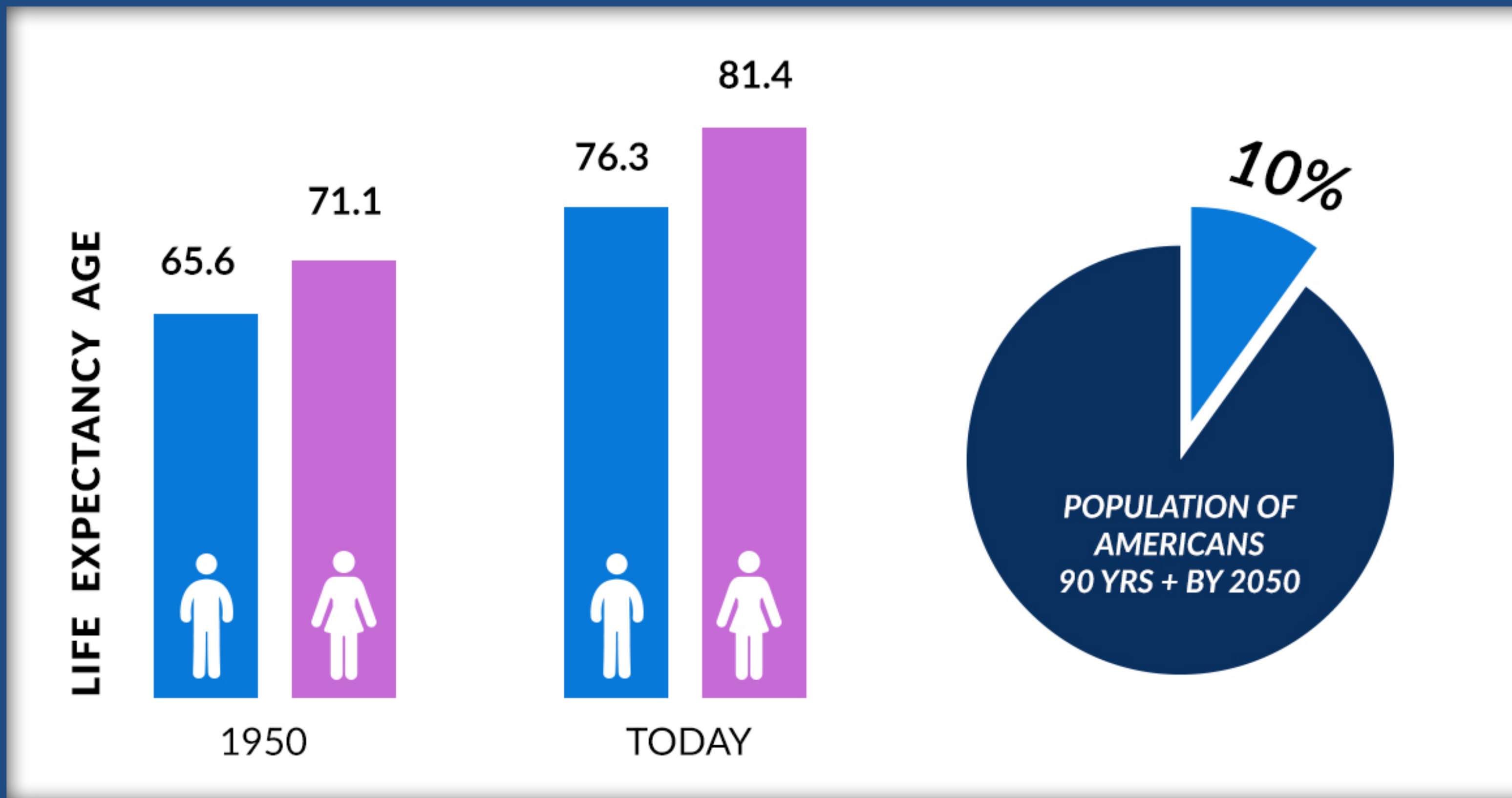


A SHORT INTRODUCTION
TO LONG-TERM CARE



Americans today are living longer than in the past: In 1950 the life expectancy for American men was 65.6, and for American women was 71.¹ Now it is 76.3 for men and 81.4 for women. Of course, many people live to be older than that. In fact, the Census Bureau estimates that by 2050, Americans 90 and older will make up 10% of the population.² A longer, healthier life is certainly a blessing, but it comes with extra costs that are important to plan for, especially as pertains to your retirement plan.



Saving more money is a good start for covering your expenses in retirement, but you should also estimate how much you will need. Healthcare will likely constitute one of your largest retirement expenses. An average 65-year-old couple retiring today will need an estimated \$363,946 to cover their healthcare costs.³ The problem is that this does not include a major health-related expense: long-term care.

If you know someone who takes care of their parents, you know how stressful this can be. 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 the knowledge that you have a long-term care plan in place in case it's needed can help give you and your family peace of mind.

¹ <https://u.demog.berkeley.edu/~andrew/1918/figure2.html> and today it's 79.
<http://www.geoba.se/population.php?pc=world&type=15>
² <https://www.thoughtco.com/living-past-90-in-america-3321510>
³ <http://www.hvsfinancial.com/wp-content/uploads/2018/09/2018-Retirement-Health-Care-Costs-Data-Report.pdf>

Long-term care is not technically medical care. It is assistance with everyday tasks like bathing, dressing, mobility, housework, shopping, food preparation, and eating.⁴ We might not want to think about getting to a point where we can't do these things for ourselves, but the reality is that it happens, and it's much better to be prepared.

It's estimated that 70% of Americans age 65 and older will need long-term care at some point in their lives.⁵



On average, women will need 2.5 years of long-term care, men will need 1.5 years, and 14% of people need long-term care for longer than five years. When you consider that the median cost of a private room in a nursing home is over \$97,000 a year,⁶ covering long-term care costs can be a major financial burden.

LONG-TERM CARE LOCATIONS

Long-term care can be administered at home, in an assisted living facility, or in a nursing home. As of 2013, 65% of long-term care was given at home. Some people prefer to “age in place” and remain where they are most comfortable, and others require more advanced help in a specialized facility. 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.⁷

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

⁴ <https://longtermcare.acl.gov/the-basics/what-is-long-term-care.html>

⁵ <https://longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html>

⁶ <https://www.morningstar.com/articles/879494/75-must-know-statistics-about-long-term-care-2018-edition>

⁷ https://www.cms.gov/research-statistics-data-and-systems/research/mcbs/downloads/2008_appendix_b.pdf

LONG-TERM CARE COVERAGE

There are several ways to pay for long-term care, but the right choice for you depends on your individual circumstances. Utilizing different Insurance options is one solution: There is traditional long-term care insurance, life insurance with a long-term care rider, and annuities.



Long-term care insurance policies are becoming more expensive, and less insurance companies are selling them.⁸ On average, premiums are \$2,700 a year.⁹ Typically plans will cover \$160 a day for nursing home care for a maximum of three years. If you plan to buy insurance, shopping in your 50's and 60's 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.¹⁰ Women typically pay more than men because they tend to live longer.¹¹

One of the downsides to buying long-term care insurance is that the price can go up after you buy a policy. Many people saw their rates go up in the last few years because cost of claims was higher than insurance companies had projected.

⁸ <https://www.nytimes.com/2019/08/23/your-money/long-term-care-insurance-prices.html>

⁹ <https://www.aarp.org/caregiving/financial-legal/info-2018/long-term-care-insurance-fd.html>

¹⁰ <https://www.aarp.org/caregiving/financial-legal/info-2018/long-term-care-insurance-fd.html>

¹¹ <https://www.aarp.org/content/dam/aarp/ppi/2017-01/Fact%20Sheet%20Long-Term%20Support%20and%20Services.pdf>

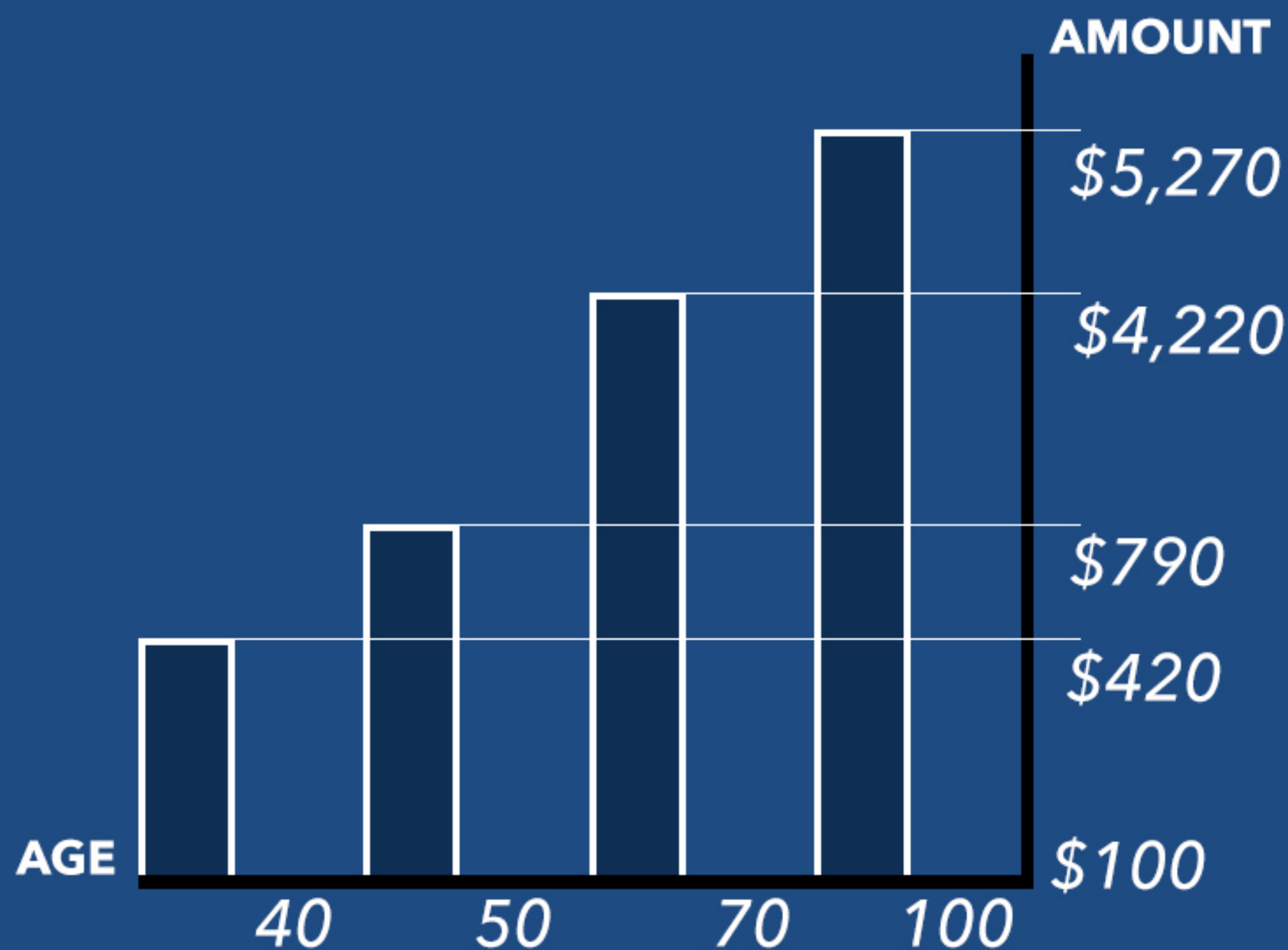
TAX DEDUCTIONS AND HSAs

One way to mitigate 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 \$420, and those 71 and over can deduct up to \$5,270 for 2019.¹²

Another way is to use a Health Savings Account (HSA), which is a tax advantaged savings account that allows you to put away pre-tax 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.

You can use funds tax-free from an HSA to pay part of your qualified long-term care insurance premiums. *The amount depends on your age:*

As of 2019, if you're 40 or younger, you can withdraw up to \$420 tax-free; if you're between 40 and 50 you can withdraw up to \$790; if you're 61 to 70 you can withdraw up to \$4,220; and if you're 71 or older you can withdraw up to \$5,270.¹³



¹² https://apps.irs.gov/app/vita/content/00/00_25_005.jsp?level=advanced
¹³ https://www.irs.gov/publications/p969#en_US_2018_publink1000204039

A NEW TYPE OF POLICY

One reason someone may be hesitant to buy long-term care insurance is that if they don't end up needing long-term care, they won't get their money back. But there is a new type of policy that combines long-term care insurance with permanent life insurance, and which pays a benefit if you pass away without having needed long-term care.

These combination policies will pay for long-term care costs for a predetermined amount of time. If you don't max out the benefits, a reduced amount of the death benefit goes to your beneficiary upon your passing. Typically, policies provide an amount of money to cover long-term care costs worth several times your premium payments, which average \$75,000.¹⁴

Unlike traditional long-term care insurance policies, you won't have premium hikes with a combination policy because you pay a lump sum or a small number of payments over a relatively short time. Some come with a money-back guarantee if you decide you don't want the policy within five years.

An annuity-based long-term care insurance policy is similar. In exchange for an initial lump-sum payment, the policy will pay out more than that amount in benefits if you need long-term care, and will still pay out a 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, these policies require a large lump sum initial payment.

Long-term care annuities can also 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. Tax on payments are based on your principal, length of time the annuity has grown, its interest earnings, and your life expectancy.¹⁵

¹⁴ <http://www.aaltci.org/long-term-care-insurance/learning-center/fast-facts.php> 15

¹⁵ <https://www.irs.gov/pub/irs-pdf/p575.pdf>https://apps.irs.gov/app/vita/content/00/00_25_005.jsp?level=advanced

Some people wrongly assume they can rely on Medicare to cover 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.¹⁶ Under most circumstances, it covers short-term stays in skilled nursing facilities if you were formally admitted to a hospital for three days. If qualifications are met, Medicare will pay the full cost for the first 20 days, and a portion of the cost for the following 80. And after 100 days coverage runs out. Even if you purchase a Medicare supplemental insurance policy, you'll need to find another way to cover long-term care costs.¹⁷

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 with, applicants must either be 65 or older, have a permanent disability or be blind¹⁸.

The financial qualifications differ by state. In general, individuals must have no more than \$2,000 in assets. However, in some states, assets like your home are not counted towards this \$2,000 limit.¹⁹ 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,²⁰ but they are complex and can trigger penalties if not done properly.

VETERANS BENEFITS

There is long-term care cost aid for veterans who served at least 90 days, with at least one day during wartime. In order to qualify, a veteran or their spouse must have a net worth of no more than \$127,061 as of 2019. This includes assets and income, but does not include home value and healthcare expenses.²¹

The VA health system provides care for 9 million veterans each year at its 1,250 facilities, including 172 medical centers and more than 1,000 outpatient sites across the country.

<https://www.cnbc.com/2019/01/03/military-vets-can-use-both-medicare-and-va-health-care.html>



¹⁶ <https://www.aarp.org/health/medicare-qa-tool/current-long-term-nursing-home-coverage/>

¹⁷ <https://www.medicareresources.org/faqs/to-what-extent-will-medicare-cover-long-term-care/>

¹⁸ <https://longtermcare.acl.gov/medicare-medicaid-more/medicaid/medicaid-eligibility/general-medicaid-requirements.html>

¹⁹ <https://longtermcare.acl.gov/medicare-medicaid-more/medicaid/medicaid-eligibility/financial-requirements-assets.html>

²⁰ <https://www.cms.gov/Regulations-and-Guidance/Legislation/DeficitReductionAct/downloads/TOAbackgrounder.pdf>

²¹ <https://www.medicaidplanningassistance.org/va-pension-aid-and-attendance/>

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 consider using those funds to pay for long-term care. Consider that the median annual cost for an assisted living facility is \$45,000 and the median annual cost for a private room in a nursing-home is over \$97,000.²²

Consider that the money you withdraw from a traditional 401(k) or IRA is taxable. Unfortunately, paying for long-term care costs with a retirement account 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 is to convert to a Roth account. Withdrawals from a Roth account are not taxed because tax is paid on contributions. With a Roth account, you at least will not have to worry about triggering a high tax bill in the future if you ever need to withdraw large amounts of money to pay for long-term care.

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 **O'Donnell Financial Group** 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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