

# The Meridian Memo

Meridian Financial Advisory

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## A January Letter to Clients

Happy New Year! Because your portfolio (as important as it is) is only one component of your financial plan, and looking at it myopically can be counterproductive, we wanted to take a moment to take a look at another key factor in your financial plan. One of the biggest holes (or “gaps”) that we often see in financial plans has to do with the area of Long-Term Care planning.

households that *can* self fund, there are reasons why self funding isn’t always the best approach.) After we consider LTC, we will provide a summary of our thoughts concerning the markets.

### Long-Term Care and Your Options

Let’s first talk about the perceptions and realities

- **70% of Americans over 65 will need some type of Long-Term Care.**
- **8% of Americans think it is very likely they will need Long-Term Care at some point in their lives.**
- **3% of Americans have Long-Term Care insurance.**

Long-Term Care (LTC) can be quite costly and many of us will need LTC at some point in our lives. Fortunately, for households that cannot self fund, there are other options. (Even for

concerning LTC:

- LTC includes a whole host of services that you may one day require to meet various personal needs.

### ABOUT US:



Meridian added a new business line. The number can receive phone calls and text messages.

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- Eventually, around 70% of us will need assistance with things that many take for granted, according to the Administration for Community Living, a division of the U.S. Dept. of Health and Human Services.
- The assistance required may come about because you have been visited by an unfortunate event or due to health conditions that come about through aging. For example, these needs include things like getting dressed, taking a bath, running errands, or making meals.

Planning is the key, but many people are not sure what is covered by insurance, and others are often misinformed about Medicare coverage.

## Get informed

There are many common misconceptions about what Medicare covers and doesn't cover.

**Medicare** only pays for LTC if you require skilled services or rehabilitative care. But there are limits. **If I were to summarize Medicare's relationship to LTC in one sentence, I would say Medicare does not cover LTC.** Let's nevertheless take a look at some of the specifics concerning Medicare and LTC:

- Medicare will cover a nursing home for a maximum of 100 days. The average Medicare-covered stay is a much shorter 22 days.
- It will also pay if you are at home and are receiving skilled home health or other skilled in-home services. Generally, LTC services are provided only for a short period of time.

**Medicare does not pay for non-skilled assistance with what is called Activities of Daily Living, which make up most of LTC services.** These would include bathing, eating, getting dressed, getting in and out of bed, walking, and assistance using the bathroom.

You will have to pay for LTC services that are not covered by a public or private insurance program.

However, **Medicaid** does pay for the largest share of LTC services. To qualify, your income must be below a certain level, and you must meet minimum state eligibility requirements.

To be eligible for Medicaid, you must have limited income and assets. Eligibility criteria often exclude households that work with an advisor (including clients of Meridian) because broadly speaking, people that work with an advisor have income and/or asset levels too high to be eligible for Medicaid.

The income limit for Medicaid varies by state.

Medicaid will count things such as Social Security and disability benefits, pensions, salaries, wages, and interest and dividends. It

will not include food stamps, housing assistance from the federal government, and home energy assistance.

Medicaid will also review your assets, including assets that are counted for eligibility. These include checking and savings accounts, stocks and bonds, CDs, and property outside your primary residence. The eligibility limits on these types of assets are very low and will exclude many people from Medicaid eligibility.

However, Medicaid's eligibility criteria as it relates to home equity is not very restrictive as it allows for a high level of home equity. This particular criteria will exclude fewer people.

Are you considering gifting assets to qualify under Medicaid's stricter limits? According to the American Council on Aging, the date of one's Medicaid application is the date from which one's look-back period begins. The look-back period is 60 months in D.C. and all states but California, where it is a more lenient 30 months.

That said, if there is just one takeaway, please realize that Medicare coverage

for LTC is limited, and there are hurdles that may prevent you from obtaining Medicaid.

Laws vary depending on the state. If you have additional questions, we'd be happy to assist you.

## Paying for LTC

If you don't have LTC insurance or are unable to obtain it, here are some options you may consider outside of Medicaid.

Have you considered a **reverse mortgage on your home**?

There are no income or medical requirements to get a reverse mortgage, and you must be 62 or older. The loan amount is tax-free and can be used for any expense, including LTC.

However, if you have an existing mortgage or other debt against your home, you must use the funds to pay off those debts first.

You may live outside the home, including a nursing home, for up to 12 months before the loan comes due. The reverse mortgage could affect Medicaid eligibility but does not affect Medicare or Social Security benefits.

How about a **home equity loan**? There isn't a requirement to live in the home, and there is plenty of flexibility in paying the loan back. But beware that the inability to make payments could force foreclosure. And, in today's rising rate environment, your payment could rise.

**Life insurance** that includes a LTC benefit could provide needed cash, while policies with an "accelerated death benefit" provide tax-free cash advances while you are still alive.

The advance is subtracted from the amount your beneficiaries will receive when you pass away.

Are you familiar with a **life settlement**? A life settlement is the sale of a current life insurance policy to a third party. It's usually available for those 70 and older.

Although the proceeds are taxable, you could raise cash by selling your policy. The proceeds may be used as you wish, including LTC.

You may also tap existing assets. **Health Savings Accounts** can be used to pay qualified medical expenses without incurring a tax liability. Depending on your age, you may take tax-

free withdrawals to pay LTC premiums.

If you have a **Roth IRA**, you could pay LTC costs or premiums without paying taxes.

You may invest in a **LTC annuity**. You will pay a lump sum of money and receive a set amount of income, paid regularly, for the rest of your life. LTC annuities offer special provisions to help pay for LTC expenses and higher payout if you do require LTC. **These can be very powerful tools and get you a lot of bang for the buck.** If you're interested in, we would be happy to provide you with illustrations.

The need to access or finance LTC is an unpleasant prospect most of us would rather not think about. But avoidance is not a strategy.

Be proactive. Be aware of your options. Plan early. As always, we are happy to answer any of your questions or get you pointed in the right direction.

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## Markets

We won't do a deep dive into economic indicators, market signals or cycles as we have in recent client notes. Instead, we will provide a summary of our thoughts and recommendation. We still feel our late November 2022 newsletter is relevant. However, the anticipated recession that most, but not all, economists are predicting is now being forecasted to take place in the second half of 2023 rather than the first half. Certainly a lot to be determined.

Also, along with our 4<sup>th</sup> Quarter Client Statements, we provided more in depth market commentary as it pertains to the current environment and your portfolios.

For now, we continue to be in a challenged environment from both a market and economic perspective and that will likely persist well into 2023 as the market gradually moves its attention to somewhat decelerating inflation (positive news) to reduced economic growth and reduced corporate earnings estimates (negative news).

As we see it, there is more "risk" to the downside than the upside in the near term, but by definition because market prices have pulled back considerably from their all time highs, valuations (i.e. current market prices) are more attractive than they were before the pullback. Thus, households with medium and long term investment horizons can be confident of healthy annualized returns from this moment in time. **That means if you are in the market, you should stay in the market and not sell. It also means if you have cash on the sidelines, this is a good opportunity to begin putting it to work in the markets through a dollar cost averaging program.**

We won't try to pinpoint a stock market bottom as that is usually a fool's errand. When we make market forecasts, we generally limit them to a discussion of where we believe the market is moving directionally on a near term, intermediate term and long term basis, and we also think in terms of valuations. At this moment, the trends are still negative. Be prepared, however, for selloffs and rallies in the months ahead.

We know market pullbacks and bear markets are inevitable, and we recognize they can create unwanted angst. We also know that an unexpected, favorable shift in the economic fundamentals could fuel a sharp rally since sentiment today is quite negative.

As we have seen from over 200 years of stock market history, bear markets inevitably run their course and a new bull market begins.

We saw that after the 2008 financial crisis, and we saw that after the Covid lockdowns led to a swift bear market and a steep but short recession.

We also saw stocks rally from the lows of the 1974 bear market.

We know times like these can be difficult. If you have questions or would like to talk, we are only an email or phone call away.

Sincerely,

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