified needs. **Pros:** Transfer risk/peace of mind; Possible tax benefits; Many states protect assets through partnership programs with Medicaid. **Cons:** Most LTC policies have a use-it-or-lose-it structure; Some pre-existing conditions are disqualifying; Policies can be costly.

Hybrid LTC Insurance: Annuity or life insurance products that provide intrinsic investment or legacy financial value. Often purchased via single/limited installments or investments. **Pro**: Most provide riders that allow for access to liquidity in the event of LTC need. **Con:** Can be costly.

Medicaid: Leveraging Medicaid produces strict qualifications that make it an expensive option for those who have built significant wealth. **Con:** Benefits are often not available until personal assets are spent down to a specified low level, often $2,000.

Less common but gaining attention:

Converting *existing* permanent life insurance policies into LTC benefits. This is most often considered when life events, such as divorce or children leaving the home, reduce the need for life insurance. Converting to a LTC benefit may facilitate the exit from unwanted life insurance policy without giving up on associated benefits. This technique involves selling a life insurance policy to a 3rd party organization that will advance a portion of the death benefit for long-term care when the need arises. The 3rd party retains the right to the entire death benefit as compensation. While this can be expensive, it does offer yet another option.

Make Your Plan. Communicate Your Plan.

LTC planning is not just the buying of insurance or leveraging Medicaid.

We always recommend communicating wishes, delegating responsibilities, and ensuring all interested parties are on the same page. Family is often involved in this conversation, since the responsibility to execute any plan may fall on their shoulders.

Which option is right for you and your family? What are the key factors to consider? These are important elements of our clients' financial plans. F.L. Putnam does not sell insurance products; accordingly, we are able to advise from an unbiased position. We can work with you, your family, and your insurance professionals to ensure a cohesive financial plan. Questions? Talk to your financial planner or estate attorney to get the ball rolling.

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In recent years, taxpayers have borne witness to huge changes to the tax code and an overhaul to IRA and retirement plan rules. In addition to these structural shifts, the COVID-19 pandemic prompted not only market volatility, but legislation that resulted in required minimum distribution (RMD) waivers, stimulus checks, and several programs designed to assist small business and workers facing financial difficulty. In 2020, the IRS (and most states) delayed tax filing deadlines to allow taxpayers and business to gain footing amidst the volatility. In 2021, the IRS again faced calls to introduce similar delays. They met those calls recently with a few key changes.

Many states, including Maine, Massachusetts, New Hampshire, and Rhode Island, have introduced extensions to mirror those implemented by the IRS.

Key 2021 Tax Dates

Deadline:
Federal Tax Filing

Deadline:
2020 IRA/HSA contributions

Deadline:
Q1 2021 Estimated Taxes

Safe Harbor Tax Payments

Underpayment of taxes during the tax year can lead to penalties and interest.

If a taxpayer's federal income tax is more than $1,000, the IRS requires individuals to pay as they go throughout the year. That means taxes must be paid as income is earned and that you cannot wait until late in the year or even when you file your taxes to pay the full amount. Your taxes must be paid throughout the year.

So, how much should one pay? Send the IRS too much and you've tied up cash unnecessarily. Too little, and money is wasted paying penalties. Well, there is a safe harbor amount that you can send to the IRS to ensure you avoid penalties.

For taxpayers with adjusted gross income (AGI) below $150,000 ($75,000 if married, filing separately) the safe harbor payment is the lesser of 90% of the current year's tax responsibility or 100% of the previous year's tax. For taxpayers with AGI above the limit, the safe harbor amount is the lesser of 90% of the current year's tax or 110% of the previous year's tax. Most people are familiar with tax withholding from their wages, but withholding is also available from Social Security benefits, pension and annuity payments, and IRA distributions. If you do not have W-2 wages or other options for withholding enough to avoid penalties, quarterly estimated payments can be made.

The IRS has a form for everything. The form for calculating estimated payment and creating quarterly vouchers is the 1040-ES. The payment is due on the 15th day of April, June, September of the current year, and January of the next year. Payments can be made via check or online at www.irs.gov/etpay.

So how does "pay-as-you-go" work if your income is unevenly received through the year? The annualized income installment method can be used to calculate payments. More information can be found in IRS Publication 505 https://www.irs.gov/pub/irs-pdf/p505.pdf and, of course, there is a form for that.

Your financial planner and tax professional can help you navigate these issues.

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