from Chuck's Desk

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If you do not wish to receive my newsletter, please let me know by e-mail or telephone and I shall remove your name from our mailing list promptly.
Chuck Donovan

Long-Term Care Insurance

I had lunch recently with a Dartmouth classmate who has been involved with the issues of Aging and the Elderly for a number of years. He mentioned many young and older people consider long term care an important health issue but have done little or nothing to prepare for such a crisis. This is because there are misconceptions and confusion about long-term care insurance coverage.

I found our discussion very interesting and informative, so I am sharing his thoughts with you in this edition of **"from Chuck's Desk"**.

Long-Term Care

People age 65 and older are usually considered the best candidates for the coverage but ***anyone, even younger people, may need long-term care.*** The consensus among younger people is it is something they will not need until they are older and, therefore, they do not want to think about it now. Yet studies indicate 40% of those requiring long term care are under age 65.

Long term care is usually required due to the effects of aging, either because an individual (1) becomes physically unable to carry out everyday activities such as bathing, dressing, eating, and toileting or (2) has conditions such as Parkinson's disease, stroke, and cancer or disorders such as Alzheimer's disease. It may also be needed because of a chronic disease or while recuperating from an accident or serious illness.

It is custodial rather than medical care. The custodial care furnishes assistance with the activities of daily living or the supervision of an individual who is impaired. It is commonly provided in a nursing facility, an individual's own home, an assisted living facility or an adult day care center.

Confusion about Coverage

A recent study funded by State Farm Insurance showed people of all ages thought they had long term care coverage under another health insurance program, but did not. Long-term care is rarely covered by other health insurance plans.

They were confused about who provides long-term care coverage and the conditions under which it is offered. They were unaware that Medicare provides limited coverage for skilled nursing care (100 days in each benefit period) and only following a hospital stay.

Medicaid does provide long-term care coverage, but is only available to individuals who have depleted almost all of their own financial resources.

Asset Protection Insurance

Many insurance agents call long term care insurance ***"asset protection insurance".*** An individual needs to have cash and personal assets worth protecting to justify purchasing the insurance. If he can pay the insurance premiums without changing his lifestyle, it makes good sense to transfer the long term care risk to an insurance company.

If he cannot pay the insurance premiums without changing his lifestyle, Medicaid will in time pay for the services after he becomes impoverished.

His health is another important consideration. The state of his health is a determining factor in his ability to get long term care insurance. Often an individual does not consider getting the insurance until an unfortunate event has affected his health. This could cause him to be denied the coverage.

Cost of the Insurance

One reason many people, young and old, do not have long-term care insurance is the type of care covered is chronic and full-time. ***Their perception is it is very expensive. However, studies show that their perceived cost of the insurance is overestimated by 500%.*** In addition, it is buying insurance coverage, the benefits from which may not be received for several years.

Quality nursing facilities are always filled to capacity and charge a hefty fee for their services. A year in them could cost more than $40,000.00. Home care is also expensive and can easily cost $1,800.00 per month.

The average person has only three ways to pay for such services if he can no longer take care of himself: (1) his own cash and personal assets, (2) welfare, or (3) long term care insurance.

Designing a Long-Term Care Policy

An individual can customize a long-term care policy to suit his individual, unique needs and fit his pocketbook by selecting from among a number of alternatives such as:

1. the daily maximum benefit for nursing facility care in increments of $10.00 from $50.00 to $300.00 a day.
2. either 50% or 100% of a nursing facility's daily maximum benefit for care in the home or an adult day-care center.
3. the period during which the policy's benefits will last – i.e. three years, five years, seven years, or an unlimited number of years.
4. the waiting period before the policy begins to provide benefits – normally 30, 60, or 90 days.
5. benefit inflation protection coverage.

A person's age on the date the policy is issued affects the insurance premiums. They will be lower if an individual can afford to pay for his care for a longer time before using the policy benefits. Benefit inflation protection will, of course, increase the premiums.

Insurer's Commitment and Financial Strength Very Important

The lunch ended with his mentioning that there are a large number of insurance

Affordable Business Services, a full service accounting firm, offers innovative business solutions to small and medium size companies through specializing in the training, and consulting in the use of QuickBooks business management software.

Chuck Donovan MBA brings over 20 years of financial expertise to the business having worked as a senior financial executive with firms ranging in size from $20 million to $3 billion in sales.

His broad, hands-on accounting and finance experience has taught him that financial information must be more than just a series of numbers.

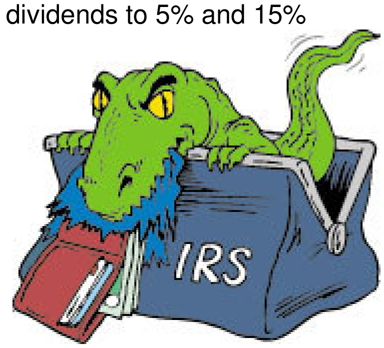
He shows and helps business owners to use their financial information to increase their cash flows, improve their profits, and build their companies, so they can plan for a secure future.

***A QuickBooks Professional Advisor* and experienced problem solver, Chuck is a graduate of Dartmouth College and received his MBA from American International College.**

companies issuing long-term care policies now, but he expected this number to be significantly reduced in the coming years. ***The policies are long term ones; the insurance company's commitment to the long term care market and its overall financial strength are critical.*** Those with a weak commitment and/or inferior financial strength will be dropping out of the market transferring their liabilities to more stable insurance companies.

The 2003 Tax Act

You are probably wondering what the 2003 Tax Act will mean for you. Signed on May 28th by President Bush, the ***Jobs and Growth Tax Relief Reconciliation Act of 2003***



- **Reduces** the rates for capital gains and dividends to 5% and 15% through 2007, and then to 0% and 15% in 2008. It is effective for capital gains starting May 6, 2003 and for dividends starting January 1, 2003,
- **Accelerates** the child credit increase, marriage penalty relief, expansion of the 15% income tax bracket for married couples, and the expansion of the 10% tax bracket for 2003 and 2004,
- **Increases** the alternative minimum tax exemption for the same period,
- **Authorizes** an additional 50% business depreciation deduction for years 2003 through 2005, and
- **Increases** the Section 179 expensing amount to $100,000 for businesses.

Child Tax Credit

Beginning the last week of July, taxpayers who claimed the child tax credit on line 50 of their 2002 tax return will get an ***"advance payment" for up to $400 per child*** to reflect the new, higher credit for 2003. It is an advance on the 2003 credit which is $1,000 and benefits only to those who have children and claimed the credit on last year's return.

The increase in the child tax credit from last year's $600 to $1,000 will be for 2003 and 2004. It drops to $700 from 2005 through 2008, rises to $800 in 2009, and returns to $1,000 in 2010.

Since this advance payment needs to be taken into account when determining the amount of the credit for this year's return, notices from the IRS about the checks have to be kept until the upcoming tax season.

Relief for Married Couples

The tax legislation passed in 2001 promised relief in year 2005 from the marriage penalty, which taxes some dual-income couples at higher rates than if they were unmarried and filing as single.

The 2003 Tax Act accelerates that by increasing the standard deduction for married couples in 2003 and 2004 from $7,950 to $9,500. The higher number is

200% of the standard deduction for a single person. However, those who itemize their deductions will not see any difference.

The 15% tax bracket has been expanded for married couples from its former limit of $47,450 in taxable income to a new taxable income level of $56,800 for 2003 and 2004. It is also 200% of the limit for a single person.

Like the child tax credit this relief will get smaller before growing again. In 2005 the top of the 15% bracket will be 180% of the single person amount and the standard deduction for married couples will be 174% of that for a single person before increasing over the following years until both reach 200% of the single person amounts.

Alternative Minimum Tax Relief

The alternative minimum tax was originally created to make sure wealthy people did not use loopholes to escape paying taxes. However, tax law changes in recent years have affected people with more moderate incomes.

The 2003 Tax Act aims to reduce the number of people affected by increasing the alternative minimum exemption from $49,000 to $58,000 for married couples filing jointly and from $37,750 to $40,250 for single people.

Changes for Businesses

There is something in the 2003 Tax Act for business owners.

The ***special first-year depreciation allowance*** has been increased from 30% to 50% for property purchased after May 5, 2003. The depreciation limit for vehicles subject to the 50% allowance has been increased by $7,650.

The ***maximum section 179 expense amount has been increased*** to $100,000 for 2003. In addition, the date to pay the next installment of a corporation's estimated taxes has been pushed back to October 1. It would have been due on September 15, 2003.