Planning for Long-Term Care

Protecting Your Life Savings

THE RETIREMENT GROUP LLC
PARTNERS IN RETIREMENT

Is Long-Term Care in Your Future?

Statistically, **52%** of people over age 65…

...that's **more than half**…will need long-term care.

Imagine being in a room with around 40-50 people. How many people in the room expect to need long-term care one day? It's not surprising that few of us do, because it's hard to face the fact that our health might decline. But statistics suggest that the risk is greater than we think. Approximately 52% of us--that's over half the people in the room--will need some type of long-term care services during our lifetimes at some point after we reach age 65. And though it's good news that people are living longer, a long life span increases the chance of developing serious health problems. In fact, according to the Alzheimer's Association, one in ten people age 65 and older has Alzheimer's disease, which often leads to the need for nursing home care. And while older people are more likely to need long-term care, younger people may need care too, as a result of a disabling accident or illness such as multiple sclerosis or Parkinson's disease.

This isn't meant to scare you, but rather to remind you that the need for long-term care can happen to anyone at any time. The need to be prepared is real, and something that you shouldn't ignore.

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

What is Long-Term Care?

- Ongoing services and support needed because of chronic health condition or disability
- Three levels of care: skilled, intermediate, and personal care
- Care can be provided in a variety of settings

Let’s talk about what’s meant by the phrase “long-term care.” Long-term care refers to the ongoing services and support needed by people suffering from chronic health conditions or disabilities.

There are three levels of ongoing care someone might receive:

- The first level of care is skilled care, which is generally round-the-clock care provided by professional health-care providers such as nurses, therapists, or aides under a doctor’s supervision.
- The next level of care is intermediate care, which is also provided by professional health-care providers, but on a less frequent basis than skilled care.
- The third level of care is custodial or personal care, which is often provided by family caregivers, nurses’ aides, or home health workers who provide assistance with what are called “activities of daily living” such as bathing, eating, and dressing. This is the most common type of long-term care.

All three levels of care can be provided in many different settings, including your own home, an assisted-living facility, or a nursing home.

The patchwork quilt on the screen is an image that I’d like you to remember as we continue through the rest of this seminar. Like this 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 strategy will account for the different types of care you might need, and the different settings in which you may someday receive that care.

Where Can You Receive Care?

- At home
- At an assisted-living facility or other senior living facility
- At an adult day-care center
- In a nursing home

So let's talk a little bit more about where you might receive care. You're probably already familiar with some of these options.

If you want to stay in your own home for as long as possible, family caregivers, friends, or trained homemakers may be available to provide the bulk of assistance with everyday tasks, and professionals such as nurses, therapists, and home health aides can provide occasional home health care.

Another long-term care option that has become very popular is assisted living. How many of you have ever visited an assisted-living facility? If you have, then you know that these are usually home-like facilities that combine housing, personal assistance, and limited health care. Generally, assisted-living facilities offer intermediate and custodial care round-the-clock, but not the skilled care a nursing home provides. This option may be ideal for someone who can't continue to live alone but who wants to remain independent.

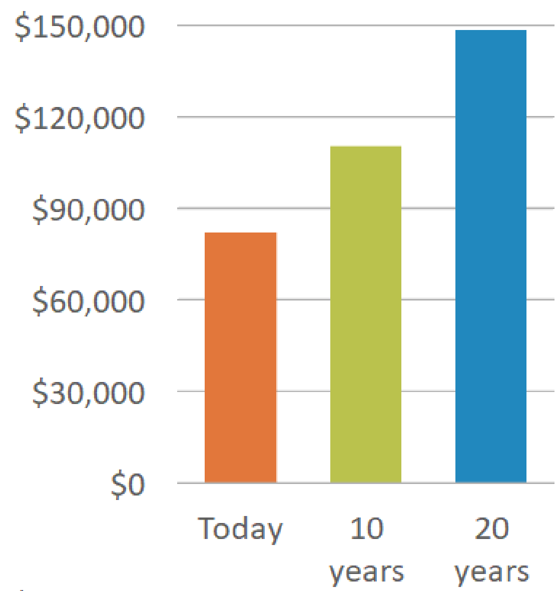
Where Can You Receive Care?

The third option, adult day-care facilities, are community-based centers that provide health care and social services for people who can't be left alone. Often, adult day-care facilities specialize in caring for people with Alzheimer's disease, and they especially benefit family caregivers by providing a few hours of much-needed respite care during working hours or on the weekend.

The last option, nursing homes, generally offer all three levels of care--skilled care, intermediate care, and personal care. Most nursing home residents have disabling illnesses, including cognitive disorders such as Alzheimer's disease, that are so serious that these individuals cannot be adequately cared for anywhere else.

If you haven't already done so, I urge you to visit some of the facilities available in your community so you can get an idea of what long-term care services will be available to you or your family members.

- Average nationwide cost of nursing home care is **$82,125 per year***
- If costs rise at an average rate of 3% per year, in 20 years the average cost of nursing home care will be approximately **$148,327 per year**



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

Now for the key question: how expensive is long-term care? Let's take a look at the type of long-term care that's likely to cost the most--nursing home care. According to the latest figures, in 2016, the average nationwide cost for a semi-private room in a nursing home was $82,125*, but in some states it's much higher. For instance, the average cost of nursing home care in New York was $141,072 per year!* And in the future, long-term care will cost even more. If costs rise every year at an average rate of 3% per year (and that's a pretty conservative estimate), in 20 years the average annual cost of nursing home care will be approximately $148,327.

It's easy to see how the high cost of long-term care 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 nursing home care. But here's some good news. With proper planning, you can avoid having this happen to you.

How Will You Pay for Long-Term Care?

As we talk about ways to pay for long-term care, remember that nursing home care is only part of the picture. Over the course of a lifetime, you or someone you love may need several types of long-term care in different settings, and you may end up using several different strategies to pay for that care.

There are three basic options for paying for long-term care plus a new program that we're going to discuss today. These are:

- Pay out-of-pocket
- Rely on government programs such as Medicare or Medicaid
- Buy long-term care insurance

Paying for Long-Term Care Out-of-Pocket

- More freedom to choose care
- May be ideal if you can afford to pay for care indefinitely

But...

- You must be willing to liquidate assets if necessary
- May impact ability to pass on assets to family
- If you run out of money, relying on family members or the government may be your only options

The first option we're going to look at is 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. I like to call this the default option because most people don't actually decide that they're going to pay expenses themselves; it simply happens that way because they haven't put together a long-term care plan.

Paying for Long-Term Care Out-of-Pocket

The major advantage of 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. For instance, a long-term care insurance policy may only cover home health workers who are licensed professionals, but when you're paying for care out of your own pocket, you can hire anyone you want. Obviously, this flexibility is ideal if you can afford to pay for your own care indefinitely.

But 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 or grandchildren or to charity to raise the cash you need? And keep in mind, too, that once your money is gone, you have few options. You may have to rely on your family members for care and support or rely on Medicaid, a government program, to pay for your care.

Paying for Long-Term Care Out-of-Pocket: Reverse Mortgage

- Live at home for as long as you are able
- No mortgage payments to make
- Loan is repaid when you vacate the home

But there’s one option for paying for long-term care out-of-pocket that you may want to consider if you want to stay at home for as long as possible. This option, called a reverse mortgage or a home equity conversion loan, allows you to borrow against the equity in your home, then use proceeds of the loan 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.

Of course, there are drawbacks to consider. First, reverse mortgages may not be suitable for people who will likely remain in their homes for only a short period of time or who will need extended nursing home care, because the loan will have to be repaid once the home is permanently vacated. 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. Still, a reverse mortgage may be a good option to consider if you are otherwise unable to afford home-based long-term care.

Paying for Long-Term Care Medicare

Medicare is federal health insurance that provides only limited coverage for long-term care services.

- Pays costs only after 3-day hospitalization
- Pays full cost of skilled nursing care for only 20 days
- Pays partial cost from day 21 to day 100
- Pays nothing after 100 days
- Does not pay for personal or custodial care
- Home health benefits are limited

Now that we've talked about paying for long-term care out-of-pocket, let's look at the next option: relying on government programs. The first program I'd like to review is Medicare, the federal health insurance program for individuals age 65 and older.

First, I'd like to clear up any misconceptions you may have about Medicare and long-term care planning. Although many people believe that Medicare will pay for their long-term care, this just isn't accurate. Medicare will only pay for the cost of skilled care for a relatively short period of time for those who qualify.

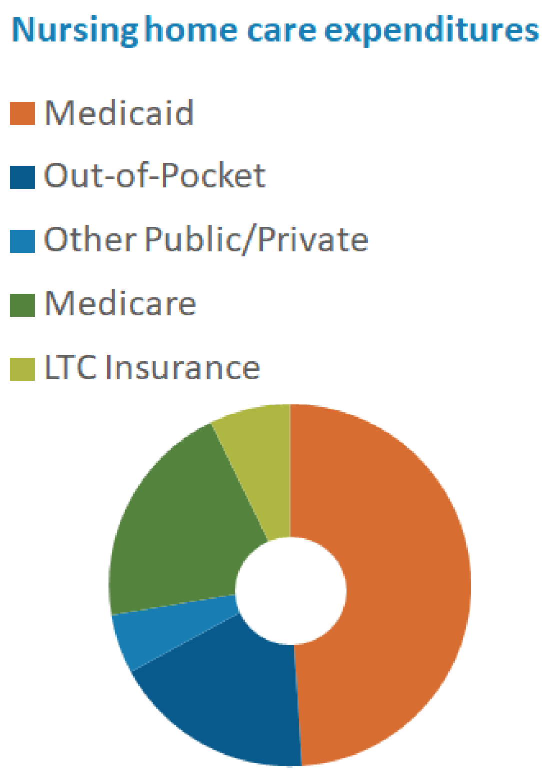
For example, Medicare only pays for skilled nursing home care or physical therapy after you have been hospitalized for at least 3 days. After that, Medicare will pay the full cost of care for only 20 days, and will then pay only part of the cost for an additional 80 days. And though Medicare provides some home health-care benefits, it does not cover personal or custodial care, the type of care many individuals need as they grow older. So, for example, Medicare might pay (at least in part) for the weeks of hospital and skilled nursing home care you'll need if you fell and broke your hip, but you can't count on it to cover your expenses should you need care indefinitely at home, in an assisted-living facility, or in a nursing home.

Paying for Long-Term Care Medicare

- Medicaid, not Medicare, is the joint federal-state program that pays for long-term care expenses
- Medicaid is the largest public payer of long-term care services

But...

- Medicaid is means-based
- Medicaid limits where you can receive care



Source: U.S. Department of Health and Human Services, 2018

Paying for Long-Term Care Medicare

Because their names sound alike, Medicare is often confused with Medicaid, 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 is the largest public payer of long-term care services in the country. In some states, Medicaid also covers some home health-care costs, a trend that will likely continue as states look for ways to contain Medicaid nursing home care expenditures.

But here's the catch. 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, and aside from a small personal needs allowance (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.

And once you qualify for Medicaid, you'll have little or no choice regarding where you receive care. Only facilities with Medicaid-approved beds can accept you, and your chances of staying in your own home are slim, unless your state's Medicaid program covers home health care.

Medicaid Eligibility

- Each state establishes its own eligibility criteria under federal guidelines
- In most states, an individual's income must be less than cost of care
- In some states, income cap applies (usually 300% of SSI benefit)
- In most states, asset limit is $2,000 (limits may be higher if married)

But some assets are not counted:

- Your house (if your spouse is living)
- One car
- Household and personal belongings
- Term life insurance
- Burial plots and funeral expenses

How poor do you have to be to qualify for Medicaid? Each state establishes its own limits under federal guidelines, so eligibility rules vary. But all states count income and assets when deciding who qualifies for Medicaid. In most states, your monthly income can't exceed a certain limit, often the rate Medicaid would pay the nursing home for your care, although you may be allowed to "spend down" your income to this level by paying for part of the cost of your care. In other states an income cap applies. If you apply for Medicaid in one of these states, you won't qualify for Medicaid if your gross monthly income is more than 300% of the SSI benefit for an individual. This is a strict income limit; you can't spend down your income to qualify for Medicaid in these states.

And in most states, you won't qualify if you have more than $2,000 in assets. The term "assets" generally means anything that has a cash value--savings, investments, and real estate, for example. Your spouse will be allowed to keep much more if you're married.

But just because an asset is not counted by the state when determining whether you qualify for Medicaid doesn't mean that it will never be touched. The laws in your state may allow a lien to be placed on your home or other assets at the time you qualify for Medicaid so that after you and your spouse die, the state can recover part of what it's paid out in Medicaid benefits.

Medicaid Planning -- What is it?

Strategies may include...

- Using assets that count (e.g., savings) to purchase assets that don't count (e.g., a small term life insurance policy)
- Transferring assets in an irrevocable trust
- Giving assets away

To make sure that you qualify for Medicaid as soon as possible, should you ever need care, you may want to plan ahead by distributing or protecting your assets. For example, you may be able to use assets that normally count toward Medicaid eligibility (such as your personal savings) to purchase a limited amount of assets that are not counted (such as a small term life insurance policy). Another option that may be available in your state is to put your assets (or in income cap states, your extra income) into an irrevocable trust. A final option is to simply give your assets away. But each of these Medicaid planning strategies may have serious consequences, which I'll explain in a moment.

*Distributing or protecting your assets in advance may help you qualify for Medicaid.

Medicaid Planning: Benefits and Drawbacks

Benefits

- Qualify for Medicaid as soon as possible
- Protect a healthy spouse
- Preserve assets for loved ones

Drawbacks

- Ethically problematic for some
- May require you to give up rights to your assets
- Medicaid laws are complex

The major benefit of Medicaid planning is that it can help you qualify for Medicaid as soon as possible, but there are other benefits as well. Medicaid planning can help protect a healthy spouse who may need a lot more than he or she is allowed to keep under Medicaid rules to live comfortably. It can also help you preserve the assets you've spent years working for to pass on to your children, grandchildren, or to charity, rather than watching them disappear within a few months of entering a nursing home.

But Medicaid planning has some serious drawbacks. First, some people are uncomfortable engaging in Medicaid planning because they consider it to be unethical to give away or spend assets in order to qualify for a welfare program. Also, engaging in Medicaid planning often means permanently giving up the rights to some of your assets ahead of time, because planning is often done before you even apply for Medicaid.

Another drawback of Medicaid planning is that Medicaid eligibility laws are complex. Medicaid planning is not a do-it-yourself affair, because not all planning techniques are legal in all states. To plan correctly, you'll need expert advice from a qualified elder law attorney.

Unfortunately, if you're not careful, giving away money or property can make you ineligible for Medicaid for a certain amount of time. Under federal law, when you apply for benefits and are receiving nursing home care, Medicaid has the right to "look back" at your finances for the previous 60 months. If you've transferred any assets within that look-back period for less than fair market value, even if you had no idea at the time that you would need long-term care, you will be ineligible for Medicaid until a certain amount of time has elapsed. This ineligibility period is determined by dividing the amount you gave away by the average cost of nursing home care in your area.

Paying for Long-Term Care: Long-Term Care Insurance

- Pays benefits when you need extended care
- Especially valuable for middle income Americans who want to preserve financial independence and quality of life
- Freedom to choose care
- Can help preserve assets

What is long-term care insurance? It's 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. While paying out-of-pocket may be ideal if you're wealthy, and relying on Medicaid may be an option if you're poor and you can qualify right away, long-term care insurance is an alternative that is especially valuable for middle income Americans who want to preserve their financial independence and quality of life.

And no matter what your income level, long-term care insurance gives you 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.

Long-term care insurance can also help you 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.

Long-Term Care Insurance: How Does it Work?

- You must be in reasonably good health to buy policy
- Premium is based on your age, and the features and benefits you choose
- Benefit is typically triggered when you become chronically ill or cognitively impaired and need help with 2 out of 6 activities of daily living (ADLs)
- Once elimination period (waiting period) is satisfied, benefits paid as long as necessary until policy limits are reached

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 you pay for a long-term care policy is based on your age at the time you purchase the policy and the features and benefits you've chosen. In exchange for your premium payments, you receive a promise from the insurance company that if you need extended care, your insurance company, not you, will foot the bill.

To receive benefits, you generally must be chronically ill or cognitively impaired and need help with at least 2 out of 6 activities of daily living. These activities are typically bathing, continence, dressing, transferring, feeding, and toileting. And before you receive any insurance benefits, you'll need to satisfy a waiting period. This period, called an "elimination period," works like a deductible. During this time, you'll have to pay for long-term care expenses yourself. So you should be prepared to pay for part of your long-term care costs even if you decide to buy a long-term care insurance policy. Once you begin receiving benefits, they will continue to be paid for as long as you need care or until policy limits are reached.

Long-Term Care Insurance: 5 Key Features

1 Benefit	What is the amount of the benefit payable?
2 Benefit period	How long will benefits last?
3 Elimination period	How long will you wait before benefits begin?
4 Location of care	Does the policy cover care in different settings?
5 Inflation protection	Will your benefits keep up with rising costs?

Once you decide to buy long-term care insurance, you'll want a plan 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. Although we can't cover everything today that you should look at, here are five key features to consider, all of which will affect the premium you'll pay.

- First, you'll need to choose the benefit 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.
- You'll also need to choose a benefit period, which is the length of time your policy will pay long-term care benefits once you need care. Most benefit periods range from 1 to 6 years, with some policies offering a lifetime benefit. If you can't afford a lifetime benefit, you may want to choose a benefit period that coordinates with the "look-back" period for Medicaid (5 years).

- In addition, every long-term care policy allows you to choose an elimination period, the number of days you will pay for your own care before benefits kick in. Most policies offer periods ranging from 20 to 100 days.
- Where you might want to receive care in the future is another important consideration. Although you can purchase bare-bones policies that only cover nursing home costs, many policies cover care in a variety of settings, including the four mentioned at the beginning of this seminar--your own home, an assisted-living facility, an adult day-care center, and a nursing home.
- You'll also need to decide whether or not you want 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.

Long-Term Care Insurance: Managing the Cost

- The younger you are when you buy a long-term care policy, the less expensive the premium
- Make sure you can afford the premium now and in the future
- Buy from a reputable company
- Choose features and benefits wisely

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. Of course, the tradeoff is that you will 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 will need to continue to pay the premiums. And 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. For instance, premiums for all policyholders might go up, or the company may remove their products from the marketplace entirely with state approval.

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 with an excellent rating from a ratings service such as Standard and Poor's.

And 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.

A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy.

- Federal tax deduction for long-term care insurance premiums
- State deductions or credits for long-term care insurance premiums
- Partnership policies that help you qualify for Medicaid

I want to mention here, too, that 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. The federal government allows you to deduct part of your premium cost if your policy is tax qualified (and nearly all policies sold today are).

Deduction for Long-Term Care Insurance Premiums: 2019	
Age	Deduction Limit
40 or under	$420
41-50	$790
51-60	$1,580
61-70	$4,220
71+	$5,270

As this table 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. But if you're considered to be self-employed, keep in mind that different rules apply. If you qualify for the self-employed health insurance deduction, you may be able to deduct the premiums you pay for qualified long-term care insurance for you, your spouse, and your dependents (subject to the age limits in the table shown). In addition, many states offer their own tax credits and deductions for long-term care insurance.

And many states have begun offering special long-term care insurance policies called partnership policies. If you own a partnership policy, the state will allow you to keep some or all of the assets that you would normally have to spend down in order to qualify for Medicaid.

Other Insurance Options

Combination Policies

- Combines life insurance or annuities with long-term care insurance benefits
- Need for large lump sum
- No medical expense deduction

Long-term care insurance is not the only option available to pay for extended care. Some life insurance or annuity policies also offer long-term care benefits. These policies combine the benefits of either life insurance or fixed annuities with the option to use some or all of the contract value to pay for long-term care expenses. So if you don't use the long-term care feature, you'll have either a death benefit payable to your beneficiaries or an annuity that you can use to supplement your income. But you'll most likely need a lump sum of at least $50,000 to buy a combination policy, and you can't deduct the premium as a medical expense.

An individual should have a need for life insurance and should evaluate the policy on its merits as life insurance. Optional benefit riders are available for an additional fee and are subject to contractual terms, conditions, and limitations as outlined in the policy and may not benefit all investors. Any payments used for covered long-term care expenses would reduce (and are limited to) the death benefit or annuity value and can be much less than those of a typical long-term care policy.

Begin Planning Today

- While you're healthy enough to take advantage of all options
- While you have enough time to plan for Medicaid
- To relieve your family of the burden of making decisions

As we draw near to the end, we want to review a few of the reasons why you should begin planning for long-term care as soon as possible. Of course, it's never too late to plan, but here's why planning as early as possible makes a lot of sense.

Although it's hard to face the fact that health problems may someday result in a loss of independence, we can't predict the future. Are you willing to gamble that you'll stay healthy forever, and that you'll never need long-term care? If you begin planning today, you will have more options open to you, including the opportunity to purchase long-term care insurance.

Another reason to begin planning now is to allow yourself enough time to plan for Medicaid. Planning ahead can allow you to retain more control over where you receive care and may allow you to qualify for Medicaid more quickly.

Finally, by making decisions today about long-term care, you can relieve your family of the burden of having to make decisions later. Keep in mind that when confronted with a crisis, people often make wrong decisions based on emotion, and that can lead to family conflicts and inadequate care.

Long-Term Care Planning Checklist

- Explore services and costs in your area
- Assess your finances
- Talk to your family about your plans
- Compare options with the help of a qualified financial professional
- Prepare health-care directives

To get a sense of what the future may hold, find out what facilities and services are available in your area (I would even suggest visiting some if you get a chance), and what they cost. Then take a look at your finances, and think about what we've discussed. Do you have enough money to pay for long-term care out of your own pocket? If not, do you need more information about Medicaid planning or are you interested in buying a long-term care insurance policy? And as uncomfortable as it may be to do so, raise the issue with your family. Talk to them about how willing they are to provide care when the time comes, if you're comfortable with that option. Next, get expert advice and help with putting together a strategy that will meet your needs.

Finally, meet with your attorney and prepare health-care directives such as a power of attorney for health care. This is a document that will outline your wishes for care and allow you to designate someone to make decisions on your behalf should you become incapacitated. It's an important yet sometimes overlooked way to retain some control over your own care, even if you face serious health issues.

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