

**A SHORT GUIDE ON**

# Protecting Retirement with Long-Term Care Planning



Get the facts. Make a plan.



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**A Short Guide on Protecting Retirement with LTC Planning** is intended to provide accurate and useful information about the process of developing and funding a plan for long-term care and the role of LTC insurance in paying for those potential associated expenses. It is not intended to provide legal or tax advice, either generally or specifically. The reader is advised to consult an attorney or tax advisor for specific legal or tax advice.

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## What is Long-Term Care?

It's care needed for an extended period of time that requires assistance when we are unable to care for ourselves due to chronic illness, physical injury, cognitive (mental) impairment, or frailty. Healthcare professionals, health insurance providers, HMO's, and Medicare classify this type of care as **custodial care**, as opposed to acute or rehabilitative care. The focus of extended care (or long-term care) is on assistance with the normal activities of daily living.

### Who is at risk for needing extended care?

Anyone, at any age, may require long-term care. The unfortunate downside of living longer translates into a greater likelihood, due to advanced age, of developing a condition requiring some form of assistance.

Statistics from the U.S. Department of Aging, the Census Bureau, the healthcare sector, and the insurance industry indicate that: Roughly 70% of people age 65 and older will need some type of long-term care during their lifetime. Despite all the statistics, ***most of us don't want to believe that it can happen to us.***

What we do know is that **the risks are real and the costs are high.**

## What services are needed for long-term care?

Anyone with a chronic condition may need intermittent rehabilitative services by licensed professionals (Registered Nurse, Physical Therapist, Speech Therapist, Nutritionist, Medical Social Worker, etc.).

However, most assistance is provided by home healthcare aides, non-professional personal aides who assist with the custodial **activities of daily living** such as:



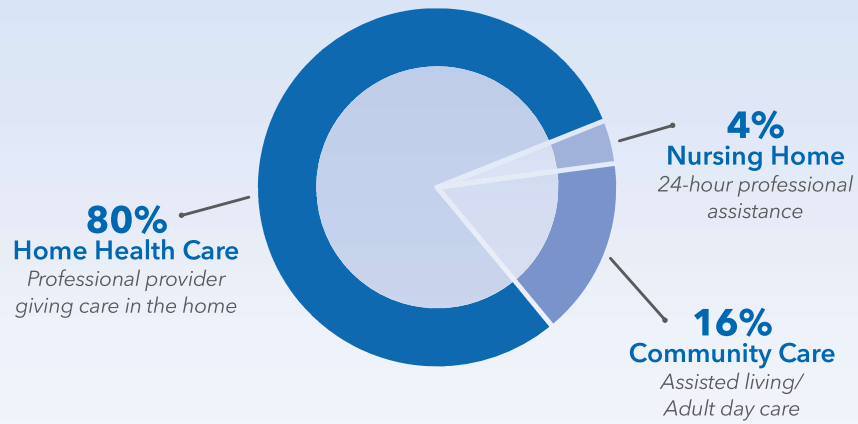
**Homemaker Services** means assistance with activities necessary to remain in his or her residence, that is provided by a skilled or unskilled person.

Personal care, such as help with bathing, washing your hair, or getting dressed, Household chores, such as cleaning, and laundry. Cooking for you in your home or delivering meals to you. Such as having a home health aide come to your home or getting care from your provider through telehealth.  
MedlinePlus.gov

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*The 2014 Sourcebook for Long-term Care Information,*  
American Association for Long-term Care Insurance, 2013.

When given the choice, many people remain in their own homes while receiving care.<sup>1</sup>





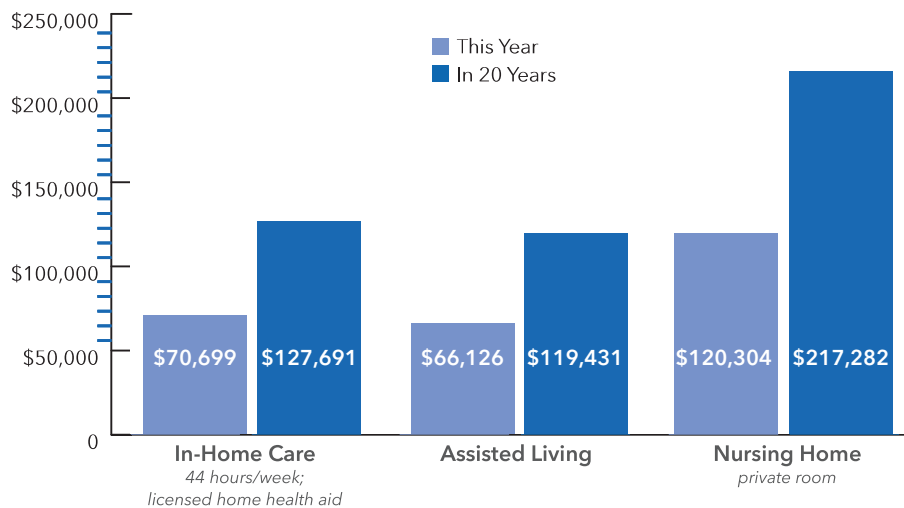
## What is the cost of rehab and custodial services?

The costs of these types of care will vary significantly by where you live and the type of care you receive. The following is a breakdown of Monthly National Averages and Annual:

|                               | MONTHLY  | ANNUAL                      |
|-------------------------------|----------|-----------------------------|
| Home Health Care <sup>1</sup> | \$5,892  | \$70,699                    |
| Adult Day Care                | \$2,120  | \$25,441                    |
| Assisted Living <sup>2</sup>  | \$5,511  | \$66,126                    |
| Nursing Facility <sup>3</sup> | \$8,929  | \$107,146 SEMI-PRIVATE ROOM |
|                               | \$10,025 | \$120,304 PRIVATE ROOM      |

**Costs are expected to double in the next 20 years.**

**Annual median cost of care in the United States for this year and in 20 years:**



Genworth Cost of Care Survey, December 2023

<sup>1</sup> Based on annual rate divided by 12 months (assumes 44 hours per week)

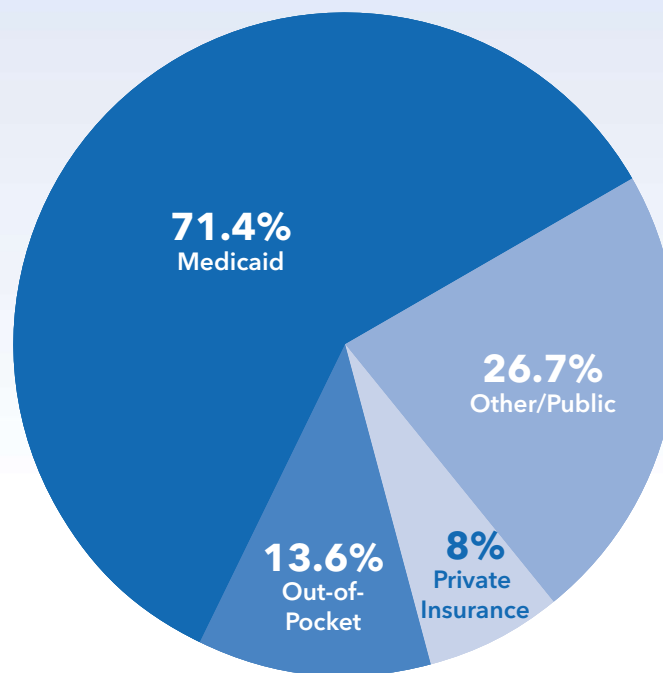
<sup>2</sup> Based on annual rate divided by 12 months

<sup>3</sup> As reported, monthly rate, private, one bedroom

## What pays for extended care services?

This section addresses what pays for extended care and what the limitations and disadvantages are in relying on these programs.

**Medicaid is the primary payer for long-term services and supports (LTSS), 2013**



**Total National LTSS Spending  
= \$467.48 Billion**

Congressional Research Service Updated September 19, 2023  
Who Pays for Long-Term Services and Supports?

NOTE: Total LTSS expenditures include spending on residential care facilities, nursing homes, home health services, and home and community-based waiver services. Expenditures also include spending on ambulance providers and some post-acute care. This chart does not include Medicare spending on post-acute care (\$74.1 billion in 2013). All home and community-based waiver services are attributed to Medicaid.  
SOURCE: KCMU estimates based on CMS National Health Expenditure Accounts data for 2013.





### **Health Insurance, HMO or Medi-Gap**

This type of coverage pays very little, if anything for custodial services for a chronic condition, which is not likely to improve with treatment.

Health insurance, HMO's, and Medicare pay for medical treatment of acute medical conditions and for some rehabilitation, as long as there is *continual improvement*. Examples of acute conditions would be:

- fractured hip
- heart attack
- stroke

#### **These DO NOT PAY for:**

- personal aides
- homemakers
- adult day care
- assisted living centers
- skilled nursing home care for chronic conditions, except in very rare circumstances

### **Medicare or a Senior HMO**

Medicare, Senior HMO's, Medicare supplements, as well as most group and individual insurance policies all follow Medicare guidelines.

*It is always best to contact your local Medicare office or request the Medicare Guideline for the current year to have the most up to date information.*

#### **Medicare has very rigid restrictions; it pays only if:**

- you need skilled nursing or rehabilitative services
- your medical condition improves daily
- it's within 30 days of discharge from the hospital
- your admission to a skilled nursing facility occurs after at least three full days of a hospital stay (which can be difficult in these days of "drive-through" surgeries)

*Important Note: Few people qualify for more than the initial 20 days of coverage by Medicare. The national average for Medicare Skilled Nursing Facility coverage (all ages and all conditions) is about 25 days of care.*

#### **Medicare coverage for home health care**

Medicare also has very strict limitations on their home health care benefits.

Medicare will pay 100% of medically necessary home health visits by a licensed home health care agency for:

- skilled nursing care
- home health aide services
- rehabilitative services

**The qualifying criteria that determines if these services will be approved are:**

- care must be medically necessary
- the need is for intermittent and scheduled skilled or rehabilitative therapy
- your medical records document continued improvement
- you are confined to your home

Since home health care can be very expensive, some HMO's are very reluctant to authorize it.



## It is vital that you are aware of the following information:

Health insurance, HMO's, and Medicare pay *for treatment of acute medical conditions and for approved rehabilitative therapy*, as long as you have the potential for improvement. *They pay nothing, or very little, for custodial services needed when chronic conditions are unlikely to improve:*

- debilitating arthritis
- Alzheimer's
- post-stroke custodial care
- coronary insufficiency
- etc.

Once your condition is considered **chronic**, and you remain stable with no demonstrable improvement, you must pay out of pocket for the daily assistance you need.

**The real costs that you must consider are the expenses for care or assistance with your daily functioning, if you are incapacitated with a chronic medical condition.**

*Know the limitations of your health insurance, HMO, or Medicare coverage. Understand the distinction between TREATMENT of acute conditions, where the measure is REHABILITATION and IMPROVEMENT; and the MAINTENANCE of chronic conditions that require un-reimbursed CUSTODIAL CARE.*



### **Medicaid coverage of extended care expenses**

Medicaid is a combined Federal and State program (called “Medi-Cal” in California) that pays health care costs, including care in a skilled nursing facility, in some states assisted living as well, for people who are impoverished. One must meet specific state and federal guidelines to qualify. *If you have any savings and assets, you must first spend them down to approved poverty levels.* Medicaid allows you to keep your home, one car, your personal belongings, and certain exempt assets.

If you are single or widowed, it is different than if you are married. Again, check the numbers for your specific demographic area to see what the requirements are for you.

Medicaid counts ALL assets, INCLUDING separately held assets of spouses. Medicaid does NOT exclude from spend down requirements those assets considered separate through pre-nuptial or other agreements.

**Couples who are in second or third marriages, and have legal pre-nuptial agreements keeping their assets separate, are often surprised to learn that they are in the unfortunate predicament of having to spend their separately held money because the sick spouse could not qualify for Medicaid.**

Medicaid may cover care in assisted living centers in certain states, and provides limited home health care services. Extensive at-home custodial care is often more expensive than a nursing home. *Consequently, people with limited financial resources frequently have no choice but to enter a skilled nursing facility that accepts Medicaid's lower payment levels.* The majority of people in nursing homes paid for by Medicaid become impoverished because they needed long-term care. Often, one spouse has used up all of their savings paying for care of the other spouse.

## **What is the projected impact of inflation on the future costs of extended care?**

This is a significant factor in planning for our potential long-term care needs. Inflation is a major factor as it is important that your long-term care plans keep up with the increasing cost of care.

## **Planning can protect your retirement**

To effectively prepare for potential extended care needs, you should consider developing a plan in the event that you, your spouse, parents, or others financially dependent on you may require long-term care services. This plan needs to consider the following goals:

- To have the financial resources to pay for quality care at home or in a facility without disrupting your retirement standard of living and financial commitments already in place.
- To protect your income, savings and assets for both the ill and healthy spouse.
- To maintain your independence by preventing being a burden and dependent upon children or other family members.
- To conserve your estate and ensure an inheritance for your heirs or other beneficiaries is not disrupted.
- To avoid becoming impoverished and having to rely on the Medicaid program.



## Developing the Plan: The 3 Step Process

In considering your plan, keep in mind that no one expects to be chronically disabled, but we have all seen the results to loved ones and friends so we must consider planning for that event should it occur.

So here are the three steps necessary to develop a plan of care should an event cause you to need extended care:

### **Step 1** Where would you prefer to receive care?

Most of us would prefer to stay at home for many reasons. But for those without a spouse or partner at home the circumstances may prevent care be provided in the home environment. Assisted living facilities are growing in every segment of our country and provide for a very vibrant environment for those needing varying levels of assistance with activities of daily living. Also, keep in mind your plan may change in the future, but it's important to write your feelings down now for your loved ones to carry out your wishes.

### **Step 2** Who will provide the care?

Many of us think our family will provide most of the care we may need, and this is true to a certain extent. It's been proven that most individuals moving into a facility do so because a family member or friend can't provide the care any more.

You can avoid having your children do the "heavy lifting" by planning for the possibility of bringing in professional home health care aids or considering an assisted living facility that would be near to your family.

### Step 3 What will pay for your care?

To pay for long-term care costs, there are basically four options:

- “Self-insure” by paying for all the care that you, your spouse, or your parents may need from resources available at that time.
- Become dependent on another person, i.e. your spouse, children, other relatives including grandchildren.
- Spend down all of your assets and pay for care until you qualify for Medicaid.
- Transfer the risk of these catastrophic expenses to a comprehensive LTC insurance Policy.

### Projecting the costs of your extended care needs:

To self-insure for this risk, you must first project the amount of money needed to meet your potential extended care needs.

**The critical factor in planning for future long-term care needs is time.** If I possibly need long-term care, will I need it in 5, 10, 20, 30, or 40 years from now? How long will I need it? How much will it cost if and when I need it? How much money should I earmark today to meet any long-term care needs in the future? There are just too many unknowns.

Although these numbers seem outrageous, they are simply the cost of care today increased by a 3% annual rate of inflation. Depending on the decrease or increase of health care services in the future this number could be greater or lower. Will you have the financial resources if you need care? Possibly, but it depends on your specific circumstances.

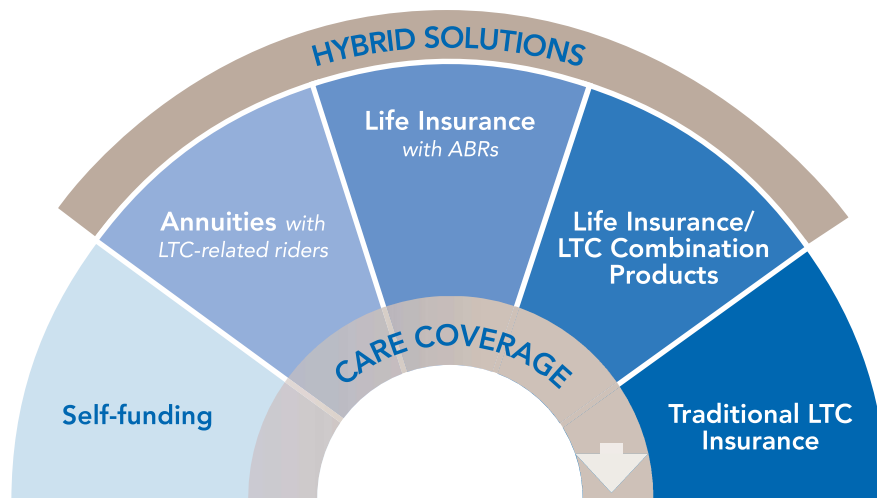


## Understanding the extended care funding options

LTC insurance is not for everyone. It must provide appropriate coverage for your specific future needs and the premiums must be affordable. It can be vital in giving you "peace of mind" that you will have the necessary financial resources to pay for quality care, and the freedom to choose where and who provides your care.

This insurance program should be carefully designed as a component of your overall financial and estate planning strategy and should accomplish the goals that **you feel are important** in reducing your financial risk for extended care expenses.

*A well-designed LTC insurance policy may be one of the best financial decisions you ever make. There are five payment options associated with Extended Care.*



### **The potential for self-funding**

Some people who want to maintain control of their assets may consider self-funding or paying out-of-pocket for their long-term care expenses. But the unpredictable nature of a long-term care event may make you think twice about this option. In addition to the risk posed by the high potential costs, self-funding also involves investment risks for the assets that will potentially be used to pay for care, as well as managing those assets during a long-term care event. Also, you should consider the tax risk of taking substantial portfolio withdrawals to self-fund your expenses.

### **Annuities with long-term care riders**

If you are primarily interested in securing a source of retirement income but also want a product that offers protection from long-term care expenses, you might consider an annuity with a long-term care rider. The annuity could provide you a source of lifetime income. The long-term care rider gives you additional income to pay expenses if you need long-term care. However, its benefits may be restricted to care in a nursing home.

### **Life insurance with Accelerated Benefits Riders (ABRs)**

For those who are looking for the financial protection of a death benefit and added protection from long-term care expenses, life insurance with an Accelerated Benefits Rider may be an option. It combines life insurance with access to death benefits, which, depending on the rider, may be used for long-term care expenses. Generally, the life insurance component offers the potential to accumulate cash value and leave a legacy for your loved ones. The riders could be exercised to access the death benefits while living; however, the benefits are generally restricted to compensate for permanent chronic care or terminal illness, although some may offer benefits for recoverable conditions as well.

**Life insurance/long-term care combination products**

These products offer long-term care expense protection and other benefits if you don't need care. For example, a hybrid life/long-term care solution may provide you a choice of a death benefit, cash value growth or return of premium, or a combination of those benefits. If you never need the long-term care benefit, your heirs could inherit an income tax-free death benefit. Also, the premium flexibility of some of these solutions gives you the option to pay a single premium or lower payments for a number of years.

Since these solutions are life insurance base policies, the premium is guaranteed to never increase.

**Traditional long-term care insurance**

If you just want a policy that covers long-term care expenses, and are in good health, traditional long-term care insurance is a great option. These insurance policies are designed specifically for long-term care coverage and help cover out-of-pocket expenses for a variety of services, such as nursing home care, in-home care, assisted living and adult day care. If however, you never need long-term care, some policies offer benefits or a return of premium.



## The cost of long-term care insurance

The cost of LTC insurance is usually the most important issue that people are concerned about. *Unfortunately, there is a common misconception that LTC insurance is "too expensive."*

**This is a myth. It is often mentioned in the financial press and by people who have not kept up with significant changes in the LTC insurance industry.** As a result of consumer driven legislation on both state and federal levels, LTC policies now offer great flexibility in policy design, clearly written and understandable policies, built in consumer protection, generally fair and affordable premiums, and increasing government scrutiny over premium stability.

Keep in mind that you, as the purchaser, have a great deal of control over the premium by the choices you make in benefits and policy design. Each component affects your final premium. *Once the policy is issued, you pay the same premium each year for the life of the policy, unless there is an across the board price increase issued by the insurance company.\** You can lower your premium at a later date by reducing your benefits.

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\*An insurance company cannot increase your premiums unless the State Department of Insurance approves the request for a rate increase by that company for all policies in the same class within the state.

“ Hopefully **A Short Guide on Protecting Retirement with LTC Planning** has helped you to better understand the importance of being prepared to meet the financial needs of care for an extended illness or injury. Planning for extended care is absolutely one of the most critical issues we all face as a society. How we will be cared for must be a vital concern for each of us. The question of personal and family responsibility versus the preservation of an entitlement system for anyone other than the poor and destitute will not be resolved easily. Planning and being prepared is the best protection you can have. ”

## Take charge of your life

Because the risk of eventually needing care or providing care, or both is much greater for women than men, generations of women in your family should take steps to prepare for the challenges. Here are three simple ways to get started.

### 1. Put yourself first

*Think about your life and how the possibility that someone you love might need care in the future.*

- If you have a spouse or partner, do you think you could physically provide that care?
- If you have parents or in-laws, do you think you could physically provide that care, or help pay for the care they need?
- If you're an only child, only sister or a sibling residing near your parents, what is the plan if mom or dad needs care?

*Think about the possibility of you needing care someday.*

- Would you want to stay at home and receive care?  
Or would you rather receive care in a facility?
- If maintaining friendships and continuity in your life are important to you, consider how a sudden health-related issue requiring long-term care might disrupt your lifestyle if no one knows your wishes because you haven't planned.

## **2. Plan for long-term care as a family**

*Talk with your spouse, your siblings, your parents and your in-laws.*

- Have an open discussion about expectations and the importance of establishing a long-term care plan.
- Encourage your loved ones to join you in a family long-term care discussion with a financial professional who can provide an unbiased perspective and planning options.

## **3. Talk with your advisor**

*Express your concerns about the issues and ask your advisor what you could do now to help protect yourself and your loved ones.*

- If you're married or have a partner who does not see eye-to-eye with you, consider having a one-on-one with your advisor. It's helpful to have an experienced professional listen to your perspective and give you an impartial point of view.

