



**Proposed: Family-Funded
Long Term Care Supplement**

(Modeled on EdVEST as Modified Below)

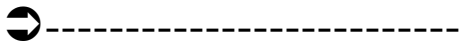
Discussion Paper
For Discussion & Study Purposes Only
(enabling legislation required)

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LifeRESERV Discussion Paper

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Introduction



Plan Basics

LifeRESERV is an innovative qualified long term care supplement program that helps families touched by disability with one of their most important financial goals – the long term care of children with severe disabilities. LifeRESERV is administered by the Wisconsin Office of the State Treasurer and is managed by a national insurance company.

With LifeRESERV, you can open an account on behalf of a designated beneficiary. The beneficiary named in the LifeRESERV account must be a severely disabled dependent and, in the opinion of a registered professional, will be in need of long term care. Your contributions to your LifeRESERV account are placed in a **trust fund** established by the State of Wisconsin. These contributions are directed into special **investment portfolios** designed and managed specifically for the program. Earnings in your account will grow tax-free unless they are distributed to cover the cost of care. The funds intended to be used for **qualified long term care supplemental support expenses** that are not covered by Medicaid, a Medicaid waiver-derivative, Medicare or other public service program. LifeRESERV does not off-set or prevent your child's eligibility for Supplemental Security Income (SSI), Supplemental Security Disability Income (SSDI) or any other public benefits.

LifeRESERV was designed with families like yours in mind. The features of the LifeRESERV long term care savings program make it easy to invest now and use later.

Tax Benefits

- Earnings in your LifeRESERV account are tax free
- Qualified distributions from your LifeRESERV account are tax free
- Post-tax contributions up to \$5000 per beneficiary per tax year are deductible from Wisconsin taxable income
- Pre-tax contributions may be deducted from your gross income in the same manner as your 401K or 403B contributions. Pre-tax contributors provide a tax credit up to \$3,000 per year.
- Anyone may contribute to a registered beneficiary account to receive these tax benefits:
 - Parents
 - Grandparents
 - Great Grandparents
 - Sisters-Brothers
 - In-Laws
 - Aunts-Uncles
 - Nieces-Nephews
 - Friends of the Family
- Completed gifts are considered removed from your estate for tax purposes, while as the account manager, you still retain control of the account.

Flexible Contribution Options

- Start building a beneficiary account with an automatic investment plan
 - Direct post-tax deposit from your checking account
 - Direct post-tax deduction from your payroll check
 - Direct pre-tax deduction from your payroll check
- A minimum of \$15 per month is required to maintain a beneficiary account
- An initial contribution of \$250 is required to open a registered beneficiary account

- You may build an account to \$500,000 for each registered beneficiary account
- The Federal and State governments will match your contributions on scale
 - Family income <\$50K, \$3 for every \$10 contributed
 - Family income >\$50K and <\$100K, \$2 for every \$10 contributed
 - Family income >\$100K and < \$150,000, \$1 for every \$10 contributed
 - Family income >\$150,000, \$0 for every \$10 contributed
- Only the income of beneficiary or beneficiary's immediate family is considered in deciding match levels
- Contributions can be made to the LifeRESERV account until the death of the beneficiary
- Contributions to a LifeRESERV account are irrevocable and belong to the LifeRESERV Foundation
- Contributions must be cash (e.g., cash donations, cash inheritances, cash payroll deductions)

Professional Money Management

- Your LifeRESERV portfolio is professionally managed by the contracted insurance company
- Your LifeRESERV account is automatically insured for \$25,000 in life insurance
- You may be able to move your fund from one investment fund to another based on the match level
 - With 30% government match, only the guaranteed portfolio is available
 - With 20% government match, only low risk portfolios are available
 - With 10% government match, low and moderate risk portfolios are available
 - With 0% government match, all portfolios are available

Qualified Expenses

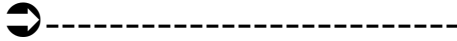
- You may use the account proceeds for long term care services that are not covered by private insurance, Medicaid, Medicare or other public service. See *qualified expenses*.
- Funds from your LifeRESERV account may be expended on behalf of the beneficiary when the beneficiary reaches 21 years of age and until the death of the beneficiary
- Funds may only be expended for qualified services, which may include the following:
 - Housing (not otherwise covered)
 - Recreation
 - Therapy (not otherwise covered)
 - Other Independent Living Supports (not otherwise covered)
 - Education/Training leading to employment
 - Other Employment supports (not otherwise covered)
 - And the like

LifeRESERV Foundation

- The LifeRESERV Foundation owns the cash content of all LifeRESERV accounts
- Residual funds remaining unused in a LifeRESERV account upon the death of the beneficiary will be transferred to the LifeRESERV Foundation for redistribution
- 50% of life-insurance pay-outs will be distributed to the LifeRESERV Foundation
- By formula, some portion of the LifeRESERV Foundation funds will off-set government matching contributions

A program of regular investment cannot assure a profit or protect against a loss unless these investments are placed in guaranteed portfolio accounts.

Investment Portfolios



Contributions to your LifeRESERV account are placed in a trust fund established by the State of Wisconsin. LifeRESERV offers investment options to suit any investor's participation level. There are multiple market-based investment options, each with different security options. As the account manager, you can select a portfolio based on your risk level. Your LifeRESERV account is owned by the LifeRESERV Foundation and does not count toward your networth or the networth of the account beneficiary. Following are the available portfolios, listed from the most conservative to the least conservative.

Government Guaranteed Portfolio

This fund is guaranteed by the State of Wisconsin to earn a minimum of 1.5% per year. Accounts involving 30% government match are restricted to this account. All investors may elect to invest their LifeRESERV contributions into this account.



Investment Examples:

Investment of these funds is decided by the Wisconsin Department of Treasury.

Low-Risk Portfolios

Privately Guaranteed Portfolio

This portfolio is a low-risk privately guaranteed fund that generates 2% return on investment. This return is guaranteed. All accounts involving government match less than 30% may invest in this account.

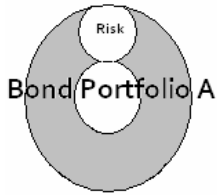


Investment Examples:

Government Bonds
Other Bonds

Bond Portfolio A

Bond Portfolio A is a low-risk fund that has historically generated a 3% return on investment. This return is not guaranteed. All accounts involving government match less than 30% may invest in this account.

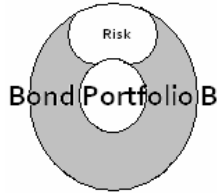


Investment Examples:

- Domestic Government Bonds
- Domestic Private Bonds
- Other Bonds

Bond Portfolio B

Bond Portfolio C is a low-risk fund that has historically generated a 4% return on investment. This return is not guaranteed. All accounts involving government match less than 30% may invest in this account.



Investment Examples:

- Domestic Government Bonds
- Domestic Private Bonds
- Foreign Government Bonds
- Other Bonds

Moderate-Risk Portfolios

Stock Portfolio A

Stock Portfolio A is a moderate-risk fund that has historically generated a 6% return on investment. This return is not guaranteed. All accounts involving government match less than 20% may invest in this account. This is a large-cap fund.



Investment Examples:

- Domestic Bond A
- Domestic Bond B
- Large-Cap Company A
- Large-Cap Company B
- Large-Cap Company C
- Large-Cap Company D

Stock Portfolio B

Stock Portfolio B is a moderate-risk fund that has historically generated a 7% return on investment. This return is not guaranteed. All accounts involving government match less than 20% may invest in this account. This is a mid-cap fund.



Investment Examples:

- Domestic Bond A
- Domestic Bond B
- Mid-Cap Company A
- Mid-Cap Company B
- Mid-Cap Company C
- Mid-Cap Company D

Stock Portfolio C

Stock Portfolio C is a moderate-risk fund that has historically generated an 8% return on investment. This return is not guaranteed. All accounts involving government match less than 20% may invest in this account. This fund is an energy fund.



Investment Examples:

- Domestic Bond A
- Domestic Bond B
- Energy Stock A
- Energy Stock B
- Energy Stock C
- Energy Stock D

Higher-Risk Portfolios

Stock Portfolio D

Stock Portfolio D is a higher-risk fund that has historically generated a 10% return on investment. This return is not guaranteed. Only accounts with no government match may invest in this account. This fund is a Large-Cap fund in emerging markets.



Investment Examples:

- Mid-Cap Stock A
- Mid-Cap Stock B
- Large-Cap EM Stock A
- Large-Cap EM Stock B
- Large-Cap EM Stock C
- Large-Cap EM Stock D

Stock Portfolio E

Stock Portfolio E is a higher-risk fund that has historically generated a 10% return on investment. This return is not guaranteed. Only accounts with no government match may invest in this account. This is a small-cap investment fund.



Investment Examples:

- Large-Cap Stock A
- Large Cap Stock B
- Small-Cap Stock A
- Small-Cap Stock B
- Small-Cap Stock C
- Small-Cap Stock D

Stock Portfolio F

Stock Portfolio F is a higher-risk fund that has historically generated a 12% return on investment. This return is not guaranteed. Only Accounts with no government match may invest in this account. This fund invests in large-cap foreign manufacturers located in Asian markets.



Investment Examples:

- Foreign Government Bond A
- Foreign Government Bond B
- Foreign Manufacturing Stock A
- Foreign Manufacturing Stock B
- Foreign Manufacturing Stock C
- Foreign Manufacturing Stock D

Stock Portfolio G

Stock Portfolio G is a higher-risk fund that has historically generated a 14% return on investment. This return is not guaranteed. Only accounts with no government match may invest in this account. This fund invests in mid-cap companies that have recently become public.



Investment Examples:

- Mid-Cap Stock A
- Large-Cap Stock A
- IPO Stock A
- IPO Stock B
- IPO Stock C
- IPO Stock D

Program Features

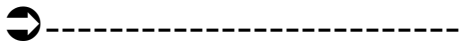


(Modeled on EdVEST with modifications)

- Matching contribution from Federal/State government (60%/40%)
 - Family income <\$50K, \$3 for every \$10 contributed
 - Family income >\$50K and <\$100K, \$2 for every \$10 contributed
 - Family income >\$100K and < \$150,000, \$1 for every \$10 contributed
 - Family income >\$150,000, \$0 for every \$10 contributed
- Government guarantees 1.5% ROI (60%/40% Federal/State) on low-risk Fund
- Fund managed by Life Insurance Co. (not by an investment bank)
 - All LifeRESERV funds are attached to a \$25K life insurance policy
 - At death, cash value of insurance and LifeRESERV fund distributed
 - 50% to Family
 - 50% to LifeRESERV Foundation
 - Family assigns Family Fund Manager as Power-of-Attorney
- LifeRESERV not an asset of the beneficiary nor of the government
 - LifeRESERV accounts are owned by the LifeRESERV Foundation
 - Investments and distributions are decided by a designated account manager
- LifeRESERV supplements not supplants Medicaid, Medicare, SSI
 - Services purchased by Family Fund Manager
 - Service Purchase Options Predefined (Examples)
 - Non-medical transportation
 - Rental Supplement
 - Long Term Care supports
 - Employment-related
 - Recreation-related
 - Money Management-related
 - Other
- Favorable Tax Policy
 - Contributions are tax deductible, like EdVEST
 - Contributions can be pre-tax or post-tax
 - Distributions are not taxable
- Managed by Family Fund Manager (Account Manager)
 - Fund controlled by family and participation is voluntary
 - Contributions can be made until the death of the beneficiary
 - Several family members may contribute to same beneficiary fund
 - Parents
 - Siblings
 - Uncles/Aunts/Cousins
- LifeRESERV Foundation Fund
 - Residual upon death (e.g., 50% life insurance, 100% account balance) accrues to Foundation Fund
 - Foundation Fund managed by Quasi-governmental Committee
 - Foundation Fund distributions pro-rata across beneficiary participants
 - Principal protected by formula



Feature Discussion



<p>State Match: Fund Building (PUBLIC VERSION ONLY)</p>	<p>Qualification: The beneficiary named in the LifeRESERV account is a person with severe disabilities and, in the opinion of a registered professional, will be eligible in the long term for Supplemental Security Income or Supplemental Security Disability Income.</p> <p>A 40% state match is not a current feature of the EdVEST program, but we are recommending (at the moment) that the state participate in the LifeRESERV program following the pattern established by Medicaid for Self-Directed Care under the Wisconsin Family Care program. A sliding level-of-participation would allow poorer families to build a more adequate future-services fund than they would be otherwise able to build. State match participation will help defray the concern that “LifeRESERV will result in a two tiered social service system – one for the rich and one for the poor” -- although EdVEST does not appear susceptible to a like-claim in the education system. Then too, trust funds and private insurance plans already allow higher-income families to better prepare for future education-service and social-service needs. The Medicaid/Medicare contributions would be permitted under current State and Federal “braiding” strategies and would effectively generate additional private funding for long term care (\$1::\$3.3), a goal of the current Family Care initiative.</p> <p>State matching funds would only apply to the PUBLIC VERSION of LifeRESERV and not to the PRIVATE VERSION. With the PUBLIC VERSION, the family’s social-service distribution can be to any social-service provider recognized by the State. In the PRIVATE VERSION, the distribution would be to a specific, host social service organization only.</p> <p>In the case of EdVEST each college can set up their own private fund, with the understanding that educational-service distributions (when they occur) can only be to the host college supporting the fund. In the same manner, each social service agency could also set up its own private LifeRESERV fund, with the understanding that social-service distributions (when they occur) can only be to the host agency. In this PRIVATE VERSION, there would be no state match.</p> <p>Government match could be supplanted (off-set) and even entirely displaced by a LifeRESERV Foundation match explained below.</p>
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	A State legislative champion would need to found.
State Match: State Control (PUBLIC VERSION ONLY)	<p>With State match, comes the temptation of State control. State involvement should be encouraged, but distribution control should reside with the account manager so long as the conditions of LifeRESERV participation are observed during distribution.</p> <p>Desirable State oversight and enforcement would include:</p> <ul style="list-style-type: none"> a) Regulation of the range of services that can be authorized under LifeRESERV. b) Authorization of providers eligible to receive funding under LifeRESERV <p>Undesirable levels of State involvement would include:</p> <ul style="list-style-type: none"> a) Restrictions on service categories that families and beneficiaries find valuable, but current ideological biases tend to dismiss as undesirable, e.g., services in non-integrated settings. b) Inclusion of LifeRESERV funds in public service plans, by cost-shifting from Medicaid to LifeRESERV funded programs. <p>State regulation would not be relevant in PRIVATE VERSIONS of LifeRESERV.</p>
Federal Match: Fund Building (PUBLIC VERSION ONLY)	<p>Qualification: The beneficiary named in the LifeRESERV account is a person with severe disabilities and, in the opinion of a registered professional, will be eligible for Supplemental Security Income long term.</p> <p>A 60% Federal government contribution is not a current feature of EdVEST, but would be recommended for LifeRESERV following the Medicaid participation pattern under State waiver authority. Federal participation, again, would help address the fund building capability of poorer families. The reasons for this Federal participation are the same as for State participation – leveraging private funding of long term care and “braiding” revenue streams.</p> <p>Government match could be supplanted (off-set) and entirely displaced by LifeRESERV Foundation match explained below.</p> <p>There would be no Federal participation in PRIVATE VERSIONS of LifeRESERV.</p> <p>A federal legislative resource would need to be identified to champion enabling legislation.</p>
Federal Match: Federal Control (PUBLIC VERSION ONLY)	<p>Federal regulation would be encouraged to the same measure as State regulation. The benefits and concerns are the same.</p> <p>Federal Control would not be relevant for PRIVATE VERSIONS of LifeRESERV</p>
Guaranteed Fund ROI (PUBLIC)	There is no guaranteed ROI with any EdVEST fund pool,

<p>VERSION ONLY)</p>	<p>although contributors may elect to invest their funds in a low yield, low risk fund pool. We are recommending a range of choices for contributors, with choices decided by the extent of government participation. For instance, with maximum government match, only a government guaranteed fund would be available. With no government match, a full range of funds (high and low risk) would be available. Funds available to LifeRESERV contributors may include the following:</p> <ul style="list-style-type: none"> a) Government Guaranteed Fund: This fund guarantees an annual rate of return of 1.5%. If the market investment managers of this fund are not able to generate a return of 1.5%, the government (60%/40%) would agree to make-up the difference with an additional match. This fund is available to all accounts but is required where government contribution is at maximum b) Private Guaranteed Fund: This fund guarantees that the annual rate of return will not be less than 0%, but may be as high as 4%. This fund is available to LifeRESERV accounts where the government match is not at maximum. c) Bond Funds A-B: These funds do not guarantee an annual rate of return, but the 10-year average experience is 4% as the rate of return. These funds are available to accounts where government match participation is minimal d) Stock Funds A-B-C-D-E-F-G: The rate of return on these funds fluctuates with the stock market. These funds are not available to accounts where government participation is at maximum. <p>The Fund Manager (family trustee) controls the investment of the fund (with the restrictions noted).</p> <p>There is no guaranteed return with PRIVATE VERSIONS unless privately arranged by the host social service agency.</p>
<p>Management by Insurance Co. (PUBLIC VERSION ONLY)</p>	<p>The current EdVEST funds are managed by Wells Fargo Investment Bank. Wells Fargo has received recognition for its sound management of the funds. Insurance Companies are just as competent to manage investment funds with the added advantage, perhaps, of attaching life insurance coverage to the fund. While investment of funds in life insurance would be prohibited, attachment of a life insurance policy to a fund would not be prohibited. In the event of the beneficiary's untimely death, the family would have resources for proper services.</p> <p>The life insurance aspect of the program would enable the LifeRESERV Foundation to generate revenue for redistribution through a 50:50 sharing of life insurance proceeds.</p>
<p>Family Fund Manager Control (All Versions)</p>	<p>Contributions to LifeRESERV accounts are voluntary. Contributions can be increased or decreased over time. Contributions can be discontinued by the contributor. Funds cannot be removed from a LifeRESERV accounts except to</p>

	<p>pay for defined benefits for the beneficiary named in the account.</p> <p>Both the PUBLIC and PRIVATE VERSIONS of a LifeRESERV fund would have a designated Fund Manager (Account Manager). The Fund Manager could change from one designee member to another. The family could designate someone outside the family as the Fund Manger. Most (if not all) of the rules that apply to Trusts would apply to a LifeRESERV account (with exceptions noted below).</p> <p>In the case of PRIVATE VERSIONS of LifeRESERV, the family could identify the host social service agency as the fund manager.</p> <p>The Fund Manager would decide matters of fund distribution with the right to identify and pay for services allowed under LifeRESERV.</p>
<p>LifeRESERV Asset Status (PUBLIC VERSION ONLY)</p>	<p>LifeRESERV funds would be owned by the LifeRESERV Foundation. LifeRESERV funds would belong neither to the government nor to the beneficiary, even if the founder of a fund account is the beneficiary. By rule the funds contributed to LifeRESERV could not be removed from LifeRESERV unless expended to cover a qualified service. Unspent residuals remaining in the fund upon the death of the beneficiary revert to the LifeRESERV Foundation.</p> <p>LifeRESERV funds cannot belong to the beneficiary without the beneficiary’s possible loss of eligibility for Medicaid, Medicare, Supplemental Security Income, Supplemental Security Disability Income, and the like. “Spend-down” rules could be applied to LifeRESERV funds if they are defined as an asset of the beneficiary or fall under the control of the beneficiary. EdVEST separates the asset from the beneficiary. For instance, under EdVEST, the State of Wisconsin DOES NOT include EdVEST account information in deciding student financial need for scholarships and loans.</p> <p>LifeRESERV would allow beneficiaries and/or contributors to “park” beneficiary assets (in cash form only) to avoid a “spend-down” loss of resources that would otherwise be required for the beneficiary to qualify for Medicaid, Medicaid waiver-derivative, Medicare, and other public service programs.</p> <p>LifeRESERV funds would not be defined as an asset of the government, since these funds will be privately contributed by families and other contributors (except for the match). However, Social Security funds are also contributed by private individuals and yet are counted as governmental assets, none-the-less, when balancing the budget. This treatment may be justified, because the Government is required to pay the benefits even if annual receipts do not rise to the level of annual distributions. In the case of LifeRESERV, distribution is not an entitlement. That being said, it may be advantageous for LifeRESERV funds, in the PUBLIC VERSION, to be counted an asset of the government for budget balancing</p>

	<p>purposes.</p> <p>The asset status of PRIVATE VERSIONS of LifeRESERV would be open to governmental asset consideration. While these funds are controlled by the contributing family, they may be counted as an asset of the host social service agency. Disposition of these private account funds in the event of untimely death or continuation of service when those funds are exhausted would need to be further defined.</p> <p>The LifeRESERV account contents would not be considered in determining financial eligibility for any government program, including, but not restricted to, the following programs:</p> <ul style="list-style-type: none"> (A) the temporary assistance for needy families program funded under part A of title IV of the Social Security Act (42 U.S.C. 601 et seq.) (B) a State program funded under part B or E of title IV of such Act (42 U.S.C. 621 et seq., 670 et seq.); (C) a State program funded under part D of title IV of such Act (42 U.S.C. 651 et seq.); (D) the supplemental security income program established under title XVI of such Act (42 U.S.C. 1381 et seq.); (E) the Medicaid program under title XIX of the such Act (42 U.S.C. 1396 et seq.); (F) the State children's health insurance program under title XXI of such Act (42 U.S.C. 1397aa et seq.); (G) the food stamp program established under the Food Stamp Act of 1977 (7 U.S.C. 2011 et seq.); (H) the special supplemental nutrition program for women, infants, and children established by section 17 of the Child Nutrition Act of 1966 (42 U.S.C. 1786); (I) a child nutrition program, as defined in section 25(b) of the Richard B. Russell National School Lunch Act (42 U.S.C. 1769f(b)); and (J) any Federal low-income housing assistance program.
<p>LifeRESERV as supplemental (All versions)</p>	<p>Under “coordination of benefits” models, it is the practice of one insurance policy (e.g., Medicaid) to shift costs to another available insurance policy (e.g., a family health insurance policy) if the opportunity permits. LifeRESERV would not be viewed as another public insurance policy to which Medicaid, Medicaid waiver-derivatives and Medicare could shift the burden of service and cost. Allowable costs under LifeRESERV would clearly avoid authorizing disbursements for services already covered by Medicaid, Medicaid waiver-derivatives or Medicare (whether such shifts were tried by the government or tried by providers who feel that they are not adequately reimbursed by Medicaid, Medicaid waiver-derivatives or Medicare.)</p> <p>LifeRESERV would also need to be a defined benefit supplement. The problem with current private trusts is that disbursements are not controlled. A trust fund is sometimes established by a family and years later Trust Manager duties are transferred from the founder to a sibling or a third party.</p>

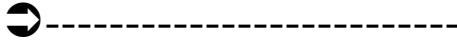
	<p>The original intentions of the trust are re-interpreted and the proceeds of the fund are not distributed to cover needed services. LifeRESERV will need to identify pre-defined benefits for which LifeRESERV funds can be spent; funds would not be used to purchase benefits outside those designated by fund rules. The Fund Manager would be restricted in how the funds could be distributed.</p> <p>LifeRESERV will be a defined benefit fund in the sense that the account manager will be restricted in the types of expenses that can be covered by LifeRESERV funds.</p>
<p>LifeRESERV single account for each beneficiary (all versions)</p>	<p>Under the current EdVEST (or 529 system), any number of accounts can be opened for a designated beneficiary. Under LifeRESERV. Only one account could be opened for each designated beneficiary. All contributors for each beneficiary contribute to the same account, releasing authority to manage the account funds to the original account founder.</p> <p>All contributors would be able to receive full tax advantages even though there is only one account. Tax incentives apply to the contributor rather than to the account. Account founders will be encouraged to recruit any number of contributing persons (whether individuals, groups of individuals, or corporations).</p> <p>These accounts would need to be registered with the Wisconsin Department of Family Services.</p>
<p>LifeRESERV Beneficiary Qualification (all versions)</p>	<p>To open an account for a beneficiary, the account founder must establish that the designated beneficiary is qualified. A beneficiary is qualified if the account founder can establish that the proposed beneficiary will require long term care.</p> <p>The LifeRESERV administration would accept as evidence that a beneficiary will require long term care any one of the following:</p> <ul style="list-style-type: none"> a) The written opinion of a licensed and registered physician or psychiatrist; b) The written opinion of the Wisconsin Division of Vocational Rehabilitation or its designee(s) c) The written opinion of the Wisconsin Family Care Program or its designee(s) d) The written opinion of the Wisconsin Department of Public Instruction or its designee(s) e) The written opinion of the Wisconsin Department of Family Services or its designee(s) <p>These written opinions would be functional assessments without regard to the beneficiary family's or beneficiary's financial status. These written opinions should be solicited as early in the life of the prospective beneficiary as possible.</p>
<p>LifeRESERV Provider Qualification (all versions)</p>	<p>A proposed provider to which LifeRESERV fund would be distributed in exchange for payment would need to be registered with the Wisconsin Department of Family Services in advance of the service.</p>

	<p>Providers would NOT be required to be licensed, certified or accredited, unless the service they provided would have to otherwise be licensed, certified or accredited under Medicaid, Medicaid waiver-derivative, or Medicare regulations.</p>
<p>LifeRESERV Qualified Services (all versions)</p>	<p>LifeRESERV funds could not be distributed to pay for services that were not “qualified” services. Qualified services would be defined in the LifeRESERV documents. A discussion of “qualified” services follow. In general, qualified services would include the following services, not otherwise covered by insurance or other public program:</p> <ul style="list-style-type: none"> a) postsecondary education leading to employment b) tutoring leading to employment c) special education services leading to employment d) training leading to independent living and/or employment e) other employment supports f) personal assistance supports g) community-based supports h) day care services (not otherwise covered) i) recreational services (not otherwise covered) j) respite care k) clothing l) assistive technology m) home modifications n) therapy (not otherwise covered) o) nutritional management p) out-of-pocket medical, vision, or dental expenses q) transportation services (not otherwise covered) r) vehicle purchases or modifications leading to employment s) insurance premiums t) habilitation and rehabilitation services (not otherwise covered) u) funeral and burial expenses and any other service or product consistent with the purposes of LifeRESERV’s supplemental long term care mission.
<p>LifeRESERV’s Favorable Tax Support (All Versions)</p>	<p>Currently contributions to EdVEST are tax deductible. However, these contributions are NOT pre-tax contributions. We are recommending that pre-tax contributions to LifeRESERV be allowed and that these contributions be tax deductible, treated at minimum in the same manner as 401k or 403b pre-tax contributions are treated. These pre-tax contributions would be paid directly by employers to the designated LifeRESERV account.</p> <p>Additionally, we are recommending that LifeRESERV accept contributions that are post-tax where the contributor can make a monthly direct deposit from their bank account to the LifeRESERV account. We are recommending that post-tax contributions have their own tax deduction treatment similar to treatment of contributions under EdVEST.</p> <p>Inheritance contributions, asset liquidation, and other types of quasi-post-tax contributions would be allowed and have their</p>

	<p>own tax-exempt treatment under LifeRESERV.</p> <p>Whether the source of LifeRESERV funds derive from pre-tax or post-tax contributions, LifeRESERV portfolio earnings and qualified disbursements would not be taxable. Portfolio earnings and qualified disbursements under LifeRESERV would have the same treatments as EdVEST earnings and disbursements.</p>
<p>LifeRESERV Contributions to End-of-Life (All Versions)</p>	<p>It is presumed that the beneficiary of a LifeRESERV account has long term care needs. This condition will generally mean that the beneficiary is eligible for SSI or SSDI.</p> <p>Long term care need being the case, LifeRESERV contributions can begin as soon as beneficiary qualification is established. Contributions can continue until the death of the beneficiary.</p> <p>It is anticipated that the need for long term care will continue until the beneficiary's death. The ability of beneficiary's family to continue contributing beyond the retirement of the parents is minimal. At this retirement date, it is likely that the beneficiary will continue to have long term care needs for several more years (20 years or more). Therefore, any number of contributors will be permitted to sustain the LifeRESERV account for as long as it is needed.</p> <p>Contributions can be made by the account founder, the account manager and/or by any other party that wishes to participate in the building of the beneficiary's LifeRESERV account. These other parties could be private foundations, corporations, relatives (uncles, aunts, siblings, cousins, etc.), and the like, all contributing to the same fund. The beneficiary himself/herself could contribute to his/her own account. All contributors would be able to equally benefit from the same favorable tax treatment. The family would be positioned to "fund raise" for the purpose of building its beneficiary's account.</p> <p>Distributions could begin when the beneficiary reaches age 21 and distributions would end upon the death of the beneficiary.</p>
<p>LifeRESERV Foundation (PUBLIC VERSION ONLY)</p>	<p>LifeRESERV would be attached to a public-private foundation administered by the Wisconsin Department of Treasury. This LifeRESERV Foundation would have several sources of revenue:</p> <ul style="list-style-type: none"> a) Private foundations or corporations may wish to contribute to LifeRESERV (just as many foundations have elected to participate in Wisconsin Covenant). b) Life Insurance contributions would result from the untimely death of a named beneficiary. 50% of the insurance proceeds and all of the LifeRESERV residual funds at the time of death would be allocated to the LifeRESERV Foundation. c) All residual LifeRESERV funds upon the death of the beneficiary would be allocated to the LifeRESERV foundation, encouraging their distribution during the

	<p>lifetime of the named beneficiary (the “use-it-or-lose-it” provision).</p> <p>Contributions to a LifeRESERV account would be irrevocable unless a beneficiary’s eligibility for long term care ceases prior to death. All residual funds remaining in a LifeRESERV account would transfer to the LifeRESERV Foundation upon the death of beneficiary attached to that account.</p> <p>LifeRESERV Foundation funds, by formula, would be used to supplant the government match. If LifeRESERV Foundation funds are available, these funds would be used to displace in part or whole the initial government match. The formula attached to this distribution would be designed to protect some portion of the principal so that the Foundation is not depleted of funds. The goal of the LifeRESERV foundation would be to assume the role of the government in matching contributions. The principal balance would need to be preserved at the appropriate level to build maximum long term foundation match participation.</p>
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Reference Guide



The information contained in this Reference Guide is intended to provide you with quick and convenient access to the answers to some of the most frequently asked questions about the LifeRESERV program.

Setting Up an Account	
Account Controller	The controller of the account will generally be the account manager, an immediate family member, who has a qualified beneficiary that is a family dependent and who sets up a LifeRESERV account. A government department or entity may not be an account owner or account manager. The founder may designate himself/herself, the beneficiary, or a third party as the account manager. The founder of the account may be a beneficiary who may designate himself/herself as the account manager. The account manager will decide distributions.
Account Owner	All LifeRESERV accounts belong to the LifeRESERV Foundation. The LifeRESERV Foundation is the owner of the accounts.
Number of Accounts	There will be one account for each beneficiary to which all contributors contribute. Tax benefits will be available to an equal extent to all contributors even though all contributors are contributing to one account.
Residency Requirements	None
Disability	The beneficiary of the account must have a documented severe disability and evidence that the beneficiary will require long term care after age 21. Evidence of long term care needs must be provided by a formal assessment process.
Social Security Numbers	Both the account manager and the beneficiary with disabilities must have a valid U.S. Social Security Number.
Investment Options	On the original application, the account manager must choose his/her investment option. The investment option may be restricted based on the level of government match participation. Account regulations allow the manager to redirect the investments (unless the investment option is restricted) once per calendar year.
Government Match	<p>The government will match your contribution based on the family income of beneficiary's family or the beneficiary (if emancipated):</p> <ul style="list-style-type: none"> ▪ \$3 match for each \$10 contributed if the family income is less than \$50,000 per year ▪ \$2 match for each \$10 contributed if the family income is between \$50,001 and \$100,000 per year ▪ \$1 match for each \$10 contributed if the family income is between \$100,001 and \$150,000 per year ▪ \$0 match for each \$10 contributed if the family income if more than \$150,000 per year <p>The level of the match will be determined by the annual income level of the family to which the beneficiary is a dependent or, if the beneficiary is emancipated, by the income level of the beneficiary. The level of match will not be decided by the income level of the contributors outside the immediate family or emancipated beneficiary.</p>

Annual Fees	LifeRESERV has a \$20 annual maintenance fee that is waived if: <ul style="list-style-type: none"> ▪ The account manager or beneficiary is a Wisconsin resident ▪ The account balance is greater than \$25,00, or ▪ The account has an automatic investment plan (AIP) that has been active for the 12 previous months or since account opening.
Account Insurance	Upon setting up an account, the designated beneficiary named in the account will be covered for life insurance by the National Insurance Company management service in the amount of \$25,000.
Successor Account Managers	The account manager may name a successor account manager to assume control of the account in the event of the original account manager's death. This succession plan must be designated on the original application or submitted to the managing insurance company in writing. The successor account manager may be any person under the law, including a corporation, but may not be a government department or entity.
Changing Beneficiary	The account managers may not change the designated beneficiary once the account is opened unless the account is "rolled-over" to another qualified beneficiary registered with the LifeRESERV Foundation.
LifeRESERV Foundation	The LifeRESERV Foundation is administered by the Wisconsin Department of Treasury. 50% of account life insurance payouts and 100% of residuals upon the death of the designated beneficiary are contributed by the LifeRESERV Foundation. Contributions to a LifeRESERV account would be irrevocable.

Contributions	
Minimum	A contribution of \$250 is required to open a LifeRESERV account.
Maximum	LifeRESERV account balances may not be greater than \$500,000 at any one time. Amounts that exceed \$500,000 will be refunded to the contributor.
Additional Contributions	Contributions must be at least \$15.
Methods of Contributing	Methods of contribution include personal check, Direct Deposit Plan, Payroll Deduction Plan, Wire Transfer, and others.
Rollovers	Rollover contributions from another LifeRESERV plan are permitted without tax or penalty if the funds are being transferred from one qualified beneficiary's account to another qualified beneficiary's account without regard to family ties between beneficiaries. All rolled-over funds must remain with the LifeRESERV Foundation.
Pre-Tax Contributions	Pre-tax contributions made directly from the contributor's payroll plan may be made reducing personal income in the same manner as pre-tax 401k or 403b contributions are treated, with the corresponding tax benefits to the contributor. Pre-tax contributions will result in a deduction of an authorized amount from the Wisconsin income tax amount.
Post-Tax Contributions	Post-tax contributions, e.g., inheritances, donations, and other cash contributions, will result in a deduction of an authorized amount from the Wisconsin income tax amount.
Contributors	Any person (relative, family member, friend of the family, foundation, corporation, etc.) may contribute to the account of a registered beneficiary and participate in the tax benefits available to the contribution.
Continuing Contributions	Contributors may continue their contributions to the beneficiary's LifeRESERV account until the beneficiary's death.

Investment Options	
Investment Options	<p>At the time of enrollment, the account manager must choose a specific investment account. This selection of investment accounts is restricted based on the level of governmental match:</p> <ul style="list-style-type: none"> ▪ 30% match requires investment in the government guaranteed account ▪ 20% match permits investment in low-risk accounts and government guaranteed account. ▪ 10% match permits investment in moderate-risk accounts, low-risk accounts and government guaranteed account. ▪ 0% match permits investment in higher-risk accounts, moderate-risk accounts, low-risk accounts, and government guaranteed accounts
Fund Management	All investment portfolios are managed by the National Insurance Company contracted with the Wisconsin Department of Treasury.
Investment Direction	Account managers are allowed to change their investment option once per calendar year. The ongoing money management will be the responsibility of the Wisconsin State Treasurer and National Insurance Company.

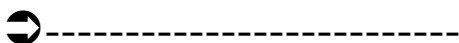
Distributions	
Withdrawals	Withdrawals from a LifeRESERV account cannot be made except to cover the expenses associated with the long term care services to the designated beneficiary.
Start of Service	Disbursements for long term care services may begin when the designated beneficiary reaches age 21.
Qualified Expenses	Qualified long term care expenses include support service expenses of the beneficiary that are not covered by Medicaid or Medicare. These expenses may be required in the estimation of the account manager to maintain or improve the beneficiary's quality of life. Withdrawals may not be made for expenses that are not associated with support services for the beneficiary. A list of qualified expenses is available at qualified expenses . No service provided to a designated beneficiary prior to the beneficiary's 21 st birthday is a qualified expense.
Legal Expenses	Legal expenses associated with the management of an account on behalf of a beneficiary are allowed, but may not exceed \$2000 per 12 month period.
Eligible Service Providers	Expenses for services provided by a service provider to a beneficiary are allowed, but only if the service provider is licensed and registered with the State of Wisconsin Department of Family Services.
Payment for Services	Payment of supplemental long term care services recognized by LifeRESERV will be made by the LifeRESERV Foundation or its designee upon receipt of a qualified service invoice from a service provider, but only if the service is authorized in writing by the account manager.
Death of a Beneficiary	Upon the death of the beneficiary, 50% of the life insurance policy is paid to the account manager. 100% of the account balance is transferred to the LifeRESERV Foundation for redistribution.
Death Balance	If there is a balance in the LifeRESERV account when the designated beneficiary dies, the account balance is transferred to the LifeRESERV Foundation.

Taxation	
Tax Deferred Growth	Neither the State nor Federal government charge income tax on LifeRESERV account earnings.
Tax-free Qualified Withdrawals	There is no State or Federal tax on qualified withdrawals.
Non-qualified Withdrawals	Non-qualified withdrawals are not allowed, and, if made by mistake, must be refunded in whole to the LifeRESERV account.
Estate Tax Benefits	Contributions to the account are considered completed gifts for federal gift and estate tax purposes and are considered removed from the contributor's estate.

Account Management Fees	
Annual Audit Fee	An annual audit fee will be charged to the account balance equal to .0005% of the account balance.
Annual Administrative Fee	An annual administrative fee will be charged to the account balance equal to .005% of the account balance.
Annual Investment Management Fee	An annual investment management fee will be charged to the account balance equal to .05% of the account balance.
Disbursement Fee	A disbursement fee in the amount of \$2 will be charged by the Department of Health and Human services for payment of service invoices.



Qualified Expenses (EXAMPLES)



The following list of services would be EXAMPLES of qualified expenses for a beneficiary from a LifeRESERV account.

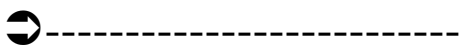
	Authorized	Not Authorized
	<ul style="list-style-type: none"> ▪ The services below are examples and do not represent the full range of authorized and not authorized services. ▪ A LifeRESERV account is not obligated to pay any expense that is not authorized by the account manager. ▪ The account manager may not authorize any LifeRESERV account expenses for services not on the authorized list. ▪ The account manager may not authorize income payments from the account to the designated beneficiary. ▪ No party other than the account manager can obligate a LifeRESERV account. 	
Case Services	<ul style="list-style-type: none"> ▪ Third party evaluation services not covered by Medicaid/Medicare or a related waiver derivative. ▪ Third party case planning services not covered by Medicaid/Medicare or a related waiver derivative. ▪ Third party case coverage services not covered by Medicaid/Medicare or a related waiver derivative. 	<ul style="list-style-type: none"> ▪ Services provided by the account manager. ▪ Services by a successor to the account manager.
Community Living Services	<ul style="list-style-type: none"> ▪ Supplemental Independent Apartment expenses. ▪ Supplemental Group Home expenses ▪ Supplemental Assisted Living Facility expenses. ▪ Quality of life equipment that is not provided by Medicaid/Medicare or a related waiver derivative. ▪ Supplemental Community Based Residential Facility expenses. ▪ Nursing home services not covered by Medicaid/Medicare or a related waiver derivative. ▪ Nursing home services where the nursing home does not accept 	<ul style="list-style-type: none"> ▪ Live-in rental payments charged by the account manager family or contributor where beneficiary lives with payee. ▪ Nursing home services covered by Medicaid/Medicare or a related waiver derivative. ▪ Service costs exceeding Medicaid/Medicare (or a related waiver derivative) covered services.

	Medicaid/Medicare reimbursement.	
Non-Medical Transportation	<ul style="list-style-type: none"> ▪ To/From employment. ▪ To/From vacation event. ▪ To/From recreational event. ▪ To/From educational event. 	<ul style="list-style-type: none"> ▪ To/From Medicaid/Medicare covered services or services covered by a related waiver derivative. ▪ To/From emergency health care. ▪ Car and car insurance payments.
Employment	<ul style="list-style-type: none"> ▪ Equipment required to sustain the beneficiary's employment that is not covered by Medicaid/Medicare, DVR, or a related waiver derivative. ▪ Job placement services not covered by Medicaid/Medicare, DVR, or a related waiver derivative. ▪ Job coaching services not covered by a Medicaid/Medicare or a related waiver derivative. 	<ul style="list-style-type: none"> ▪ Equipment required for employment that is not covered by DVR, ADA, or other government source. ▪ Job coaching available through a Medicaid/Medicare waiver program or a related waiver derivative.
Adult Day Care	<ul style="list-style-type: none"> ▪ Equipment required to sustain the beneficiary's day service activity that is not covered by Medicaid/Medicare or a related waiver derivative. ▪ Day care support services that are not covered by Medicaid/Medicare or a related waiver derivative. 	<ul style="list-style-type: none"> ▪ Day care services that are available from Medicaid/Medicare or a related waiver derivative.
Respite Care	<ul style="list-style-type: none"> ▪ Check-in coverage services not covered by Medicare/Medicaid or a related waiver derivative. ▪ Live-in coverage services not covered by Medicare/Medicaid or a related waiver derivative. ▪ Institutional respite services not covered by Medicare/Medicaid or a related waiver derivative. 	<ul style="list-style-type: none"> ▪ Respite services covered by Medicaid/Medicare or a related waiver derivative. ▪ Respite services provided by a LifeRESERV contributor.
Hospice Care	<ul style="list-style-type: none"> ▪ Respite services not covered by Medicaid/Medicare or a related waiver derivative. ▪ Medications or health-related supplements not covered by Medicaid/Medicare or a related waiver derivative. 	<ul style="list-style-type: none"> ▪ Hospice services covered by Medicaid/Medicare or a related waiver derivative.
Health Care	<ul style="list-style-type: none"> ▪ Health related services not covered by Medicaid/Medicare or a related waiver derivative. ▪ Health related training. ▪ Non-medical therapeutic services. ▪ Home nursing or personal care services not covered by Medicaid/Medicare or a related waiver derivative. ▪ Therapy services not covered by Medicaid/Medicare. 	<ul style="list-style-type: none"> ▪ Medicaid/Medicare covered services or services covered by a related waiver derivative. ▪ Denied Medicaid/Medicare claims. ▪ Balances due after Medicaid/Medicare (or a related waiver derivative) payments. ▪ Hospital services. ▪ Emergency Room services. ▪ Physician services. ▪ Ambulance services. ▪ Pharmaceuticals.

Education	<ul style="list-style-type: none"> ▪ Educational services not covered by Medicare/Medicaid or the Division of Vocational Rehabilitation. 	Educational services ordinarily covered by Medicare/Medicaid or the Division of Vocational Rehabilitation.
Nutrition	<ul style="list-style-type: none"> ▪ Food and meal service not covered by Medicare/Medicaid or a related waiver derivative 	<ul style="list-style-type: none"> ▪ Nourishments covered by Medicare/Medicaid or related waiver derivatives



Supplemental Long Term Care Cost Calculator



Long term care can be expensive, especially to persons with severe disability who have no income. Medicaid and Medicare programs provide limited coverage and limited benefits that are same for everyone covered ... and not quite enough for anyone. The LifeRESERV program allows you to save funds for supplemental services that are not otherwise covered, recognizing that the cost of long term care each year is increasing over the prior year. Building adequate resources for later long term care services requires a bit of planning in advance.

You can use the following worksheet to see how well your current plan is working, then begin to refine your strategy accordingly to meet your goal.

Input your data in today's (current) dollars. When planning for the future, people often speak in terms of "current" and "future" dollars. "Future dollars" simply takes into consideration the effects of inflation. This calculator is designed to take into account the effects of inflation, so that you don't have to. Input your data as it is correct today, and the calculator will do the rest.

1

Your Current Investments

- Current taxable assets allocated for your dependent's long term care (usually "0"):

\$

Monthly investment toward your dependent's long term care (usually "0")

\$

Increase monthly investment by rate of inflation? Yes No

Anticipated rate of return for your investments

- How much do you currently have invested in tax-free accounts toward your dependent's long term care?

\$

How much are you adding to your tax-free accounts? Select one option and fill in the corresponding box. If desired, values in the box may be blank or zero.

\$ monthly OR

\$ annually

Anticipated rate of return for your investments

2

Household Information

Federal tax rate (see table below)

Select

State tax rate %
 Average annual rate of inflation %
 Average annual long term care cost rate of inflation %

2008 Federal Income Tax Brackets and Rates

Single Return	Married Filing Jointly Return	Federal Tax Rate
\$0 - \$7,550	\$0 - \$15,100	10%
\$7,551 - \$30,650	\$15,101 - \$61,300	15%
\$30,651 - \$74,200	\$61,301 - \$123,700	25%
\$74,201 - \$154,800	\$123,701 - \$188,450	28%
\$154,801 - \$336,550	\$188,451 - \$336,550	33%
Over \$336,550	Over \$336,550	35%

3 Long Term Care Investment Goal

Dependent's current age
 Number of year's of planned disbursement
 Number of year's of planning contribution
 Number of contributors contributing at the same level
 Dependent's age at first disbursement
 Estimated annual long term care disbursements (see examples below in current dollars) \$
 Number of years planned for disbursement

Sample Long Term Care Supplemental Disbursements (average), 2006-2007

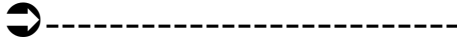
Level of Disability	Annual Cost of Supplemental Support
Non-Employable	\$10,000
Employable	\$5,000

Source: service providers responding to RFW survey

Based on the information you provided

Your estimated need when you begin long term care disbursements: \$
 Your projected account balance when the beneficiary begins receiving disbursements: \$
 Your projected shortfall is: \$
 Additional monthly savings needed to close projected shortfall: \$

Current IRS Accommodations



Reference	Commentary
<p>“A Coverdell ESA is a trust or custodial account created or organized in the United States only for the purpose of paying the qualified education expenses of the designated beneficiary of the account. When the account is established, the designated beneficiary must be under age 18 or a special needs beneficiary. (5) The balance in the account generally must be distributed within 30 days after the earlier of the following events: The beneficiary reaches age 30, unless the beneficiary is a special needs beneficiary.” ... IRS Publication 970 (2007)</p>	<p>The Coverdell ESA ends when the designated beneficiary reaches age 30 unless the beneficiary has special needs. With special needs, the beneficiary could benefit from distributions beyond age 30. This same provision would be part of the proposed LifeRESERV program.</p>
<p>Qualified Education Expenses: ... qualified education expenses are tuition and certain related expenses required for enrollment or attendance at an eligible educational institution. ... Expenses That Do Not Qualify: Qualified education expenses do not include amounts paid for: • Insurance, • Medical expenses (including student health fees), • Room and board, • Transportation, or • Similar personal, living, or family expenses. This is true even if the amount must be paid to the institution as a condition of enrollment or attendance. ... IRS Publication 970 (2007)</p>	<p>LifeRESERV, like EdVEST, would include specific qualified expenses that relate to long term care not already covered by Medicaid/Medicare and exclude services that do not.</p>
<p>“Long-term care insurance contracts generally are treated as accident and health insurance contracts. Amounts you receive from them (other than policyholder dividends or premium refunds) generally are excludable from income as amounts received for personal injury or sickness. To claim an exclusion for payments made on a per diem or other periodic basis under a long-term care insurance contract, you must file Form 8853 with your return. A long-term care insurance contract is an insurance contract that only provides coverage for qualified long-term care services. The contract must: (i) Be guaranteed renewable, (ii) Not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed, (iii) Provide that</p>	<p>The provisions for long term care insurance already ensure that insurance proceeds are not used to supplant Medicare and to pay for services or items that would otherwise be reimbursed by Medicare. This same provision would be part of the proposed LifeRESERV program.</p>

<p>refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract may be used only to reduce future premiums or increase future benefits, and (iv) Generally not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer or the contract makes per diem or other periodic payments without regard to expenses.”</p> <p>... IRS Publication 525 (2007)</p>	
<p>“... any amount rolled over from one Coverdell ESA to another Coverdell ESA for the benefit of the named beneficiary or a member of the beneficiary’s family who is under age 30 (except for a beneficiary with special needs) is not taxable.”</p> <p>... IRS Instructions for Form 5498-ESA</p>	<p>Form 5498-ESA anticipates that an account manager with separate accounts, each account with its own designated beneficiary, could transfer balances from one account to the other. Such transfers would not be taxable. LifeRESERV would seek to have the same provision.</p>
<p>“Generally, the balance in a Coverdell ESA must be distributed within 30 days after the individual for whom the account was established reaches age 30, or dies, whichever is earlier. ... The age 30 limitation does not apply if the individual for whom the account was established or the beneficiary that acquires the account is an individual with special needs. This includes an individual who, because of a physical, mental, or emotional condition (including a learning disability), requires additional time to complete his or her education.”</p> <p>... IRS Publication 559 (2007)</p>	<p>The Coverdell ESA removes the requirement to distribute funds prior to the beneficiary’s 30th birthday. Coverdell ESA includes only educational services. LifeRESERV would seek to include long term care services as part of its enabling legislation.</p>
<p>“Overview of the Rules for Claiming an Exemption for a Dependent: Tests To Be a Qualifying Child 1. The child must be your son, daughter, stepchild, foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them. 2. The child must be (a) under age 19 at the end of the year, (b) under age 24 at the end of the year and a full-time <i>you</i>, or (c) any age if permanently and totally disabled.”</p> <p>... IRS Publication 501 (2007)</p>	<p>Expenditures for services to persons with severe disabilities are already tax deductible. LifeRESERV would seek similar special tax treatment for account distributions for long term care services.</p>
<p>SEC. 844. TREATMENT OF ANNUITY AND LIFE INSURANCE CONTRACTS WITH A LONG-TERM CARE INSURANCE FEATURE. (a) EXCLUSION FROM GROSS INCOME.— Subsection (e) of section 72 of the Internal Revenue Code of 1986 (relating to amounts not received as annuities) is amended by redesignating paragraph (11) as paragraph (12) and by inserting after paragraph (10) the following new paragraph: “(11)</p>	<p>Distributions from a LifeRESERV account would also not be included in the gross income of the account manager.</p>

<p>SPECIAL RULES FOR CERTAIN OMBINATION CONTRACTS PROVIDING LONG-TERM CARE INSURANCE.—Notwithstanding paragraphs (2), (5)(C), and (10), in the case of any charge against the cash value of an annuity contract or the cash surrender value of a life insurance contract made as payment for coverage under a qualified long-term care insurance contract which is part of or a rider on such annuity or life insurance contract—“(A) the investment in the contract shall be reduced (but not below zero) by such charge, and “(B) such charge shall not be includible in gross income.”</p> <p>... Pension Protection Act of 2006</p>	
<p>“(2) An individual shall not be ineligible for medical assistance by reason of paragraph (1) to the extent that— ... (B) the assets— ... (iv) were transferred to a trust (including a trust described in subsection (d)(4) of this section) established solely for the benefit of an individual under 65 years of age who is disabled (as defined in section 1382c (a)(3) of this title) ...”</p> <p>.... 42 U.S.C. § 1396p</p>	<p>To protect eligibility for SSI and Medicaid/ Medicare, Special Needs Trusts are currently not counted toward the beneficiary’s assets if a) the beneficiary does not control the trust account by revoking or directing the use of the trust for his or her own support; b) obligations created by the beneficiary cannot be attached to the trust; c) the proceeds of the trust cannot be paid to or otherwise be construed as income for the beneficiary. LifeRESERV would be structured in keeping with 42 U.S.C. § 1396p to avoid ineligibility for medical assistance.</p>
<p>“(d)(4) This subsection shall not apply to any of the following trusts: (A) A trust containing the assets of an individual under age 65 who is disabled (as defined in section 1382c (a)(3) of this title) and which is established for the benefit of such individual by a parent, grandparent, legal guardian of the individual, or a court if the State will receive all amounts remaining in the trust upon the death of such individual up to an amount equal to the total medical assistance paid on behalf of the individual under a State plan under this subchapter. (B) A trust established in a State for the benefit of an individual if— (i) the trust is composed only of pension, Social Security, and other income to the individual (and accumulated income in the trust), (ii) the State will receive all amounts remaining in the trust upon the death of such individual up to an amount equal to the total medical assistance paid on behalf of the individual under a State plan under this subchapter; and (iii) the State makes medical assistance available to individuals described in section 1396a (a)(10)(A)(ii)(V) of this title, but does not make such assistance available to individuals for nursing facility services under section 1396a (a)(10)(C) of this title. (C) A trust containing the assets of an individual who is disabled (as defined in section 1382c (a)(3) of this title) that meets the following</p>	<p>“(d)(4)(A) Special Needs Trusts” are established by a third party (parent, grandparent, or legal guardian) for the supplemental care of dependents with severe disability, on the condition that any residual remaining in the trust when the beneficiary dies is contributed to the State in an amount not to exceed the amount paid by the State for medical assistance. These trusts are built from the assets that might otherwise belong to the beneficiary.</p> <p>“(d)(4)(C) Special Needs Trusts” may be similarly established by a third party (family or even the court) or by individual with disabilities, but control of the account is transferred to a non-profit association. Again, the proceeds of the account cannot be viewed as an asset of the beneficiary without voiding eligibility for SSI and State medical assistance. Upon the death of the beneficiary, account residuals are to be contributed to the State. These trusts are also built from the assets that might otherwise belong to the beneficiary.</p> <p>Both “(d)(4)(A) Special Needs Trusts” and “(d)(4)(C) Special Needs Trusts” may not supplant services already available through Medicaid/ Medicare during the lifetime of the beneficiary. LifeRESERV would seek to have any residual proceeds remaining upon the death of the</p>

<p>conditions: (i) The trust is established and managed by a non-profit association. (ii) A separate account is maintained for each beneficiary of the trust, but, for purposes of investment and management of funds, the trust pools these accounts. (iii) Accounts in the trust are established solely for the benefit of individuals who are disabled (as defined in section 1382c (a)(3) of this title) by the parent, grandparent, or legal guardian of such individuals, by such individuals, or by a court. (iv) To the extent that amounts remaining in the beneficiary’s account upon the death of the beneficiary are not retained by the trust, the trust pays to the State from such remaining amounts in the account an amount equal to the total amount of medical assistance paid on behalf of the beneficiary under the State plan under this subchapter.”</p> <p>... Social Security Act, Sec. 1917. [42 U.S.C. 1396p]</p>	<p>beneficiary contributed to the LifeRESERV Foundation for redistribution to other LifeRESERV accounts.</p> <p>“Third Party Special Needs Trusts” may be formed which are neither “(d)(4)(C) Special Needs Trusts” nor “(d)(4)(A) Special Needs Trusts” and are not derived from the beneficiary’s own assets. These Third Party Special Needs Trusts will also protect the beneficiary’s eligibility but avoid mandatory State pay-back upon the death of the beneficiary.</p> <p>Contributions to Special Needs Trusts in all its forms are not tax deductible. Distributions of the trust proceeds may be counted in part as Aggregate Gross Income of the account manager. Third parties other than the account manager cannot contribute to the trust, unlike EdVEST contribution provisions.</p>
<p>“Certain trusts are not counted as being available to the individual. They include the following:</p> <ul style="list-style-type: none"> • Trusts established by a parent, grandparent, guardian, or court for the benefit of an individual who is disabled and under the age of 65, using the individual's own funds. • Trusts established by a disabled individual, parent, grandparent, guardian, or court for the disabled individual, using the individual's own funds, where the trust is made up of pooled funds and managed by a non-profit organization for the sole benefit of each individual included in the trust. • Trusts composed only of pension, Social Security, and other income of the individual, in states which make individuals eligible for institutional care under a special income level, but do not cover institutional care for the medically needy. <p>In all of the above instances, the trust must provide that the state receives any funds, up to the amount of Medicaid benefits paid on behalf of the individual, remaining in the trust when the individual dies.”</p> <p>... Centers for Medicare & Medicaid Services (http://www.cms.hhs.gov/MedicaidEligibility/11_TreatmentofTrusts.asp)</p>	<p>The LifeRESERV account also would be formed using funds that do not belong to the individual beneficiary and would not count as an asset of the beneficiary for eligibility determination purposes. The account would be derived from the contributions of family members concerned about the long term care resources available to their child. These funds would be irrevocable in the same way that “(d)(4)(A) Special Needs Trusts” and “(d)(4)(C) Special Needs Trusts” are irrevocable, although unspent balances would remain with the LifeRESERV program rather than rolled-over into the medical assistance program.</p>
<p>“§ 529(b)(3) provides that a program is not treated as a qualified § 529 program unless it imposes a more than <i>de minimis</i> penalty on any refund of</p>	<p>§529 already views disability as a legitimate reason for distribution of funds from a 529 plan for reasons other than qualified higher education expenses. In</p>

<p>earnings that is not: (a) used for qualified higher education expenses of the designated beneficiary; (b) made on account of the death or disability of the designated beneficiary”</p> <p>... IRS Bulletin 2001-52</p>	<p>the case of LifeRESERV disability is known in advance of the start of the plan and the intention from the very beginning is the distribute funds for long term care services on behalf of a beneficiary with disability. If LifeRESERV is formed under §529, distributions for services to LifeRESERV beneficiaries should be allowable.</p>
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