

Coming to Terms with Long-Term Care

Preview



Foreword

Obviously, the idea of getting older and potentially losing some degree of independence is not a very pleasant thing to think about. Yet the likelihood of needing long-term care services increases as you age.

The national health-care landscape is likely to undergo some changes, and the escalating costs of long-term care could mean that many retirees may face significant challenges in meeting their long-term care needs. Some people mistakenly assume that Medicare or private health insurance will pay for long-term care if it ever becomes necessary, but the reality is that they do not cover the long-term support and custodial services that many people will need.

The risks to your retirement lifestyle could be significant, whether you are a potential caregiver or a care recipient. Although one-third of today's 65-year-olds may never need long-term care support, 20% will need it for more than five years.¹

Paying for expensive long-term care services could quickly exhaust a lifetime of savings. Are you confident that you would have the money to pay for several years of care — either for yourself or a spouse — and maintain a comfortable standard of living?

This booklet is designed to increase your understanding of long-term care issues and help you make informed decisions as you consider your future needs. Your financial professional can provide additional information that may apply to your personal situation.

Source: 1) U.S. Department of Health and Human Services, 2017
(most current data available)

Coming to Terms with an Important Issue

About 13 million American adults need long-term care assistance, and 60% are age 65 or older.¹ Of course, it's not surprising that people may develop health problems and need more assistance as they age.

Long-term care describes the daily medical and nonmedical services that people might need if they become physically or mentally disabled due to a prolonged injury, illness, or cognitive impairment. Yet there are some important distinctions between the different types and levels of care.

- **Skilled care** refers to medical, nursing, or rehabilitation services such as administering medication, monitoring blood pressure, and performing other tests and health-care services.
- **Custodial care** describes the assistance people may need with one or more activities of daily living (ADLs) such as eating, bathing, dressing, toileting, and/or getting out of a chair or bed.

People may receive both types of care in a nursing home, but many long-term care services can also be provided in an assisted-living facility, an adult day-care center, or even at home. Medicare and most private health insurers may cover limited skilled nursing care (in a facility or at home) but typically do *not* pay for custodial care.

Source: 1) AARP Public Policy Institute, 2017 (2014 data, most current available)

Will Medicare Contribute?

Medicare will pay for medically necessary skilled nursing facility care only if admission follows a minimum three-day hospitalization and the patient's condition is improving.

	Patient responsibility	Medicare pays
Days 1–20	Nothing	All eligible expenses
Days 21–100	First \$170.50 per day	All additional expenses
Over 100 days	All expenses	Nothing

Source: Medicare.gov, 2019. The dollar limit for days 21–100 is for 2019. This amount is adjusted periodically. For each benefit period, Medicare pays all covered costs except the Medicare Part A deductible, which is \$1,364 in 2019. There is also an annual Medicare Part B deductible of \$185 (for 2019) before Medicare starts to pay its share.

What It Costs Today

The costs for long-term care can be substantial, and facility costs in particular have been rising rapidly in recent years. Some conditions that typically require extended periods of long-term care, and tend to put people into high-cost facilities, include Alzheimer’s disease, dementia, strokes, and advanced osteoporosis.

Keep in mind that married retirees must typically pay the following charges in addition to their normal living expenses if one spouse should need care for a prolonged period.

- The national average *monthly* rate for housing in an assisted-living facility (for a private room) was \$4,000 in 2018, compared with \$3,750 in 2017.¹
- The national average *daily* rate for nursing-home care (for a private room) was \$275, up from \$267 per day in 2017.²

Sources: 1–2) 2018 Cost of Care Survey, Genworth Financial, Inc.

Across the Map

The actual rates charged for long-term care can vary greatly depending on the state where you live and the type and level of care chosen. The national average annual cost for a private room in a nursing home is \$100,375, but nursing-home care can range from about \$65,000 to more than \$140,000 per year.

Assisted-living facility (median annual rates)

California	Texas	Illinois	Florida	New York
\$54,000	\$45,540	\$48,360	\$42,000	\$50,220

Nursing home, private room (median annual rates)

California	Texas	Illinois	Florida	New York
\$117,804	\$78,475	\$81,030	\$108,770	\$146,274

Source: 2018 Cost of Care Survey, Genworth Financial, Inc.

Understanding Age-Related Risks

- About 70% of 65-year-olds will need long-term care support at some point in their lives (either in a facility or at home).¹
- Women tend to need care nearly two times more than men.²
- The need for some assistance generally increases with age. Nearly 30% of Americans between the ages of 65 and 74 experience limitations in their activities, compared with almost half of those who are 75 and older.³

Living with Alzheimer's

It's estimated that 5.8 million Americans — one in 10 Americans age 65 and older, and about one-third of people age 85 and older — have Alzheimer's disease.⁴

Alzheimer's affects the brain, causing a noticeable decline in memory, thinking, and behavior. It accounts for 60% to 80% of dementia cases.⁵ Over time, symptoms typically worsen and start to interfere with daily tasks. Although much research is under way, there is currently no cure. People who are diagnosed with Alzheimer's live an average of four to eight years after their symptoms become apparent to others. Survival can range from four to 20 years, and most patients reach a point at which they need almost constant supervision. As a result, 75% of Alzheimer's patients are admitted to a nursing home by age 80.⁶

Sources: 1–2) U.S. Department of Health and Human Services, 2017 (most current data available); 3) National Center for Health Statistics, 2018 (2016 data, most current available); 4–6) Alzheimer's Association, 2019

Living Longer

Americans have succeeded in adding years to their lives since 2000 when life-expectancy predictions were released.

Average life expectancy for 65-year-olds in the United States (years)



Source: Social Security Administration, 2019

Family Ties: Caregiving Challenges

It's normal for people to expect to rely on family for care, but they may not have considered the sacrifices they might be asking their loved ones to make on their behalf. Recent surveys suggest that the workload and stress could potentially have a negative effect on a caregiver's own health, financial situation, and mental well-being.¹

Furthermore, work situations and lifestyles may make it more difficult or nearly impossible for a relative to provide care. Women are more likely to pursue demanding, full-time careers, and many households rely on the income from both spouses. It's also common for relatives to live in different cities around the country, and some adult children may live thousands of miles away from their aging parents.

Source: 1) U.S. National Library, National Institutes of Health, 2017 (most current data available)

Caregiver Facts and Figures

About 40 million family caregivers provide unpaid care for an adult or older person with a chronic, disabling, or serious health condition. More than three out of four family caregivers incur out-of-pocket costs related to caregiving, with average spending approaching \$7,000 annually.

- The “average” caregiver is a 49-year-old woman who has a job and also spends about 24 hours per week meeting the needs of an aging parent.
- 17% of family caregivers perceive their own health as fair to poor.
- 38% of family caregivers say that caring for a loved one is highly stressful, while 25% say it is moderately stressful.
- 38% of family caregivers face a “good amount” to a “great deal” of financial hardship as a result of providing care.
- Nearly four in 10 caregivers who were employed have had to quit their jobs, retire early, reduce their hours, or take a leave of absence.

Source: Caregiving in the United States 2015–2016, AARP (most current data available)

What Caregivers May Be Giving Up

Nearly 10 million baby boomers over age 50 are helping to care for aging parents, many of whom may have escalating medical needs and dwindling savings.¹ Some sandwiched caregivers are also raising and/or supporting their own children at the same time.

The financial consequences for those who provide unpaid care for a relative are often substantial. For example, they may pass up opportunities to save money for their own retirement needs or find themselves unable to pay college expenses for their own children.

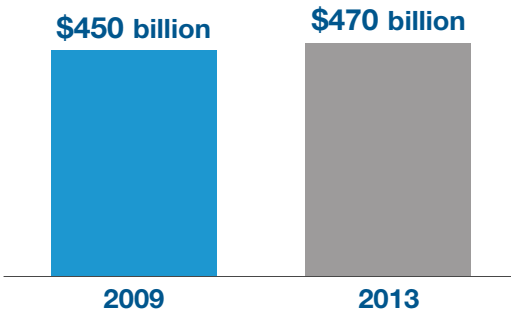
Given a choice, it's likely that many parents would rather not put their adult children in such a vulnerable economic position.

Source: 1) Valuing the Invaluable, 2015, AARP (most current data available)

Estimated lifetime income-related losses by family caregivers (age 50+) who leave the workforce to care for a loved one

Wages	\$115,900
Social Security benefits	\$137,980
Pension benefits	\$50,000
	\$303,880

Estimated economic value of unpaid family care contributions



Source: Valuing the Invaluable, 2015, AARP (most current data available)

How Would You Bear the Costs?

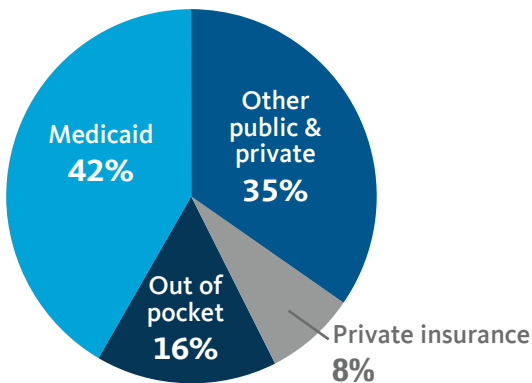
You may be wondering how it would be possible to pay for potentially devastating long-term care expenses and still have the resources to support yourself and/or a spouse for the remainder of your retirement years. It's a good idea to explore the possibilities early and while you are healthy, because if you wait until the need for care arises, your options could become more limited — and costly.

There are generally three ways to fund long-term care needs.

- **Self-insure** — Pay for care using your personal resources.
- **Medicaid** — Spend down assets and try to qualify for government assistance.
- **Long-term care insurance** — Purchase a policy that may help pay for the cost of care.*

*A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the insurance policy. Carriers have the discretion to raise rates and remove their products from the marketplace.

How the country's long-term care costs are paid



Source: Congressional Research Service, 2018 (2016 data, most current available); numbers exceed 100% due to rounding

Can You Afford to Self-Insure?

Some households are wealthy enough to pay for long-term care costs out of pocket. Many others with substantial financial assets may think they have enough set aside to meet their future needs, but they may have overlooked some important factors.

In the past, the proceeds of a home sale were often a significant source of funding for long-term care. This may still be the case for many families, but if home prices decline, some older Americans may be left with less money to spend on the services they could eventually need.

The homeownership rate for Americans age 65 and older exceeded 78% in late 2018, the same as it was in 1996.

U.S. Census Bureau, 2019

It's wise to consider whether your financial resources would be adequate for a worst-case situation.

What would happen to your retirement savings if you or your spouse became severely disabled and had to enter a nursing home?

How would writing a check for \$6,000 or more every month affect the standard of living of a healthy spouse who would still need to pay for his or her normal living expenses?

How long could you or your partner continue to pay the bills before your lifestyle is compromised or your savings are dangerously depleted?

The Problem with Counting on Medicaid

Medicaid is a joint federal and state program designed to assist low-income individuals, and benefits may be difficult to obtain. Under some circumstances, families must “spend down” most of their assets to qualify for Medicaid, and homeowners with substantial home equity may be forced to use it to pay for care before they can receive government support.

Relying on Medicaid typically means that recipients lose some control over where they can receive care and what forms of care may be provided. Also remember that Medicare is not designed to pay for extended periods of long-term care and cannot be relied on to meet custodial needs.

An Insurance Strategy to Help Preserve Assets and Independence

Most families simply could not afford a five-year stay in a nursing home (about \$502,000, not accounting for inflation) or an assisted-living facility (about \$240,000). Long-term care insurance could help fill this financial gap.

Long-term care insurance will provide a contractual daily or monthly benefit for covered long-term care services (up to the policy limits).

Some people make the decision to purchase a long-term care policy when they are still working because the fixed premium payments — which are partly based on the age when policyholders sign up — are likely to be less expensive, and there is less of a chance that an application will be rejected.

More than 7 million Americans were covered by long-term care insurance in 2017. The average buyer is 60 years old; 21% of buyers are under age 55, and more than half are between the ages of 55 and 64.

AARP, 2018; AHIP, 2017 (2015 data, most current available)

A long-term care policy may help prevent your retirement savings from being wiped out by the escalating cost of care and may significantly ease the burden on family and friends. Having private coverage in force may also broaden your options for care if you should need it, and possibly even keep you out of a nursing home by providing home care.

If you have substantial financial resources, owning a policy that pays long-term care expenses may enable you to pass more of your wealth to your heirs.

Odds that an application for LTC insurance will be rejected

In your 50s	In your 60s	In your 70s
1 in 10	2 in 10	4 in 10

Source: Insurance Information Institute, 2017

Notable Tax Benefits

Some long-term care policies receive the same tax advantages as other qualified medical expenses. Up to certain age-based limits, premiums for long-term care insurance may be deductible from federal income tax, and the benefits paid from a policy are not considered taxable income.

Currently, qualified long-term care premiums and expenses are tax deductible to the extent that they, along with all other eligible medical expenses, exceed 10% of a taxpayer's adjusted gross income (AGI). To qualify for the deduction, the long-term care policy must meet certain requirements.

Features of Long-Term Care Policies

- The most comprehensive policies pay for care in a nursing home, assisted-living facility, or at home, but coverage will depend on the specific provisions chosen.
- Benefits are typically expressed in daily or monthly benefit amounts, with a lifetime maximum.
- Benefit periods often last from two to six years but can cover a lifetime.
- An elimination period may apply (typically 0 to 180 days); therefore, you may have to wait for a period of time before the insurance company pays benefits.
- Most long-term care policies are guaranteed renewable, meaning they cannot be canceled as long as you pay the premiums on time and have been honest about your health on the application.
- Health-care costs tend to rise steadily over time, so it may be wise to add inflation protection to your policy.
- Premiums will vary considerably depending on the type and amount of coverage you choose, so it's important to understand all the available options.
- Benefits typically are triggered if the insured is unable to perform two or more activities of daily living (ADLs) for a certain period of time or requires supervision due to a severe cognitive impairment. Specific eligibility triggers and ADL definitions can be found in the long-term care policy.

Other Possible Forms of Protection

Some insurance companies offer **permanent life insurance policies and annuities with long-term care riders**. Any payments used for covered long-term care expenses would reduce the death benefit or annuity value; these payments are typically tax-free.

Accelerated death benefit riders, living benefit riders, and long-term care benefit riders may serve as suitable alternatives for some people, but the benefits are typically less generous than with traditional long-term care policies.

If you are considering this option with life insurance, you should have a need for life insurance and evaluate the policy on its merits as life insurance. Optional benefit riders are available for an additional fee and are subject to the contractual terms, conditions, and limitations as outlined in the policy; they may not, however, benefit all individuals.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

Annuities are insurance contracts that pay a lump sum or an income stream over a certain period of time. Generally, annuities contain mortality and expense charges, account fees, investment management fees, and administrative fees. Most annuities have surrender charges that are assessed during the early years of the contract if the contract owner surrenders the annuity. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty. The earnings portion of annuity withdrawals is taxed as ordinary income.

Insurance and annuity products are not insured by the FDIC or any other federal government agency. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

How Would Your Savings Withstand a Health-Care Crisis?

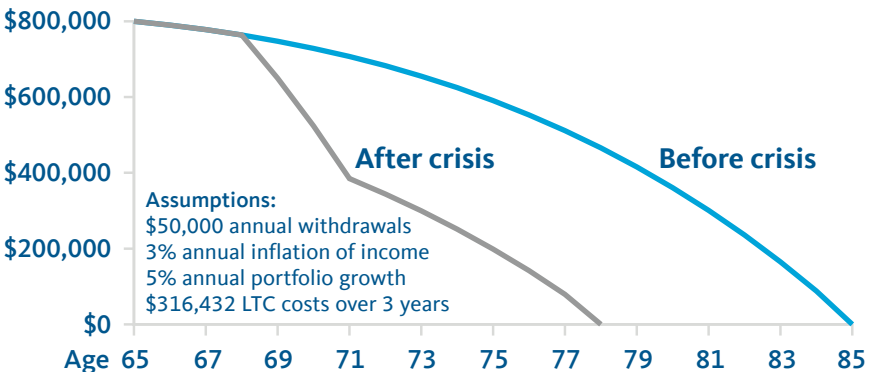
It may be helpful to see how a typical retired couple's portfolio might be affected if one of them were to experience a medical problem serious enough to trigger the need for long-term care services. Consider this unsettling scenario.

Mr. and Mrs. Johnson both retired at age 65 with an \$800,000 retirement portfolio from which they withdrew a \$50,000 annual income. They believed they had enough money saved to live comfortably to age 85. However, they weren't aware that Medicare and supplemental private medical insurance would not cover any potential long-term care needs.

Unfortunately, Mr. Johnson suffered a stroke when he was 68 years old. He ultimately recovered but needed three years of intensive nursing-home care and rehabilitation services. The total cost for three years of long-term care services was \$316,432 (based on a \$100,375 annual nursing-home cost for a private room and a 5% annual inflation rate), which they had to pay out of pocket.

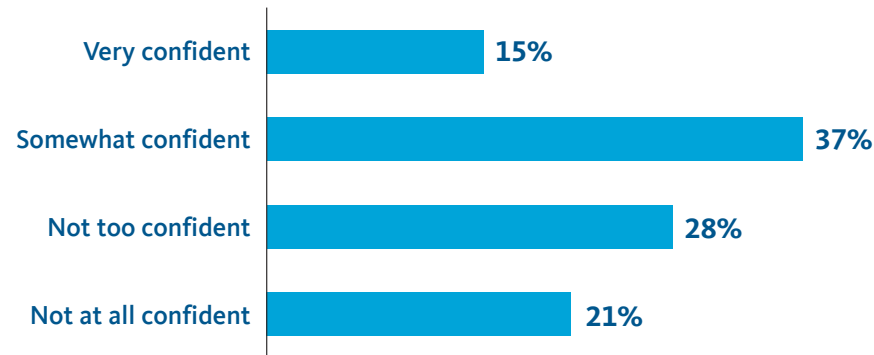
As a result of Mr. Johnson's LTC expenses, it's possible they could run out of money before age 78. Thus, they face some difficult decisions. They must either reduce their standard of living — which may require moving out of their current home — or risk outliving their savings.

The Johnsons' portfolio



This hypothetical example is used for illustrative purposes only. Taxes and investment expenses were not considered. Actual results will vary.

Worker confidence in having enough money to pay for long-term care in retirement



Source: Employee Benefit Research Institute, 2019

How Confident Are You?

Statistics suggest that the growing population of aging Americans is woefully unprepared to meet the potential costs of long-term care.

People are living longer, which is generally a positive sign but also contributes to the possibility that retirees may need more assistance in their later years, and that they could eventually outlive their retirement assets.

If your retirement-needs calculations don't take the potential need for long-term care into account, it may be time to evaluate your options for covering the potential costs. In many cases, it's much easier emotionally for families to make these important decisions long before the need for care arises.

If you wait until you're older or your health deteriorates before considering possible long-term care needs, your options may become limited or significantly more expensive. You may not be able to receive care at the facility of your choice. You may not even be eligible for long-term care insurance to help cover the costs.

An unforeseen health crisis that requires an extended period of custodial care may result in moderate to serious financial hardship — and could possibly jeopardize your quality of life during retirement.

Whether you have aging parents or are concerned about preparing for your own long-term care needs in the future, a financial professional can open a dialogue that may help preserve independence, dignity, and family harmony while coordinating decisions about common concerns.

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