PLANNING FOR QUALITY CARE AND INDEPENDENCE

Why you need to plan for long-term care assistance, and what funding options are available.

RAYMOND JAMES®

THE VALUE OF PLANNING AHEAD

The eldest seniors today – those frequently referred to as "The Greatest Generation" – lived through a period in which the government and private employers launched, proudly promoted and then reduced funding programs to help Americans live comfortably during retirement.

Back in 1935, when Social Security was first introduced, the average 65-year-old received benefits for an average lifespan of 12 to 15 years.[1] Today, however, at least one member of a 65-year-old couple is likely to be alive at age 91.[2] And studies suggest that almost 70% of those over age 65 will need some type of long-term care for three years, and 20% will need care for more than five years.[3]

While many baby boomers are diligently saving and planning for their retirement, it's important to understand how simply living a longer life can impact your income, health and quality of life.

HOW MUCH DOES LONG-TERM CARE COST?

In 2015, the median annual cost for care in an assisted living community was nearly $43,200 nationally. A private room in a full-time skilled nursing care facility cost an average of $250 a day – more than $91,250 a year.[4] When you combine the cost of two spouses living in two different housing situations for multiple years, you can see that housing expenses alone would run quite high. So much so that they can drain a retirement account very quickly. Perhaps that's why 78% of retirees who need long-term care depend exclusively on family and friends.[5]

[1] SocialSecurity.gov. Life Expectancy for Social Security, 2012.
[2] Institutional Retirement Income Council, "The Problem with Living Too Long," 2013.
[3] National Clearinghouse for Long Term Care Information, Department of Health and Human Services, www.longtermcare.gov/LTC/Main_Site/Paying/Costs/Index.aspx, 2010.
[4] Genworth Financial, Genworth 2015 Cost of Care Survey, 2015.
[5] National Alliance for Caregiving in collaboration with AARP; "Caregiving in the United States," November 2009.

TAKE CHARGE OF YOUR LONG-TERM CARE PLAN

Currently, government programs provide only limited assistance – which may even be reduced in the future. Medicare pays only for acute care associated with a short-term illness or injury. Medicaid, the program designed to pay for long-term care, is available only to low-income participants who meet eligibility requirements for necessary care. People who qualify for Medicaid assistance do not typically get to select the facility that provides their care.

This is why you should consider creating a specific funding plan for the likelihood that one or both spouses will need long-term care. There are several insurance options to help you prepare for this expense. It is important to work with your financial advisor to develop a plan for your situation.

LONG-TERM CARE FUNDING OPTIONS

First, recognize that most health care insurance policies do not cover long-term care. Like Medicare, they pay benefits for only short-term rehabilitative care. For a true long-term care plan, you need an insurance plan that offers coverage for years – not months. Today there are different ways to plan for long-term care.

TRADITIONAL LONG-TERM CARE INSURANCE

One of the ways that you can prepare for your future is to buy a long-term care insurance (LTCI) policy. LTCI covers costs that Medicare and other health insurance policies may not cover, such as in-home care, assisted living, adult daycare, and nursing home care. Be aware that if you purchase a policy when you're young, you may pay premiums for decades of coverage before even using the plan. However, premium rates for long-term care policies increase significantly as you get older. Many experts recommend the "sweet spot" age to buy a policy at lower rates is mid-50s. For business funded plans, long-term care premiums may be tax deductible.

> Traditional long-term care insurance is typically used when an individual does not have a large lump sum to fund the single premium types of long-term care.

LIFE INSURANCE WITH LONG-TERM CARE PAYOUT RIDERS

An alternative to the traditional LTCI policy is to purchase a universal life policy that offers a long-term care insurance rider.

> Life insurance with a long-term care payout rider is typically used when an individual's primary objective is to leave money to heirs.

This allows you to cover two potential needs. Life insurance provides cash proceeds to beneficiaries tax-free when you pass away. When you add a long-term care rider, should you ever need to pay for long-term care, the policy will pay accelerated death benefits to help cover those costs. For example, you can purchase a $300,000 life insurance policy with a long-term care rider. If you need to file a long-term care claim, the policy will pay 2% per month of the life insurance amount, $6,000, in benefits. Note that these benefit payments will reduce the life insurance amount on a dollar for dollar basis.

ASSET-BASED LONG-TERM CARE

Asset-based long-term care contracts use the structure of either life insurance or annuities to provide long-term care benefits as needed. Asset-based policies are typically purchased with a single sum premium. They provide long-term care benefits for typically five to seven years, and the residual death benefit will be paid to beneficiaries upon your death.

Asset-based Long-Term Care Life Insurance

If the long-term care benefit is not used, the policy provides an income tax free life insurance benefit to your heirs. In addition, many products offer a full money back guarantee should you change your mind.

Asset-based Long-Term Care Annuities

Asset-based annuity contracts allow the initial premium to grow tax deferred until you need to access the long-term care benefit. Once withdrawals are made for long-term care purposes, they come out tax-free due to the Pension Protection Act of 2006.

HYPOTHETICAL CASE STUDY

Lorelei, age 60, has a sustainable retirement portfolio, but would like to be prepared now for long-term care if she needs it. She has a CD with a value of $100,000 that she sells to purchase an asset-based long-term care life policy that offers a 6-year long-term care benefit period. Should she need money for eligible long-term care expenses, Lorelei will have an income-tax free total long-term care benefit pool of $476,481, or a monthly maximum of $6,618, for qualified long-term care reimbursements. If Lorelei does not need long-term care, she can either withdraw her $100,000 through the money-back guarantee or leave an income tax-free death benefit for her heirs of $158,827.

LONG-TERM CARE PLANNING

When you consider today's healthier and longer living seniors, it's easy to see how important it is to create a long-term care plan so that you can enjoy quality of life throughout your retirement.

Funding your own long-term care plan lets you make your own choices while you still can, and takes the burden off of your children's shoulders. It is particularly critical to work with your financial advisor to develop a long-term care contingency funding plan to ensure that, should the most expensive scenario occur, it would not devastate your retirement income plan for one or both spouses.

To learn more about how to fund your long-term care plan, speak with your financial advisor today.

LONG-TERM CARE COVERAGE CHECKLIST

Review these topics with your advisor to help determine which approach to long-term care funding is best for you.

- ☐ Buy from an issuing company with an "A" or better insurance rating.
- ☐ A discount may be available when both spouses buy policies at the same time.
- ☐ Today's policies typically cover a specific dollar amount or a benefit period of three to seven years.
- ☐ Does your policy offer an inflation protection rider to guarantee that benefits will reflect the rising cost of care later in life?
- ☐ Does the policy offer guaranteed renewal, which ensures that you won't be turned down when you renew your policy?
- ☐ Does your policy offer a non-forfeiture benefit, guaranteeing you will still get paid a portion of your benefit even if you terminate your policy or let it lapse unintentionally?
- ☐ Does your policy require a wait period? Choosing a longer waiting period may yield a less expensive premium, but during that length of time you will have to pay for long-term care on your own.

LIFE WELL PLANNED.

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