A Short Introduction To Long-Term Care

If you know someone who takes care of their parents or if you've done it yourself, you know how stressful it can be. Now, think about a time when you might need that same care. Even if your family members are nearby and can help you around the house as you get older, they might not be able to provide you with all the care you need. That's why having a long-term care strategy can help give you and your family peace of mind and help lessen the burden of an unexpected expense.

Americans today are living longer than in the past. According to recent data, in 1950, life expectancy for Americans was 68 years old. It's now roughly 77, including the unhealthy population and untimely passings. It's predicted that by 2050, life expectancy for both males and females in the US will be 84 on average.[1]

A longer, healthier life is certainly a blessing, but it comes with extra costs that are important to consider when creating a retirement plan.

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Long-Term Care Overview

Healthcare May Likely Constitute One Of Your Largest Retirement Expenses.

According to recent data, a 65-year-old couple will spend an average of $315,000 in healthcare and medical expenses in their retirement.[2] However, this doesn't include long-term care expenses, which can be just as staggering, if not more so.

What Exactly Is Long-term Care?

- Long-term care is assistance with everyday tasks like bathing, dressing, mobility, housework, shopping, food preparation, and eating. When it comes to healthcare coverage, long-term care is not technically considered medical care.[3]
- While it may be difficult, you'll want to consider planning for a point when you can't do these basic tasks yourself. Furthermore, it's estimated that 70% of Americans age 65 and older will need long-term care at some point in their lives.[4]

Understand The Financial Burden Of Long-term Care.

- On average, women will need 3.7 years of longterm care, and men will need 2.2 years.[5] When you consider that the average cost of a private room in a nursing home is a little more than $9,000 per month, covering long-term care costs can be a major financial burden.[6]
- Depending on how long you need long-term care, that cost can really add up, especially if prices of long-term care services increase in the future.

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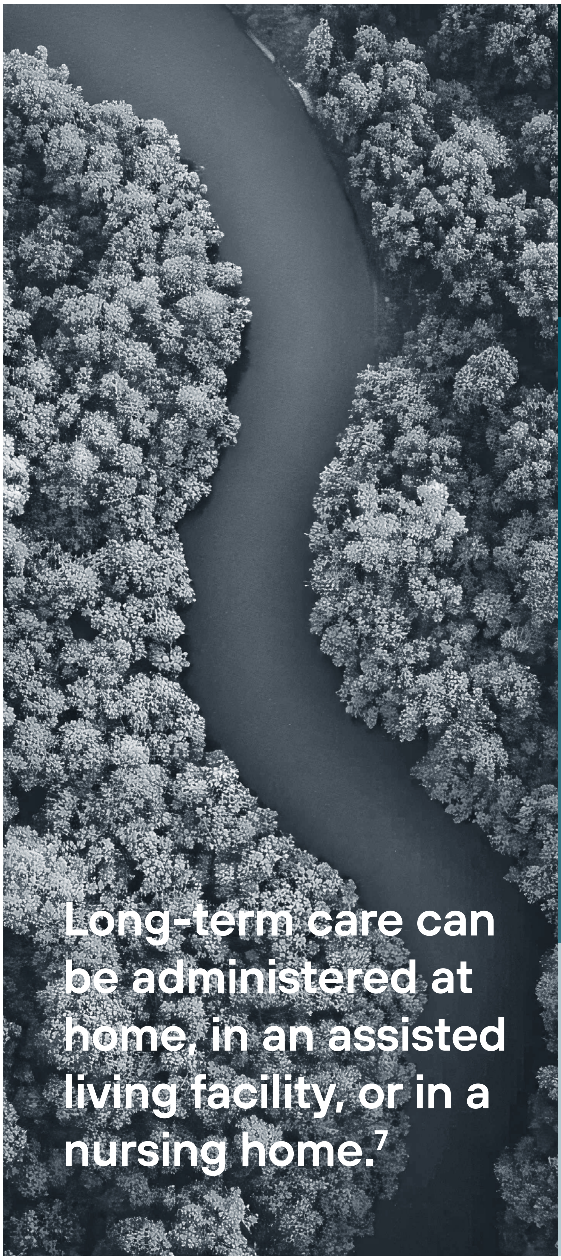
Long-Term Care Locations

The question of where you receive long-term care will likely dictate what your overall long-term care plan will look like. Each location comes with its own costs, obligations, and responsibilities for you and your family. Although sometimes budgets or health circumstances may impact your options for long-term care locations, you should make sure you have a comprehensive plan to cover the long-term care expenses you expect to have.



Aging In Place

Some people prefer to "age in place" and remain where they are most comfortable. This may require a family member or home health nurse to take care of you. For a family member, it will cost them their time and much of their autonomy. For a home-health nurse, it may cost you more than a long-term care facility.

Nursing Homes

Nursing homes can provide skilled nursing care if you have an injury or illness and can provide help with all "activities of daily living," defined as bathing, dressing, getting in or out of bed or a chair, walking, using the toilet, and eating.

Assisted Living Facilities

An alternative to both of these options is an assisted living community, which typically provides three levels of care within one facility: independent living, assisted living, and skilled nursing care.

Retirement Community Living

Retirees who are mostly able to take care of themselves but don't want to take care of a house, yard, or make all their meals can enter the independent living stage and enjoy the social benefits of a retirement community. If they require more care as they age, they can sometimes change to an assisted living or skilled nursing facility in the same location.

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Long-Term Care After Covid

The pandemic brought on many hardships, and it opened our eyes to the deficiencies of our senior care and long-term care facilities. While long-term care facilities and senior homes can be a great long-term care option for some, for others, nursing homes can create feelings of loneliness and isolation from the truly compassionate care that a family member can provide. However, if you opt for the family care route, there can be time and financial burdens on your family that can make the ideal solution for you harder to attain.

With that framework, it's important for retirees to think about how they would like to receive long-term care. As such, it's important to have a solid plan and goal in place. There are many options for funding care, and there are no one-size-fits-all solutions.

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Long-Term Care Insurance Coverage

As mentioned, long-term care can come at steep costs to many retirees, especially without a plan. However, there are ways to help pay for long-term care that can help reduce your overall financial burden.

There are several ways to pay for long-term care, but the right choice for you depends on your individual circumstances.

The Pros And Cons Of Insurance For Long-Term Care

- Utilizing insurance is a common way to help reduce the costs of this necessary care, but there are many different ways to go about it: **There is traditional long-term care insurance, life insurance with a long-term care rider, and annuities.**
- **Long-term care insurance policies can be expensive.[8]**
  - The average cost of long-term care insurance is $1,200 a year for a 60-year-old man for $165,000 coverage, according to the American Association for Long-term Care Insurance (AALCI). The average cost for a 60-year-old woman is $1,960 for the same coverage.
  - Certain annuities or life insurance policies can provide long-term care riders, which, for an added premium, can help reduce the cost of long-term care expenses if they arise.
    - Talk to a financial professional to see if these retirement savings and income solutions can be tailored to help you cover long-term care costs.
- **The longer you wait, the more expensive long-term care insurance may be.**
  - If you plan to buy insurance, shopping in your 50s and 60s is better than waiting because premiums will be lower–there is even an 8 to 10 percent difference in initial premiums for a 64-year-old versus a 65-year-old.
  - One of the downsides to buying long-term care insurance is that the price can go up after you buy a policy.[9]

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The Hybrid Policy: A Long-Term Care Insurance Solution[10]

You may feel hesitant to buy long-term care insurance because if you don't end up needing long-term care, the money you put toward premium payments would be wasted. There are certain policies that can address this risk by merging the benefits of long-term care insurance with those of permanent life insurance. While the policies can vary in form, all promise a death benefit if you pass away without having needed long-term care.

These **"combination"** or **"hybrid" policies** are structured as permanent life insurance but include extended benefits for the purposes of long-term care. Depending on the policy, benefits are allotted over a predetermined period of time or up to a selected total amount. In many cases, if you do not max out the entire benefit while living, the remainder becomes payable as a death benefit to a beneficiary. Others feature a "return of premium" guarantee either upon death or if you decide you don't want to continue the policy after a certain number of years.

Like traditional long-term care policies, combination policies offer a level of long-term care coverage that is generally several times greater than the amount paid in premiums. However, unlike traditional policies, these premiums do not increase year to year and there is more flexibility in payment options.

Long-Term Care Riders For Life Insurance Or Annuities[11, 12]

An annuity- or life insurance-based long-term care insurance policy is basically a long-term care insurance plan attached to your life insurance policy or annuity. So, in exchange for an initial lump-sum payment or premium payments for this additional benefit, the annuity or life insurance policy will pay out more than the regularly scheduled amount in benefits if you need long-term care and will still pay out the regular benefit even if you never need long-term care. Unlike traditional long-term care insurance policies, these policies' premiums will not rise. Keep in mind that, like traditional annuities or life insurance, these policies often require an initial lump sum payment or premium payments over time before benefits pay out for your annuity or to build cash value in your life insurance policy.

NOTE: Long-term care annuities can sometimes carry tax benefits: Qualified annuities are funded with pre-tax dollars, and payments are taxed as income, like a traditional retirement account. Non-qualified annuities are funded with after-tax dollars, but payments are still taxed because of the annuity's investment growth. Taxes on payments are based on your principal, the length of time the annuity has grown, its interest earnings, and your life expectancy.

If you have further questions about annuities, be sure to bring up your questions in a conversation with your financial professional.

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Tax Deductions And HSAs

One way to reduce long-term care insurance costs is to deduct part of them from your taxes. Most policies are tax-qualified, so if you itemize your taxes, consider deducting premiums. The amount you can deduct rises with age: Those 40 and under can deduct up to $470 at the lowest, and those older than 70 can deduct up to $5,880 at the highest for 2024.[13]

Another way to reduce your long-term care costs is to use a Health Savings Account (HSA), which is a tax-advantaged savings account that allows you to put away pretax dollars to pay for qualified medical expenses. In order to qualify for an HSA, you must be covered under a qualified high-deductible health plan.[14]

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Is Long-Term Care Covered Under Medicare?[15]

Some people wrongly assume they can rely on Medicare to cover all their long-term care costs. While Medicare can cover short-term stays in skilled nursing facilities, it does not cover the cost of help with daily living activities for extended periods of time.

Here's what Medicare covers in 2024 pertaining to long-term care services:

Skilled Nursing Facilities

- Days 1-20: $0 copayment.
- Days 21-100: $200 ($204 in 2024) copayment each day.
- Days 101 and beyond: You pay all costs.

Inpatient Hospital Stays

- Days 1-60: $0 after you pay your Part A deductible, $1,632 in 2024.
- Days 61-90: $408 in 2024 copayment each day.
- Days 91-150: $816 in 2024 copayment each day while using your 60-day lifetime reserve. You may choose to pay in full for the days you do not wish to use your lifetime reserve coverage days.
- After day 150: If you used all your lifetime reserve coverage days, you pay all costs in full.

Home Healthcare Services

- $0 for covered home health care services.
- 20% of the Medicare-approved amount for durable medical equipment (like wheelchairs, walkers, hospital beds, and other equipment).

Hospice Care

- $0 for covered hospice care services.
- You may also pay:
    - A copayment of up to $5 for each prescription drug and other similar products for pain relief and symptom control while you're at home.
    - 5% of your Medicare plan's approved amount for inpatient temporary care.

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Where Does Medicaid Fit In?[16]

Since Medicare won't necessarily cover long-term care costs, some people may look to Medicaid. And while Medicaid will cover a large portion of long-term care costs, there are strict functional and financial requirements to qualify.

To start, applicants must either be 65 or older, have a permanent disability, or be blind. The financial qualifications differ by state. In general, individuals must be qualified as at or around the poverty level. However, this varies across different states in terms of wealth and income limits.

There are also methods of transferring assets so that you can qualify for Medicaid and avoid impoverishing yourself and your spouse by long-term care costs,[17] but they are complex and can trigger penalties if not done properly.

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Veterans Benefits

There is long-term care cost aid for veterans who served in the military for at least 90 days, with at least one day during wartime. The VA system also offers additional long-term care coverage for those who require help with daily living activities.[18]

Aid and Attendance (A&A) is the additional pension that is offered to Veterans requiring further assistance and is a VA benefit that can help you cut back on your long-term care expenses if you qualify.[19]

Paying With A Retirement Account

If the biggest chunk of your nest egg is in a qualified retirement plan like a 401(k) or IRA, you may have considered using those funds to pay for long-term care; however, there are ways in which that may not be optimal.

Consider that the money you withdraw from a traditional 401(k) or IRA is taxable. Unfortunately, paying for long-term care costs with traditional retirement accounts can trigger a larger tax burden and drain your account faster than you might have planned. This can also have a negative impact on your estate plan if you want to pass on your retirement accounts to your loved ones.

One option to avoid these potential taxes when withdrawing to cover care costs is to convert to a Roth account.

- Remember, withdrawals from a Roth account are not taxed because tax is paid on contributions.
- With a Roth account, you will not have to worry about triggering a high tax bill in the future if you ever need to withdraw to pay for long-term care.
- Be aware of age, income, and account age restrictions on Roth accounts before finalizing a plan.[20]

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Planning Is The Answer

There's no obvious one-size-fits-all answer for covering long-term care costs, which is why it's important to seek out professional advice tailored to your unique personal and financial situation. What is obvious is that today's retirees need a plan and shouldn't assume they will never need long-term care.

It's important to figure out how to cover yourself and your spouse, protect your savings, anticipate your tax burden, and navigate the complexity of Medicare and Medicaid. At VestGen Wealth Partners, we help retirees and pre-retirees decide how they can best pay for long-term care in the future should they need it. The most important thing you can do is resolve to address the issue of these costs before you need long-term care.

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