



 Aging and Retirement

Financing Long-Term Care Needs

MANAGING RETIREMENT DECISIONS SERIES



Financing Long-Term Care Needs

LONG-TERM CARE (LTC) may not be the first thing individuals or couples think about as they approach retirement, but the costs for those who need it can disrupt and derail retirement security. A good plan for long-term care requires many decisions over an extended period of time, and well before retirement. This decision brief reviews the major considerations and options.

“Long-term care” here means care provided over a prolonged period to assist someone with basic activities of daily living, or ADLs (e.g., eating, bathing, dressing). Often this is due to physical ailment or cognitive impairment such as Alzheimer’s, or as the result of the frailties of aging. Older people—most often living alone, and usually women—comprise the largest segment of the population that receives this care.

Long-term care services include personal assistance with ADLs as well as help with instrumental activities of daily living (IADLs) such as meal preparation, shopping, and using the telephone. These services also include supervision for someone with a cognitive impairment. Caregivers provide these services in a variety of settings including private homes, adult day care centers, assisted living facilities, nursing homes, and more. Many factors influence the services provided such as the degree of care a person needs or the availability of family members or friends to provide informal care.

Because the costs for long-term care can severely cut into (and possibly exhaust) retirement savings, it is wise to make plans for obtaining and paying for care before it is needed. One option is long-term care insurance.

The Housing Factor

Housing choices made before a person needs long-term care may influence which options are feasible.

For example:

- Many people want to “age in place” but your home may not be suitable for doing so. Making modifications over time (e.g., accessible bathrooms) that will support that goal can be a wise investment.
- Living near family members and/or having a support system for aging can be a huge help.
- Living in a continuing care retirement community provides access to several levels of support as needs change.
- Living in an assisted living facility provides both basic housing as well as some care services as needs change.
- Living in a private home may or may not be suitable depending on a person’s limitations and whether the home is adaptable to changing care needs.
- Living in an age-friendly community may offer more resources for aging at home.

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Word to the wise: It is best to plan and build financial resources and a support system while still healthy. Making long-term care arrangements at the last minute is possible, but thoughtful preparation is prudent. See the ‘Additional Information’ section of this Decision Brief for more on the state health insurance assistance programs (SHIP)—state-based organizations that can help with these decisions.

The Value of Having a Long-Term Care Plan

The emotional toll of long-term care can be high. The onset of health or cognitive problems often devastates people who were once vital and active, but who are now dependent on others and may need help on a daily basis. Long-term care also is stressful to family members and other loved ones who may not know how to provide this care, who may find it physically and emotionally demanding, and/or who lack the time and resources.

Community services such as Meals on Wheels and special transportation services for the elderly and disabled are available to assist with certain needs. Some people find these services useful but others consider them difficult to access or to combine with other services they receive. In addition, these services may not be available in all communities, such as rural areas.

Locating people who can help with care and support on an ongoing basis can also be challenging. Family members often provide or locate care free of charge. In married couples, the healthier spouse often cares for the spouse who needs care first. But single individuals, including a surviving spouse, may be less likely to have a family caregiver or have someone nearby.

As a person’s condition progressively worsens, families may need to seek assistance from professional caregivers, care managers, various kinds of helpers, and/or institutions on a limited or around-the-clock basis. It is not an all-or-nothing choice; family caregivers may need help with some tasks (or during some periods) while they still provide part of the care. Financing long-term care services is particularly important for individuals without access to family help.

Unfortunately, professional services are often very expensive and can quickly drain financial resources. Long-term care services may cost a person or family hundreds of thousands of dollars over years of care. Family members assisting a parent or loved one must also consider their own financial and physical costs. Adult children caring for their parents may face transportation and extra living expenses and the physical strains of this responsibility have real impacts on health and financial wellbeing. When limited help is needed, an alternative to professional services is to find local assistance with specific tasks, which may be available at a modest cost. Networking with neighbors, churches, and local community groups is one way to find such help.

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Long-term care insurance can help with financing this care, and the most prudent time to buy coverage is well before the need arises.

Many experts recommend that people buy long-term care insurance in their 50s or earlier. The reasons? The initial cost of coverage rises with age. The likelihood is greater that people will still be in good health at younger ages, which means they may be eligible for relatively favorable insurance rates. Also, waiting too long could mean that someone becomes ineligible for coverage altogether if he or she is in poor health. Those in poor health may not be able to pass medical underwriting—a series of health-related questions insurance companies require applicants to answer.

In general, people should plan ahead for long-term care needs, both mentally and financially. The U.S. Department of Health and Human Services estimates that about half—52%—of Americans turning 65 today will require some amount of long-term care services¹ due to limitations with multiple ADLs or severe cognitive impairment.² Even more people will need assistance with diminished capabilities that aren't as severe. Having a care plan in place before it is needed will help with decision-making if health changes suddenly bring on a need for long-term care services.

Being prepared may keep emotions from fraying and ensure better cost management, allowing for more control over care choices and a better overall outcome.

What Does Long-Term Care Cost?

Long-term care costs vary by the type of care, the provider and geographic location. Here are average U.S. costs for some of these services and how much these costs increased annually in recent years (Genworth Cost of Care Survey, 2018³):

Description	Cost	Recent Annual Increases in Cost
National average daily rate for semi-private room in a nursing home	\$245/day	3.2%
Home health aide	\$22/hour	1.5%
Care in an adult day healthcare center	\$72/day	2.9%
National average monthly cost for one private bedroom, board and housekeeping services in assisted living communities (which are residential communities that provide certain types of care.)	\$4,000/month (\$48,000/year)	3.8%

These costs vary widely across the U.S. For instance, the median annual cost of an assisted living facility in Washington, DC or New Jersey is more than \$70,000, while it is less than \$40,000 in Missouri or Arkansas.⁴ A similar variation exists around the U.S. in the cost of nursing home rooms and home health aides.

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Caution About Private LTC Insurance Policies

Provisions and terminology used in different policies will vary. It is important to have knowledgeable help to understand differences between policies.

What is a Company's Financial Rating?

The rating of an insurance company is a signal of its ability to pay benefits. As such, it is an important consideration when evaluating LTC insurers and their products. For individuals working with an insurance agent, ask the agent to provide information about the financial and quality rating of insurance companies. Rating services that rate licensed insurance companies include A.M. Best, Weiss, and Moody's. State insurance departments examine and regulate insurance companies on an ongoing basis.

A large amount of long-term care is provided on an unpaid basis by family and friends. Although there is typically no out-of-pocket cost associated with this care there are still indirect and opportunity costs. These costs include time commitment and emotional demands, plus the possible loss of current income from work and future income from retirement savings and Social Security benefits of caregivers.

Options for Paying for Long-Term Care Services

Paying for long-term care out of household income and assets is one option. This may not be affordable for those with limited financial resources, however.

Most primary health insurance policies, including Medicare, do not offer substantial long-term care coverage. Some options for paying for long-term care services include:

- **Medicare.**⁵ This pays for a very small part of total care, primarily skilled or recuperative care for a short time, usually following a recent hospital stay. Some people mistakenly believe that Medicare pays for all long-term care. That is not correct: Medicare does not pay for most of the long-term care services a person may need. This is true for Medicare Advantage and Medicare Supplement plans as well.
- **Medicaid.** This is a public assistance program that pays for medical services and long-term care for those who meet functional and financial eligibility criteria. People who have used up their personal assets for long-term care can turn to Medicaid for subsequent care. Medicaid eligibility criteria and benefits vary greatly from state to state. Future prospects for Medicaid are uncertain because state budgets are getting stretched and long-term care benefits are being reduced. This trend is expected to continue.
- **Private long-term care insurance.** There are many options available to finance long-term care through private insurance. Most of these options are subject to strict underwriting standards, so individuals or couples should purchase coverage while in good health. These include:
 - **Traditional long-term care insurance, sold individually or through an employer group.** This insurance covers long-term care and related costs. Riders to this coverage may be available to cover additional benefits such as increasing your benefit annually to protect against inflation, or providing a reduced benefit if a person voluntarily lapses their policy. This insurance is the most comprehensive and usually the most expensive of the options for covering long-term care.

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- **Life insurance policies with long-term care or chronic illness benefits.** These benefits are often sold as riders to whole life or universal life policies. The long-term care insurance in these policies may cost less than traditional policies, but policyholders also pay for life insurance benefits and other life insurance policy features. Chronic illness benefits are similar to traditional long-term care insurance benefits in that people are eligible when they're unable to perform some ADLs. Unlike long-term care benefits, chronic illness benefits are not always deductible from taxable income. Chronic illness policies that reduce the life insurance face amount are usually not as comprehensive as traditional long-term care, but they are less expensive. Note that tax treatment of these benefits varies among policies. The 'Additional Information' section at the end of this Decision Brief includes an example of this benefit.
- **Other insurance solutions.** There are other policies sold today such as short-term care, "linked benefit" asset-based long-term care and annuities with long-term care benefit riders. Some Continuing Care Retirement Communities⁶ offer a form of LTC insurance combined with housing that some people find very appealing, but that carry with them substantial costs and some additional risks. The prices and benefits for these other insurance solutions vary widely.
- **Use of home equity.** Homeowners may sell their homes, or use home equity loans or reverse mortgages to access funds for long-term care. Reverse mortgage payments may affect eligibility for government benefits, including Medicaid. Finally, one should consider whether the value in the home can be used if the home is sold to provide for long-term care costs.
- **Increased income at higher ages.** Individuals can provide for added income at later ages through the use of annuity contracts (including advanced life deferred annuities, so-called longevity annuities) that start payment of a monthly income at later ages such as 80 or 85. Such payments are not long-term care insurance or direct financing but they offer additional funds at later ages when many people may need long-term care. If purchased early in life, these policies have a relatively low cost.

Traditional Long-Term Care Insurance: Basics

Long-term care insurance policies are designed to:

- a. Cover services the person needs when unable to perform two or more ADLs or if suffering from severe cognitive impairment

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- b. Cover costs of necessary diagnostic, preventive, therapeutic, curative, rehabilitative, or maintenance services.

When a policy is issued, the applicant for insurance selects a benefit period (for example, three years), an elimination period after which benefits can be received (for example, 90 days), and a maximum daily or monthly benefit amount (for example \$150/day). For most policies, these choices translate into a pool of money available to cover costs of care—\$150 a day for three years would amount to just over \$164,000. Policyholders who use the money at a slower rate each day may continue to claim benefits until the full pool of money (in this case, \$164,000) is used.

Life Insurance With Long-Term Care or Chronic Illness Benefits: Basics

Life insurance policies with long-term care or chronic illness benefits differ from traditional long-term care insurance policies in a few important ways. First, a person who never accesses his or her long-term care benefits can still receive an insurance benefit such as a cash surrender value or a death benefit (meaning the life insurance proceeds go to the named beneficiary). Second, when someone uses a long-term care or chronic illness benefit, this typically reduces (or ‘accelerates’) the face amount on the life insurance policy. Finally, when someone depletes their life insurance face amount, some policies allow for additional funds to be paid out in long-term care benefits. This is known as “restoring”, and in some cases “extending”, the long-term care or chronic illness benefits.

People with these policies may receive the benefit in a similar manner to traditional long-term care insurance (daily or monthly payments) or through larger one-time payments.

Where to Find Long-Term Care Insurance

Individuals and couples typically purchase traditional individual LTC policies through insurance agents holding a health insurance license. In some cases, financial advisors partner with agents who specialize in this insurance and handle this aspect of a client’s financial plan. Life insurance policies with long-term care or chronic illness benefits are sold through licensed life insurance agents.

These agents may represent one or more insurance companies and can provide guidance in selecting options. It is important to have a knowledgeable agent who can compare options effectively. The specifics and costs of the policies vary as does the financial wellbeing of the insurance companies offering them. When seeking an agent, it is important to understand what company or companies they represent, which determines the options they can present.

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Some employers make long-term care insurance available to their workforce, through a group policy issued by an insurance company sponsor. Group policies are usually offered on a guaranteed or simplified issue basis (meaning less underwriting) for employees, but may require full underwriting for spouses or other family members. Some state governments as well as the federal government also offer traditional LTC insurance.

To assist potential customers, the National Association of Insurance Commissioners (NAIC) produces a Shopper's Guide⁷ to purchasing long-term care insurance for additional reference.

As an incentive to purchase long-term care insurance, many states offer what are called Long-Term Care Partnership programs⁸. Under such programs, people who use their private long-term care insurance benefits first can apply for Medicaid without having to spend down as much of their personal savings and investments. The amount of personal assets they can keep equals the amount of private long-term care insurance benefits they received. The idea is to preserve this amount to pass on to heirs. In these cases, people still have to meet Medicaid's other eligibility requirements.

Key Long-Term Care Insurance Features and Options

Long-term care policies differ in many ways. In general, the richer the benefit package, the greater the cost. Here are a few key areas to consider:

- **Covered services.** Most LTC policies sold today offer comprehensive coverage: they pay for coverage received in a nursing home, assisted living facility, adult day care, or for care provided in the home. These policies also typically cover respite care, hospice care, and may cover caregiver training, home modifications, and other supportive services.
- **Benefit triggers.** These are conditions that trigger the payment of policy benefits. Most policies say the insured must be unable to perform two or more of six ADLs: bathing, dressing, eating, transferring (such as getting into and out of bed), toileting and maintaining continence. The other standard trigger is the onset of severe cognitive impairment.
- **Daily (or monthly) benefit amount.** This is the maximum amount the policy will pay per day or per month for covered LTC services. Typically, insurers offer this in dollar increments. Some policies also provide for shared costs, for example, the insurer pays 80% of costs up to a daily maximum amount.
- **Benefit period.** This is defined as the maximum period over which the policy will pay out its benefits (typically three years, five years, or unlimited). However,

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it is typically used to define a pool amount for benefits. If less than the daily maximum is used, the benefit period is extended. Once they become eligible for benefits, people usually receive long-term care for two to four years.

- **Maximum lifetime benefit.** This is equal to the daily benefit amount times the benefit period.
- **Waiting period (or elimination period).** This is an initial period of time, for example 30 or 90 days, during which a person has a qualifying disability but before benefit payments begin. During this time the person is responsible for paying their LTC expenses.
- **Inflation protection options.** These provisions adjust the policy benefits in response to the rising cost of care. The options may include: no inflation protection, a future purchase option, automatic simple increases (the same dollar amount increase each year) or automatic compound increases (the same percentage increase each year). Some policies have benefits which increase with the cost of living, for instance with an index such as CPI (Consumer Price Index). Purchasing inflation protection is an important decision as people may not use their long-term care benefits for 20 or more years after purchasing an insurance policy. Most policies offer a choice of annual increases to benefits ranging from 1% to 5%.
- **Tax qualified policy.** A policy designed to meet certain Federal guidelines. For such policies, benefits are not taxable, and premiums paid into the contract may be tax-deductible depending on taxable income and the total amount of tax deductions taken.
- **Premium rates.** After the policy is issued, premiums are not intended to change due to the insured's advancing age or change in health. However, there are no guarantees that premiums will never change. Insurance companies may increase the premium based on the overall experience of the insured's policy class, including experience for claims, lapses, mortality, investment returns and expenses. Recently, most insurance companies have increased premium rates on all policies (sometimes multiple times) due to higher claims than expected. These increases are subject to the approval of the department of insurance in each state or jurisdiction. Policies available for sale today are priced higher than in the past to reduce the likelihood of future premium rate increases.
- **Premium payment period.** Lifetime premium payments are the most common. Single premium, pay up to 65 years old, and 10-year pay options

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are also available. Many life insurance products with long-term care benefits are single premium policies.

- **Pooling benefits for a couple.** Some LTC policies allow a couple to treat their individual LTC benefits as a pool from which either spouse can draw benefits for LTC if one of their benefits is exhausted. For instance, if each spouse purchases a policy with up to \$100,000 benefits payable (\$200,000 in total), and the husband's long-term care costs exceed \$100,000, he may draw up to an additional \$100,000 from his wife's LTC benefit.
- **Hybrid or combination products.** These are products providing a long-term care or chronic illness benefits via a life insurance or annuity policy. A person with these policies may take some or all of their life insurance or annuity benefit as a long-term care or chronic illness benefit prior to death. These benefits can resemble those of a traditional long-term care insurance policy (i.e., with a monthly or daily maximum amount), or the benefits may be provided in a lump sum. Some policies are more comprehensive and provide long-term care benefits in addition to the face amount of the life insurance policy.

Other choices of available features and options are not discussed here. A well-qualified long-term care insurance specialist should be able to provide recommendations on the full array.

Deciding Whether to Buy Long-Term Care Insurance

The most basic function of long-term care insurance is to protect against catastrophic costs that can cut into retirement security or bequest amounts left for heirs. In spite of the premium rate increases that many long-term care insurance companies have implemented in recent years, or may implement in the future, purchasing this coverage can still be a wise decision.

A common rule of thumb has been that purchasing this insurance may not be worth it for those with low amounts of savings—for example, less than \$250,000 (unless a family member is helping pay for it). That is because of the very real likelihood that they will need to turn to Medicaid in the event of a significant care need. Moreover, the price of long-term care insurance has risen in the past 15 years to address the shortfall that led to rate increases.

Rules of thumb can mislead, however. People should examine their full financial picture, including assets, income, and expenses. Second, people need to be aware that Medicaid benefits are getting more restrictive and will likely continue to do so. Medicaid also offers limited choices in the types of care that people may receive. Finally, the availability of partnership programs, mentioned earlier,

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may provide a means of preserving assets so that the purchase of long-term care insurance may make sense for the less wealthy.

Households with significant wealth—for example, more than \$2 million—may be comfortable with their ability to cover their future care costs. However, even wealthy people may want to purchase long-term care insurance as an asset management tool, to reduce uncertainty about the financial impact of LTC needs.

Households with “in-between” levels of wealth will see the clearest benefit from purchasing long-term care insurance. For all wealth and income levels, purchasing long-term care insurance can provide peace of mind as a person ages, and may allow families to avoid difficult decisions about the care for family members and the financing of a long-term care need. Private insurance carriers also typically provide resources to help families navigate the complex care choices for LTC needs. For many families this can be as important as having help to pay for care. In addition, new products are constantly being developed to address the problem of matching affordable coverage with the needs of a typical middle income household.

Decisions made with regard to long-term care require a great deal of research and analysis. In the end, however, the physical, emotional, and financial wellbeing of all concerned will be worth the effort spent.

ENDNOTES

- 1 U.S. Department of Health and Human Services. Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief, 2015, <https://aspe.hhs.gov/basic-report/long-term-services-and-supports-older-americans-risks-and-financing-research-brief>.
- 2 Favreault, Melissa, and Dey, Judith. Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief. Office of the Assistant Secretary for Planning and Evaluation, July 1, 2015, <https://aspe.hhs.gov/basic-report/long-term-services-and-supports-older-americans-risks-and-financing-research-brief>.
- 3 Genworth. Cost of Care Survey 2018, June 2018, <https://www.genworth.com/aging-and-you/finances/cost-of-care.html>.
- 4 Genworth. Cost of Care Survey 2018, National and State Data Tables, June 2018, <https://pro.genworth.com/riiproweb/productinfo/pdf/282102.pdf>.
- 5 Medicare.gov. Your Medicare Coverage, Is My Test, Item or Service Covered? <https://www.medicare.gov/coverage/long-term-care>.
- 6 Puente Cackley, Alicia., Bovbjerg, Barbara D. Continuing Care Retirement Communities Can Provide Benefits, but Not Without Some Risk. United States Government Accountability Office. Report to the Chairman, Special Committee on Aging, U.S. Senate, June 2010 <https://www.gao.gov/assets/310/305752.pdf>.
- 7 National Association of Insurance Commissioners, A Shopper’s Guide to Long-Term Care Insurance, 2013, https://www.naic.org/documents/prod_serv_consumer_ltc_lp.pdf.
- 8 U.S. Department of Health and Human Services, LongTermCare.gov, Where to Look for Long-Term Care Insurance, October 10, 2017, <https://longtermcare.acl.gov/costs-how-to-pay/what-is-long-term-care-insurance/where-to-look-for-long-term-care-insurance.html>.

Additional Resources

Other online resources

- [LongTermCare.gov](https://longtermcare.acl.gov/), U.S. Department of Health & Human Services: <https://longtermcare.acl.gov/>
- State Health Insurance Assistance Programs (SHIP): <https://www.shiptacenter.org/>
- Rappaport, Anna M. 2014. Improving Retirement by Integrating Family, Friends, Housing and Support: Lessons Learned From Personal Experience: <https://www.soa.org/essays-monographs/managing-impact-ltc/mono-2014-ltc-manage-rappaport.pdf>.
- U.S. Department of Health & Human Services: Caregiver Resources and Long-Term Care: <https://www.hhs.gov/aging/long-term-care/index.html>
- National Association of Medicaid Directors: <https://medicaiddirectors.org/about/medicaid-directors/>
- Alzheimer’s Association: <http://www.alz.org>

Example from a life insurance policy with long-term care benefits

The following table shows a very simplified example of a whole life insurance policy with a \$100,000 face amount and an annual premium of \$1,500. The policy has a long-term care rider which costs an additional \$100 each year in premium. In the example, the policyholder elects to accelerate \$40,000 of their whole life face amount due to a qualifying long-term care need, after which the long-term care benefit is no longer available.

Item	Policy values before LTC benefit acceleration	LTC benefit acceleration	Policy values after LTC benefit acceleration
Whole life face amount	\$100,000		\$60,000
Whole life policy annual premium	\$1,500		\$900
LTC benefit premium	\$100		\$0
Accelerated benefit paid for LTC		\$40,000	

Note that some long-term care or chronic illness accelerated benefit riders have different provisions. Many insurance companies charge no up-front or explicit premium for accelerated benefit riders. These are not “free” long-term care provisions: the costs to the insurance companies are charged to the policyholder in different ways. For instance, these companies may allow the accelerated benefit to be taken as a loan, which accrues interest. Alternatively, the insurance company may reduce the accelerated benefit payment to account for the future premium they have foregone and the early payment of the death benefit.

Disclaimer

This Decision Brief does not provide advice for specific individual situations and should not be so construed. It is an information tool for general guidance. Individuals needing advice should seek the services of a qualified professional. Keep in mind that tax codes change, taxation of products and strategies vary, and personal tax needs and issues are unique. Consideration of tax issues is beyond the scope of this work.



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