Long-Term Care
How To Fund Retirement's Biggest Threat

Introduction

If someone retires at age 65 and passes away at 66, will planning for unforeseen healthcare costs really make a difference in your success or failure in your retirement? No, because they didn't live long enough to really see the erosion of their assets over an extended period of time dealing with chronic or acute care.

The biggest threat to a retiree's planning, portfolio and assets is the cost of an *unfunded* Long-Term Care event that is not covered by Medicare or a health insurance program.

With so much at risk, many are wondering what they can do to make sure that they have a plan in place as well as a way to mitigate the risk of spending a lifetime worth of savings on a very short buy critical time in life.

The purpose of this whitepaper is to understand the critical components of making these healthcare decisions, and to focus on the five ways a retiree can fund Long-Term Care today.

Living to 90 is Common

Today, if you are healthy at age 65, you have better than a 50 percent chance that you will live to or beyond age 90. This is good news. This is also a risk multiplier. Advances in medicine and breakthroughs in technology have actually increased our need for long- term or extended care during our lifetime.

Critical Facts and Questions

According to the National Medicare Handbook, approximately 70 percent of Americans will need some form of Long-Term Care services in their lifetime. That means that our odds of needing this type of care are better than a coin flip. As health care costs continue to exceed consumer inflation, this type of care is also likely to continue to skyrocket and become more expensive.

Fidelity has estimated that today's retirees should plan for an additional $250,000, which is above and beyond expected medicare premium and supplemental plans.

Some questions and things to consider:

- Who will care for you when you can't care for yourself?
- Which accounts do you use in order to pay these costs?
- Is there a way to mitigate taxes when planning for Long-Term Care?
- What and how much does Medicare actually cover for Long-Term Care costs?
- Is spending down assets to qualify for Medicaid a good option?
- What kind and quality of care do you want and will you have a choice?

Misperceptions of Long-Term Care Funding Options

47 percent of Americans think that Medicare pays for Long-Term Care costs. The reality is that Medicare only pays for up to 100 days in a skilled nursing facility once very specific set of requirements are met. Most people are statistically going to be receiving care from their home and will never qualify for Medicare's very limited benefit.

When retirees are asked how they would fund this type of care, 59 percent shared that they plan to use Social Security to pay for Long-Term Care. For the record, the average annual Social Security benefit in 2019 is $34,332. A semi-private nursing home room will cost the average american close to $90,000 annually.

If healthcare continues to inflate as it is today, at a five percent increase annually, in just 15 years that same private nursing room will cost $180,000. With the average Long-Term Care stay lasting 3.2 years, that represents an additional $540,000 to account for in our retirement spending plan.

Developing a strategy to both pay for this type of care and mitigate the risks associated are critical for everyone to consider in a real retirement planning process. The problem is that many believe that creating a plan for Long-Term Care is too expensive and it is often difficult to think about getting to the place of needing to depend on someone else.

Five Ways To Fund a Long-Term Care Event

Determining the right option to fund advanced healthcare expenses gets complex.

There are essentially five different funding options to consider. Which one is right for you? It depends. Each person will have differing circumstances and a variety of goals they are trying to accomplish.

The following information will help you start determining which direction may be optimal for you.

Long-Term Care Planning Options (for a 62 y/o married female, solving for $250K benefit)

1) **Self insure-** liquidate $330k (24 percent tax bracket) and cover these costs on your own
2) **Use Traditional Long-Term Care Insurance-** pay approx. ($3,500) per year for a stand-alone Long-Term Care policy
3) **Life with Long-Term Care-** pay approx. $5,600 annually (for an individual) or $9,900 annually (for a couple) for a life insurance with Long-Term Care rider policy
4) **Hybrid Linked Benefit-** reposition approx. $95,000 to a single premium, Linked benefit policy
5) **Medicaid-** Each state has a program to provide a minimal benefit for those needing care who have spent all of their resources.

Option 1: Self Insuring

- $350,000 self-insure using pre-tax qualified funds, assuming 24 percent tax bracket
- Advantages
  - Freedom of controlling where the care is delivered and who is delivering the care
  - No annual premiums to pay
- Disadvantages
  - Taxation on withdrawal of qualified benefits
  - A retiree would need to withdrawal $350,000 to net the required $250,000
  - Potential to sell assets during a down market
  - Self-insuring could potentially mean less dollars for heirs and the loss of investment income those dollars could have generated

Option 2: Stand Alone Long-Term Care Insurance

- Approx. $3,500 (annually) into a stand alone Long-Term Care insurance policy
- Advantages
  - Can customize premiums to desired budget and benefits
  - The most comprehensive Long-Term Care coverage

    - State partnership programs
    - Return of premium riders available
    - Inflation increases available
    - Non-taxable benefits
- Disadvantages
    - Premiums are not guaranteed to stay the same
    - Missing premiums causes policy to lapse
    - If you don't use the benefits during your life then that money is lost
    - No access to funds for emergencies
    - Can be difficult to qualify due to underwriting

Option 3: Life Insurance with Long-Term Care Rider

- Approx. $5,600 (annually) into a life insurance policy with a Long-Term Care rider attached
- Advantages
    - Flexible pay periods
    - Guaranteed premiums
    - Benefits promised to either insured (using for Long-Term Care) or heirs (via the death benefit)
    - Provides for largest maximum benefit payout
    - Less expensive than purchasing traditional Long-Term Care
    - Non-taxable benefits
- Disadvantages
    - Limited in the choices for benefit and elimination periods
    - Does not include a Return of Premium
    - Most require full underwriting
    - Inflation protection not available

Option 4: Hybrid Life Insurance with Linked Long-Term Care Benefit

- Approx. $95,000 single premium deposit into a hybrid life insurance policy designed for Long-Term Care benefits
- Advantages

    - No ongoing premiums, one and done
    - Guaranteed Premiums- no increase
    - 100 percent Return of premium options (refund of deposit)
    - Inflation protection available
    - Benefits promised to either insured (using for Long-Term Care) or heirs (via the death benefit)
- Disadvantages
    - Loans or withdrawals may negatively impact values and guarantees
    - Some have limited pay option
    - May not be as efficient for cash accumulation as self-insuring

Option 5: Medicaid

- Once you have essentially spent all of your assets to zero beyond a home and a car, the state will provide you with care as a last resort. Note that there are attorneys who specialize in hiding/removing assets from an estate in an effort to qualify families for Medicaid.
- Advantages
    - No annual premiums to pay as this is a benefit provided by taxpayers.
- Disadvantages
    - You have to spend down all of your liquid/investable assets to $0
    - If you have chosen to work with an attorney to remove assets from your estate, this decision is irrevocable and removes your ability to have control of your assets.
    - Medicaid facilities are paid very little per resident and therefore cannot offer a standard of living that most would want to find themselves in. This is reflected in the quantity and quality of care received, food and amenities.
    - Due to the high demand and lack of resources it can often be difficult to find a residence and may take much longer than desired.

Sound Planning Decisions

Ultimately, there are many factors that influence the type of planning one should do for Long-Term Care costs.

The first step is understanding the critical facts one needs to know in order to make informed decisions. Make sure you have the right process, checklist and questions to ask before making your final selection.

If you have questions about which options might be right for you, we invite you to reach out to one of our knowledgeable advisors at 425-821-9442 or Admin@SPGadvisors.com to compare your options.

To your success,

David Stryzewski

CEO, Sound Planning Group