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Planning for Long-Term Care

Why Plan for Long-Term Care?

The odds of needing long-term care are high

- Over 50% of people will need long-term care at some point during their lifetime after reaching age 65*
- Approximately 20% of today's 65 year-olds will need long-term care services for longer than 5 years*
- Approximately 8% of people between ages 40 and 50 have a disability that could require long-term care services*

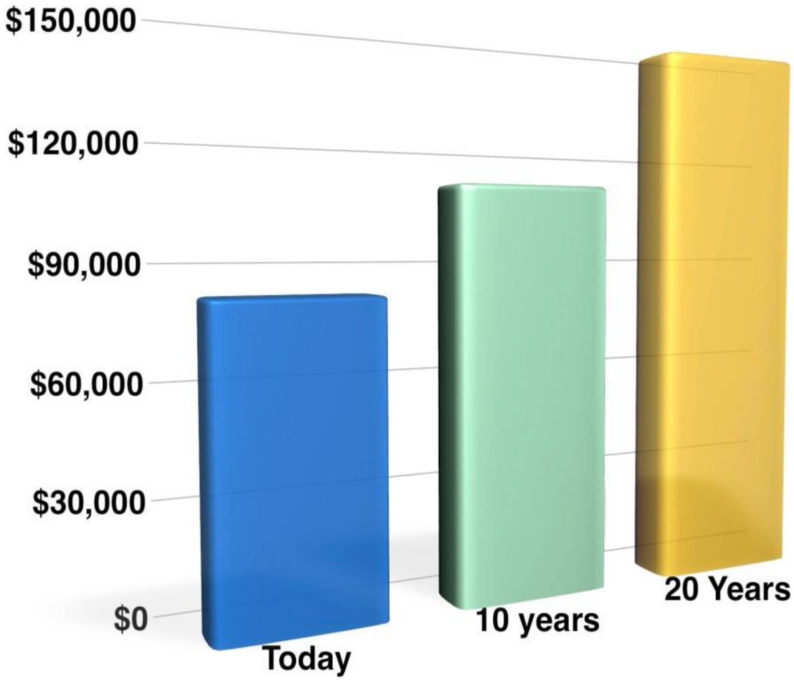
The cost of long-term care is rising

Long-term care is expensive, and the cost is rising every year. Currently, the average annual cost of a one-year stay in a nursing home is $82,125*, and in many states the cost is much higher. And in the future, long-term care will be even more expensive. If costs rise at just 3% a year (a conservative estimate), in 20 years, a one-year stay in a nursing home will cost approximately $148,327! It's easy to see how long-term care expenses can threaten — or even wipe out--your retirement savings, and jeopardize any assets you had hoped to leave to your children or grandchildren.

Every year, many Americans are impoverished by the need to pay for long-term care. But here's some good news. With proper planning, you can avoid having this happen to you.

**Source: U.S. Department of Health and Human Services, 2019*

Costs of a One-Year Stay in a Nursing Home



Source for today's cost: U.S. Department of Health and Human Services, 2019. Projected costs are based on a 3% annual increase. This example is hypothetical and for illustrative purposes only.

Long-Term Care Basics

What is long-term care?

Long-term care refers to the ongoing services and support needed by people with chronic health conditions or disabilities. There are three levels of long-term care.

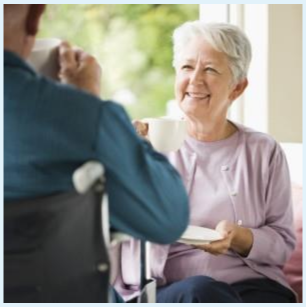
Skilled care: Generally round-the-clock care that is provided by professional health-care providers such as nurses, therapists, or aides under a doctor's supervision.

Intermediate care: Also provided by professional health-care providers but on a less frequent basis than skilled care.

Custodial care: Personal care that is often provided by family caregivers, nurses' aides, or home health workers who provide assistance with "activities of daily living" (ADLs) such as bathing, eating, and dressing. This is the most common type of long-term care.

Where is long-term care provided?

Long-term care can be provided in a variety of settings.



Nursing homes: Offer all three levels of care--skilled nursing care, intermediate care, and custodial care.

Assisted-living facilities: Offer intermediate and custodial care, often round-the-clock, but not skilled nursing care. Combine housing, personal assistance, and limited health services.

Own home: Family caregivers, friends, or trained homemakers often provide the bulk of assistance with everyday tasks, and professionals such as nurses, therapists, and home health aides provide occasional home health care.

Adult day-care facilities: Community-based centers that often specialize in caring for people with Alzheimer's disease. These centers especially benefit family caregivers by providing a few hours of much-needed respite care.

What to look for at nursing homes and other senior living facilities

- Convenient location near family, friends, and services
- Clean, spacious, and comfortable common areas and rooms
- Safe, well-maintained hallways
- Professional, friendly, and helpful staff
- Well-qualified and caring medical personnel available round-the-clock
- Positive interactions between residents or residents and staff
- Social, recreational, or educational activities
- Tasty and healthy meals
- Good reputation and inspection reports, and an organized quality assurance program

Putting Together a Long-Term Care Plan

Like a quilt, a long-term care plan is usually made up of different pieces, with many people involved in putting it together. A good long-term care plan will account for the different types of care you may need, and the different settings in which you may someday receive that care.

Understandably, many people put off planning for long-term care. But although it's hard to face the fact that health problems may someday result in a loss of independence, if you begin planning today, you'll have more options open to you in the future.

What will you pay for long-term care?

Over the course of a lifetime, you or someone you love may need several types of long-term care, and you may end up using several different strategies to pay for that care.

There are three main options for paying for long-term care:

- Paying out-of-pocket using income, savings, investments, and assets such as your home
- Relying on government programs such as Medicare or Medicaid
- Buying long-term care insurance

What are your long-term care planning goals?

Circle the number that most closely matches how important each goal is to you.

Goal	Importance Most		Least
I want to have numerous care options available	1	2	3
I want to stay in my own home for as long as possible	1	2	3
I want to avoid burdening my family	1	2	3
I want to protect my retirement savings	1	2	3
I want to provide for my spouse or other family members	1	2	3

Paying Out-of-Pocket

Paying out-of-pocket means using your income, savings, investments, and assets (such as your home) to pay for long-term care.

The major advantage to paying out-of-pocket for long-term care is that you have better control over where and how you receive care than with other options. Unfortunately, counting on being able to pay out-of-pocket is truly a gamble unless you're wealthy. You're betting that you'll be able to afford to pay for the care you'll need, often using the money you've saved for retirement.

But what if your gamble doesn't pay off and you deplete your life savings? Will you be willing to sell assets that you hoped to leave to your children, grandchildren, or to charity? And once your money is gone, you may have to rely on family members or a government program such as Medicaid to pay for your care.

Reverse mortgages

A reverse mortgage may be a good option to consider if you are

Borrowers don't have to pay back the loan during their lifetimes for as long as they continue living in their home. This strategy may be appropriate for some retirees, but it also involves substantial fees — and the amount you can borrow is typically

much less than the actual value of the home. Because a reverse mortgage loan must be paid back after you stop living in the home for one year or more, it's likely that either you or your heirs may eventually be forced to sell it, risking exposure to the uncertainties of the housing market.

otherwise unable to afford home-based long-term care. A reverse mortgage, or home equity conversion loan, allows you to borrow against the equity in your home, then use the loan proceeds to hire caregivers or to make home modifications that can allow you to remain at home.

A reverse mortgage is different from other types of mortgages or equity loans because there are no mortgage payments to make. Instead, the lender expects to be repaid (with interest of course) only when the home is sold or otherwise permanently vacated. A financial professional can give you more information.

Paying for long-term care worksheet

Use this worksheet to estimate how much of your long-term care costs you could afford to pay out-of-pocket.

Long-term care costs and other expenses

Projected cost of nursing home care, assisted-living, or home health care in your area.	$________ per month
Other expenses (such as living expenses for a healthy spouse).	$________ per month
Total projected expenses.	**$________ per month**

Income

Retirement/pension	$________ per month
Social Security	$________ per month
Investment	$________ per month
Other	$________ per month
Total projected income.	**$________ per month**

Difference between projected income and projected expenses . . . .

If this amount is negative, you'll need to consider additional ways to pay for long-term care.	**$________ per month**

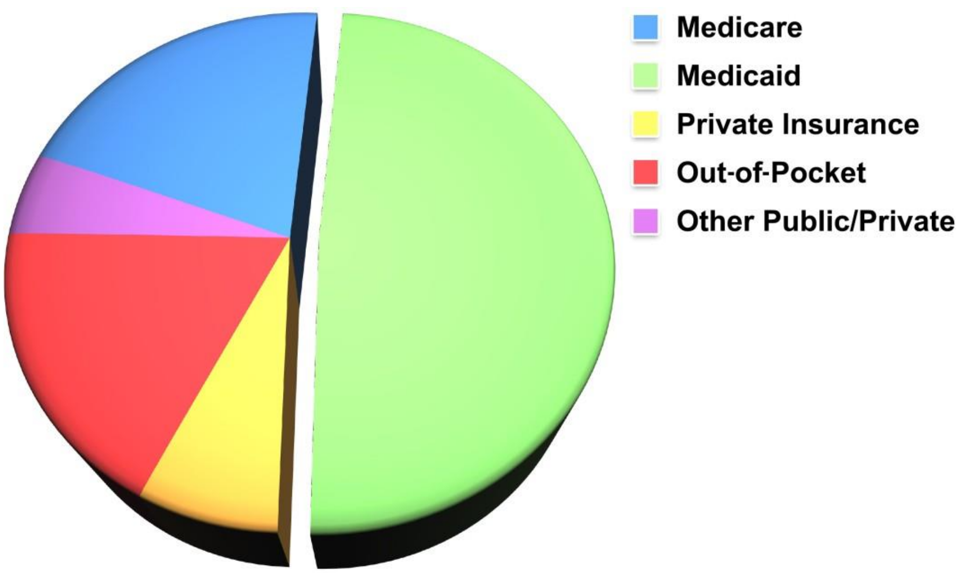
Relying on Government Programs

Medicare

Many people mistakenly think that Medicare, the federal health insurance program for older Americans, will pay for long-term care. Unfortunately, Medicare provides only limited coverage for long-term care services such as skilled nursing care or physical therapy. And although Medicare provides some home health-care benefits, it does not cover personal or custodial care, the type of care older individuals often need.

Medicaid

Medicaid, which is often confused with Medicare, is the joint federal-state program that many nursing home residents rely on to pay some of their long-term care expenses. As this chart shows, Medicaid covers approximately 49% of all nursing home costs. In some states, Medicaid also covers limited home health-care costs.



But relying on Medicaid has drawbacks. To qualify for Medicaid, you have to either be poor or become poor. You will have to use up most of your savings before you even qualify for Medicaid. Aside from a small personal needs allowance (typically at least $30 a month), you will have to use all of your retirement income, including Social Security and pension payments, to pay for your care before Medicaid pays anything. Relying on Medicaid also limits where you may receive care, because not all facilities accept Medicaid, and your chances of staying in your home are slim unless your state's Medicaid program covers home health care.

Medicare payment for skilled nursing home care:

- ***Pays the full care of cost for 20 days***
- ***Pays part of the cost for days 21-100***
- ***Pays nothing after day 100***

Medicaid planning

Each state establishes its own Medicaid eligibility rules (under federal guidelines), but all states count income and assets. To ensure that you qualify for Medicaid in the event that you need care, it may be possible to distribute or protect your assets ahead of time. This is known as Medicaid planning. Medicaid eligibility laws are complex, so you'll need the services of a qualified elder law attorney if you're interested in exploring Medicaid planning strategies.

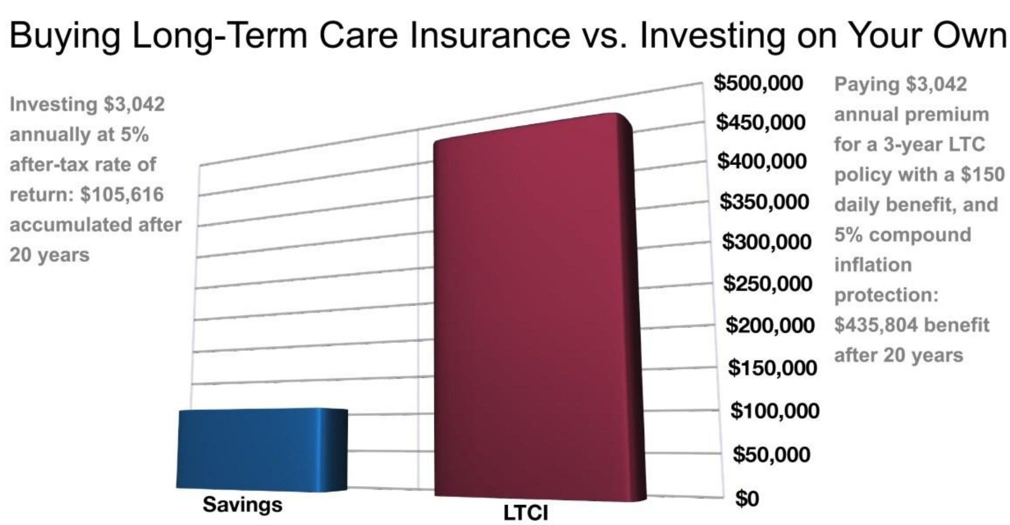
Buying Long-Term Care Insurance

Long-term care insurance is private insurance that pays benefits if you need extended care. Like other types of insurance, long-term care insurance protects you against a specific financial risk--in this case, the chance that long-term care will wipe out your life savings. In exchange for your premium payments, the insurance company promises to cover part of your future long-term care costs.

Two of the benefits

The freedom to choose where you receive care: A comprehensive long-term care policy will cover home care, assisted-living centers, adult day-care centers, and nursing homes. If you need nursing home care, you'll have a wider choice of facilities than if Medicaid was paying for your care, since many nursing homes give preference to patients who can pay for their own care.

The opportunity to preserve the assets you've accumulated: With insurance covering most of the bill, all of your savings won't be spent on long-term care.



This is a hypothetical example and does not reflect the performance of any specific investment.

Two of the drawbacks

The necessity to plan in advance: In order to buy a long-term care policy, you must be in reasonably good health. Once you develop health problems that may result in the need for long-term care, you will have trouble qualifying for a policy.

The premium cost: One of the main objections you might have to buying a long-term care policy is the cost, and for good reason — long-term care insurance can be expensive. Costs vary widely depending on policy features and the age, health, and residence of the policyholder.

Four Ways to Manage the Cost of Long-Term Care Insurance

Buy a policy when you're younger

One way to manage the cost of long-term care insurance is to buy a policy when you're younger. For example, a policy you purchase at age 55 will be much less expensive than a policy purchased at age 70. The tradeoff is that you'll end up paying the premiums for many more years, so make sure you can afford to do so without changing your lifestyle. Most policies are "full pay policies," which means that to keep the policy in force, you'll need to continue to pay the premiums.

Work with a reputable company

While it's true that most policies have guaranteed premiums, meaning that your premium can't go up as you grow older or if your health declines, most states allow insurance companies to raise premiums on a class basis. You can reduce the chances that your premium will increase substantially over time by purchasing a policy from a reputable company that has been in business for many years. Look for a company that has an excellent financial strength rating from a ratings service such as A.M. Best, Duff & Phelps, Fitch, Moody's, Standard & Poor's, or TheStreet.com (Weiss Ratings).

It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy.

Choose the right combination of features and benefits

Because the cost of a long-term care policy depends on the features and benefits you choose, spend some time thinking about which of these are important to you. The general rule is, buy what you need, but don't buy more coverage than you can afford.

Take advantage of tax breaks

Both the federal government and state governments provide special incentives for buying long-term care insurance. At the federal level, you may be able to offset part of the cost of long-term care insurance by claiming a tax deduction on your federal income tax return if your policy is tax qualified (and nearly all policies sold today are).

As the table below shows, the amount you can deduct on your federal income tax return depends on your age. The deduction for long-term care insurance premiums is part of the medical expense deduction, so you can only deduct your premium if you meet the requirements for this deduction. Find out, too, whether your state offers deductions or tax credits for long-term care insurance — many do.

Deductions for Long-Term Care Insurance Premiums: 2018 & 2019

Age	2018 Limit	2019 Limit
40 or under	$420	$420
41-50	$780	$790
51-60	$1,560	$1,580
61-70	$4,160	$4,220
71+	$5,200	$5,270

Policy Features and Benefits

If you decide to buy long-term care insurance, you'll want a policy that provides the broadest coverage at a price you can afford. Policies vary widely, so it's important to make sure any policies you're comparing are alike. Ask to see a sample policy, and make sure you understand what the policy does and does not cover.

Key features to consider

Benefit amount: The amount that will be payable should you need care. The daily benefit amount is the maximum amount your policy will pay each day, and generally ranges from $50 to $350. The lower the benefit you select, the lower the premium. Most policies have a total maximum (lifetime) benefit that may be calculated by multiplying the total number of days in the benefit period by the daily benefit amount (often called a "pooled benefit").

Benefit period: The length of time your policy will pay long-term care benefits (e.g., two years, four years, lifetime). The longer the benefit period, the higher the premium.

Benefit triggers: Under most policies, you'll qualify for benefits when you are chronically ill or are cognitively impaired and need help with at least two out of six activities of daily living (typically, bathing, continence, dressing, transferring, feeding, and toileting). Some policies add a third trigger, medical necessity (a doctor determines if you need care due to injury or illness).

Elimination period: The number of days you must pay for your own care before the policy begins paying benefits (e.g., 20 days, 90 days). Also called a waiting period. The longer the elimination period, the lower the premium.

Types of facilities included: Where you can receive care (e.g., at home, in a nursing home). Although you can purchase lower-cost, bare-bones policies that cover only nursing home expenses, many policies cover care in a variety of settings, including your own home, assisted-living facilities, adult day-care centers, and nursing homes.

Inflation protection: With inflation protection, your benefit will increase by a certain percentage every year. Inflation protection is an optional feature, and will make your premium rise significantly, but it's important to have if you want your coverage to keep pace with rising costs.

Many other policy provisions may be available that may affect the premium you pay. Your insurance agent or a financial professional can answer any questions you have about policy features and benefits.

Comparing Long-Term Care Insurance Policies

Use this checklist as a general guideline when comparing long-term care policies.

Features and Benefits	Policy A	Policy B
Name of insurance company		
Financial strength rating of company		
Daily benefit preferred		
Elimination period preferred		
Benefit period preferred		
What type of care is covered? (skilled, intermediate, custodial)		
What care locations are included in the base policy? (e.g., nursing home, assisted-living facility, own home, adult day care, hospice)		
What benefit triggers apply? (ADLs, cognitive assessment, physician certification)		
Additional benefits included? (e.g., respite care, bed reservation)		
Is there a waiver of premium provision?		
Is there a nonforfeiture benefit?		
Is there a restoration of benefits provision?		
What is the maximum lifetime benefit?		
What exclusions apply?		
Are pre-existing conditions covered?		
What does the base policy cost?		
How much does an inflation rider cost?		
How much do other riders cost?		
What is the total annual premium?		
Is the policy tax qualified?		

Next Steps

By planning for long-term care now, you're taking a vital step toward preserving your independence and the financial well-being of your entire family. Planning in advance will help you or your loved ones avoid making emotional decisions that could lead to family conflicts and result in care that is inadequate.

Here's a list of next steps to take:

- Explore services and costs in your area
- Assess your finances
- Compare options with the help of qualified professionals
- Meet with an attorney to prepare health-care directives
- Talk to your family about your long-term care plan

Information checklist

Prepare a list of the whereabouts of important documents and information that you or your family members may need.

Personal information

- ❑ Social Security card
- ❑ Medicare and Medicaid numbers
- ❑ Birth certificate
- ❑ Driver's license
- ❑ Military discharge papers
- ❑ Insurance cards
- ❑ Address book
- ❑ Safe-deposit box and keys

Insurance information

- ❑ Insurance cards
- ❑ Health insurance policy
- ❑ Life insurance policy
- ❑ Long-term care insurance policy
- ❑ Homeowners or renters policy
- ❑ Automobile insurance policy

Legal information

- ❑ Will
- ❑ Durable power of attorney
- ❑ Health-care directives
- ❑ Trust documents
- ❑ Real estate deeds
- ❑ Vehicle titles
- ❑ Rental or business contracts

Financial information

- ❑ Bank account information
- ❑ Investment account information
- ❑ Retirement savings/pension plan information
- ❑ Credit card and loan information
- ❑ Copies of state and federal tax returns (last 3 to 5 years)
- ❑ Property tax information

What are health-care directives?

Health-care directives are an important, yet sometimes overlooked, way to retain some control over your own care, even if you face serious health issues. They allow you to outline your wishes for care and to designate someone to make decisions on your behalf should you become incapacitated.