The AMERICAN RETIREMENT ADVISOR

A guidepost to your successful retirement.

Understanding Planning for Long Term Care

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WHAT YOU MAY NEED TO KNOW ABOUT LONG-TERM CARE

Coming to Terms with an Important Issue

How Would You Bear the Costs?

A Strategy to Help Preserve Assets and Independence

Foreword

Obviously, the idea of getting older and potentially losing some degree of independence is not a very pleasant thing to spend your time reading about. Yet the likelihood of needing long-term-care services increases as you age.

The national health-care landscape is likely to undergo some changes, and the escalating costs of long-term care could mean that many retirees may face significant challenges in meeting their long-term-care needs. Some people mistakenly assume that Medicare or private health insurance will pay for long-term care if it ever becomes necessary, but the reality is that they do not cover the long-term support and custodial services that many people will need.

The risks to your retirement lifestyle could be significant, whether you are a potential caregiver or a care recipient. A 65-year-old has a 43% lifetime chance of spending some time in a nursing home, and 21% of the people who enter a facility will stay for at least five years.[1]

Paying for expensive long-term-care services could quickly exhaust a lifetime of savings. Are you confident that you would have the money to pay for several years of care — either for you or a spouse — and maintain a comfortable standard of living?

This booklet is designed to increase your understanding of long-term-care issues and help you make informed decisions as you consider your future needs. Your financial professional can provide additional information that may apply to your personal situation.

1) 2012 Field Guide, National Underwriter

Coming to Terms with an Important Issue

Almost 10 million Americans currently need long-term-care services — and not all of them are elderly.[1] However, it's not surprising that people may develop health problems and need more assistance as they age.

Long-term care describes the daily medical and nonmedical services that people might need if they become physically or mentally disabled due to a prolonged injury, illness, or cognitive impairment. Yet there are some important distinctions between the different types and levels of care.

• Skilled care refers to medical, nursing, or rehabilitation services such as administering medication, monitoring blood pressure, and performing other tests and health-care services.

• Custodial care describes the assistance people may need with one or more activities of daily living (ADLs) such as eating, bathing, dressing, toileting, and/or getting out of a chair or bed.

People may receive both types of care in a nursing home, but many long-term-care services can also be provided in an assisted-living facility, an adult day-care center, or even at home. Medicare and most private health insurers may cover limited skilled nursing care (in a facility or at home) but typically do not pay for custodial care.

1) Kaiser Family Foundation, 2012

Will Medicare Contribute?

Medicare will pay for medically necessary skilled nursing-facility care only if admission follows a minimum three-day hospitalization and the patient's condition is improving.

	Patient responsibility	Medicare pays
Days 1–20	Nothing	All eligible expenses
Days 21–100	First $148 per day	All additional expenses
Over 100 days	All expenses	Nothing

Source: Medicare.gov, 2012. The dollar limit for days 21–100 is for 2013. This amount is adjusted periodically. For each benefit period, Medicare pays all covered costs except the Medicare Part A deductible, which is $1,184 in 2013. There is also an annual Medicare Part B deductible of $147 (for 2013) before Medicare starts to pay its share.

What It Costs Today

The costs for long-term care can be substantial, and facility costs in particular have been rising rapidly in recent years. Some conditions that typically require extended periods of long-term care, and tend to put people into high-cost facilities, include Alzheimer's disease, dementia, strokes, and advanced osteoporosis.

Keep in mind that married retirees must typically pay the following charges in addition to their normal living expenses if one spouse should need care for a prolonged period.

• The national average monthly rate for housing in an assisted- living facility was $3,300 in 2012, a 1.19% increase over 2011.[1]

• The national average daily rate for nursing-home care (for a private room) was $222, a 4.23% increase over 2011.[2]

1–2) SkilledNursingFacilities.org, 2012

Across the Map

The actual rates charged for long-term care can vary greatly depending on the state where you live and the type and level of care chosen. The average cost of a one-year nursing-home stay is about $81,000, but nursing homes range in cost from $60,000 to more than $120,000 per year.

Assisted-living facility (median monthly rates)

California	Texas	Illinois	Florida	New York
$3,500	$3,200	$4,057	$2,750	$3,700

Nursing home, private room (median annual rates)

California	Texas	Illinois	Florida	New York
$93,984	$61,500	$69,348	$84,552	$123,000

Sources: AssistedLivingFacilities.org, 2012; SkilledNursingFacilities.org, 2012

Understanding Age-Related Risks

• About 70% of people over age 65 will need long-term-care services in their lifetimes (either in a facility or at home).

• Women are almost two times as likely as men to enter a nursing home.

• The need for some assistance generally increases with age. Around 25% of Americans between the ages of 65 and 74 experience limitations in their activities, compared to 62% of those who are older than 85.

Sources: Morningstar.com, 2012; American Council of Life Insurers, 2011

Living with Alzheimer's

It's estimated that approximately 5.4 million Americans — one in eight Americans aged 65 and older and nearly half of people aged 85 and older — have Alzheimer's disease.1

Alzheimer's affects the brain, causing a noticeable decline in memory, thinking, and behavior. It accounts for 60% to 80% of dementia cases.2 Over time, symptoms typically worsen and start to interfere with daily tasks. Although much research is under way, there is currently no cure. People who are diagnosed with Alzheimer's live an average of eight years after their symptoms become apparent to others. Survival can range from four to 20 years, and most patients reach a point at which they need almost constant supervision. As a result, 75% of Alzheimer's patients are admitted to a nursing home by age 80.3

1–3) Alzheimer's Association, 2012

Living Longer

Americans have succeeded in adding years to their lives over the last two decades.

Average life expectancy of a 65-year-old

Source: U.S. Department of Health and Human Services, 2012

Family Ties: Caregiving Challenges

It's normal for people to expect to rely on family for care, but they may not have considered the sacrifices they might be asking their loved ones to make on their behalf. Recent surveys suggest that the workload and stress could potentially have a negative effect on a caregiver's own health, financial situation, and mental well-being.[1]

Furthermore, work situations and lifestyles may make it more difficult or nearly impossible for a relative to provide care. Women are more likely to pursue demanding, full-time careers, and many households rely on the income of both spouses. It's also common for relatives to live in different cities around the country, and some adult children may live thousands of miles away from their aging parents.

1) AARP, 2011

Caregiver Facts and Figures

About one in four Americans provides unpaid care for a disabled adult family member, partner, or friend. There are currently more than 42 million family caregivers in the United States.

• The "average" caregiver is a 49-year-old woman who has a job and also spends nearly 20 hours per week meeting the needs of an aging parent.

• 17% to 35% of family caregivers perceive their own health as fair to poor.

• 69% of family caregivers say that caring for a loved one is their number one source of stress.

• 40% to 70% of family caregivers have significant symptoms of depression.

• 27% of caregivers face a moderate to high degree of financial hardship as a result of providing care to an adult.

• One-third of caregivers who were employed have had to quit their jobs, retire early, reduce their hours, or take a leave of absence.

Source: AARP, 2011

What Caregivers May Be Giving Up

Nearly 10 million baby boomers over age 50 are helping to care for aging parents, many of whom may have escalating medical needs and dwindling savings.[1] Some sandwiched caregivers are also raising and/or supporting their own children at the same time.

The financial consequences for those who provide unpaid care for a relative are often substantial. For example, they may pass up opportunities to save money for their own retirement needs or find themselves unable to pay college expenses for their own children.

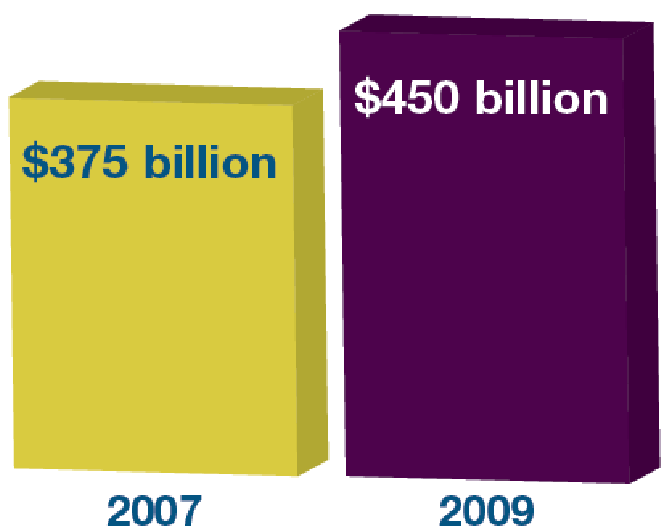
Given a choice, it's likely that many parents would rather not put their adult children in such a vulnerable economic position.

1) National Association of Insurance Commissioners, 2012

Estimated lifetime income-related losses by family caregivers (age 50 and older) who leave the workforce to care for a loved one

Wages	$115,900
Social Security benefits	$137,980
Pension benefits	$50,000
	$303,880

Estimated economic value of unpaid family care contributions



Source: AARP, 2011

How Would You Bear the Costs?

You may be wondering how it would be possible to pay for potentially devastating long-term-care expenses and still have the resources to support yourself and/or a spouse for the remainder of your retirement years. It's a good idea to explore the possibilities early and while you are healthy, because if you wait until the need for care arises, your options could become more limited — and costly.

There are generally three ways to fund long-term-care needs.

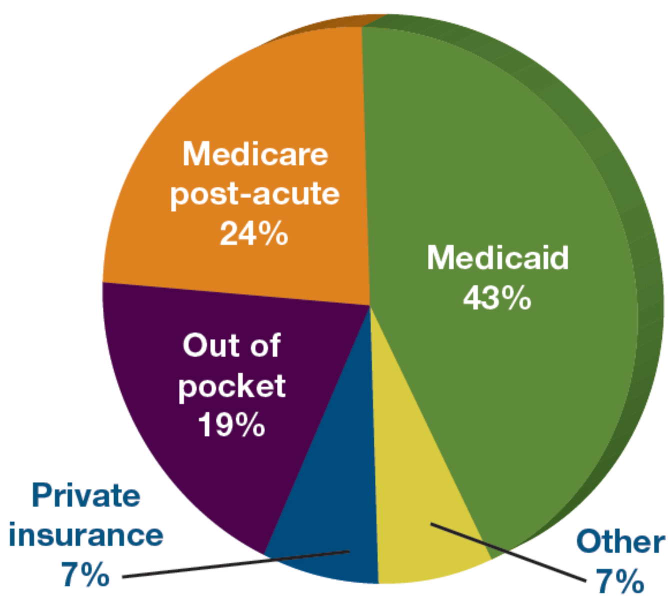
• Self-insure — Pay for care using your personal resources.

• Medicaid — Spend down assets and try to qualify for government assistance.

• Long-term-care insurance — Purchase a policy that may help pay for the cost of care.*

*A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the insurance policy. Carriers have the discretion to raise rates and remove their products from the marketplace.

How the country's long-term-care costs are paid



Source: Kaiser Family Foundation, 2012

Can You Afford to Self-Insure?

Some fortunate households are wealthy enough to pay for long-term-care costs out of pocket. Many others with substantial financial assets may think they have enough set aside to meet their future needs, but they may have overlooked some important factors.

In the past, the proceeds of a home sale were often a significant source of funding for long-term care. This may still be the case for many families, but recent home price declines have left some older Americans with less money to spend on the services they could eventually need.

It's wise to consider whether your financial resources would be adequate for a worst-case situation. What would happen to your retirement savings if you or your spouse became severely disabled and had to enter a nursing home? How would writing a check for $6,000 or more every month affect the standard of living of a healthy spouse, who would still need to pay for his or her normal living expenses? How long could you or your partner continue to pay the bills before your lifestyle is compromised or your savings are dangerously depleted?

The Problem with Counting on Medicaid

Medicare is not designed to pay for extended periods of long-term care and cannot be relied on to meet custodial needs. Medicaid is a joint federal and state program designed to assist low-income individuals, and benefits may be difficult to obtain. Under some circumstances, families must "spend down" most of their assets to qualify for Medicaid, and homeowners with substantial home equity may be forced to use it to pay for care before they can receive government support.

Relying on Medicaid typically means that recipients lose some control over where they can receive care and what forms of care may be provided.PR DID YOUKNOW?

Thirty-one percent of Americans aged 50 and older say their homes have not appreciated since they bought them.

Gallup, 2012

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An Insurance Strategy to Help Preserve Assets and Independence

Most families simply could not afford a five-year stay in a nursing home (about $400,000, not accounting for inflation) or an assisted-living facility (about $200,000). Long-term-care insurance could help fill in this financial gap.

Long-term-care insurance will provide a contractual daily or monthly benefit for covered long-term-care services (up to the policy limits).

Some people make the decision to purchase a long-term-care policy when they are still working because the fixed premium payments — which are partly based on the age when they sign up — are likely to be less expensive, and there is less of a chance that an application will be rejected.

Between 7 and 9 million Americans have purchased long-term-care policies. The average buyer (59 years old) pays $2,283 annually for premiums.

AARP, 2012; AHIP, 2012

A long-term-care policy may help prevent your retirement savings from being wiped out by the escalating cost of care and may significantly ease the burden on family and friends. Having private coverage in force may also broaden your options for care if you should need it, and possibly even keep you out of a nursing home by providing home care.

If you have substantial financial resources, owning a policy that pays long-term-care expenses may enable you to pass more of your wealth to your heirs.

Odds that an application for LTC insurance will be rejected

In your 50s	In your 60s	In your 70s
1 in 10	2 in 10	4 in 10

Source: Insurance Information Institute, 2012

Notable Tax Benefits

Some long-term-care policies receive the same tax advantages as other qualified medical expenses. Up to certain age-based limits, premiums for long-term-care insurance may be deductible from federal income tax, and the benefits paid from a policy are not considered taxable income.

Currently, qualified long-term-care premiums and expenses are tax deductible to the extent that they, along with all other eligible medical expenses, exceed 10% of a taxpayer's adjusted gross income.* To qualify for the deduction, the long-term-care policy must meet certain requirements.

*In 2013, the threshold for deducting qualified medical expenses increased to 10% of AGI. However, individuals older than 65 can continue to claim eligible expenses that surpass 7.5% of AGI through 2016.

Features of Long-Term-Care Policies

• The most comprehensive policies pay for care in a nursing home, assisted-living facility, or at home, but coverage will depend on the specific provisions chosen.

• Benefits are typically expressed in daily or monthly benefit amounts, with a lifetime maximum.

• Benefit periods often last from two to six years but can cover a lifetime.

• An elimination period may apply (typically 0 to 180 days); therefore, you may have to wait for a period of time before the insurance company pays benefits.

• Most long-term-care policies are guaranteed renewable, meaning they cannot be canceled as long you pay the premiums on time and have been honest about your health on the application.

• Health-care costs tend to rise steadily over time, so it may be wise to add inflation protection to your policy.

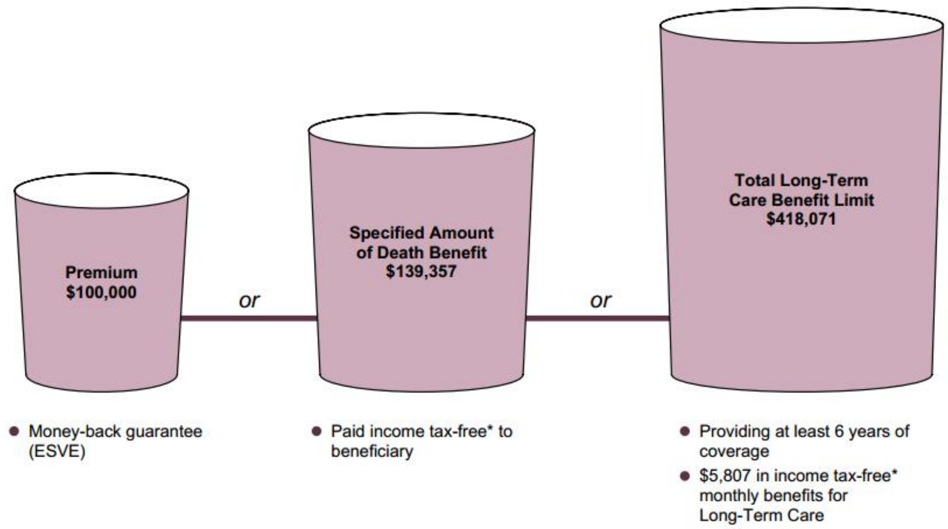
• Premiums will vary considerably depending on the type and amount of coverage you choose, so it's important to understand all the available options.

• Benefits typically are triggered if the insured is unable to perform two or more activities of daily living (ADLs) for a certain period of time or requires supervision due to a severe cognitive impairment. Specific eligibility triggers and ADL definitions can be found in the long-term-care policy.

Other Possible Forms of Protection

Some insurance companies offer permanent life insurance policies and annuities with long-term-care riders. Any payments used for covered long-term-care expenses would reduce the death benefit or annuity value; these payments are typically tax-free.

Accelerated death benefit riders, living benefit riders, and long-term-care benefit riders may serve as suitable alternatives for some people. A life insurance policy designed for Long Term Care benefits could provide the assurance that if the policy was never used the premiums would be paid to a named beneficiary tax free. Additionally, the premiums paid are always available without penalty if needed for an emergency.



Source: Lincoln Financial Group (62 year old male, non smoker, illustrated 5/29/2102)

If you are considering this option with life insurance, you should have a need for life insurance and evaluate the policy on its merits as life insurance. Optional benefit riders are available for an additional fee and are subject to the contractual terms, conditions, and limitations as outlined in the policy; they may not, however, benefit all individuals.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

How Would Your Savings Withstand a Health-Care Crisis?

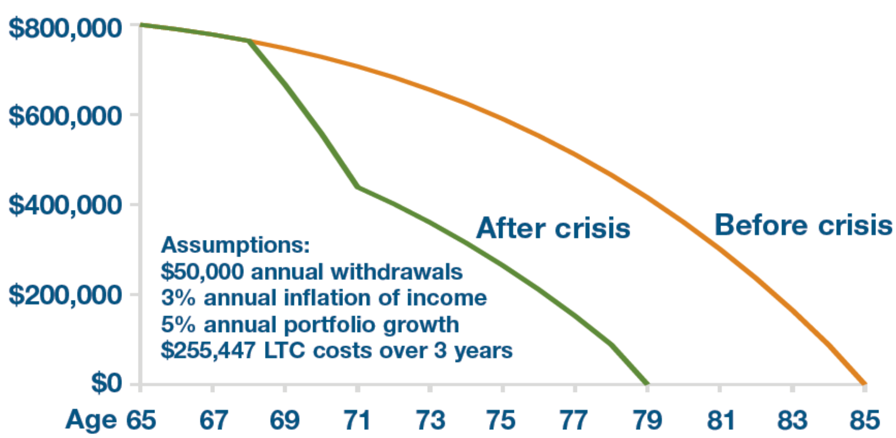
It may be helpful to see how a typical retired couple's portfolio might be affected if one of them were to experience a medical problem serious enough to trigger the need for long-term-care services. Consider this unsettling scenario.

Mr. and Mrs. Savalot both retired at age 65 with an $800,000 retirement portfolio from which they withdrew a $50,000 annual income. They believed they had enough money saved to live comfortably to age 85. However, they weren't aware that Medicare and supplemental private medical insurance would not cover any potential long-term-care needs.

Unfortunately, Mr. Savalot suffered a stroke when he was 68 years old. He ultimately recovered but needed three years of intensive nursing-home care and rehabilitation services. The total cost for three years of long-term-care services was $255,447 (based on an $81,030 annual nursing-home cost and a 5% annual inflation rate), which they had to pay out of pocket.

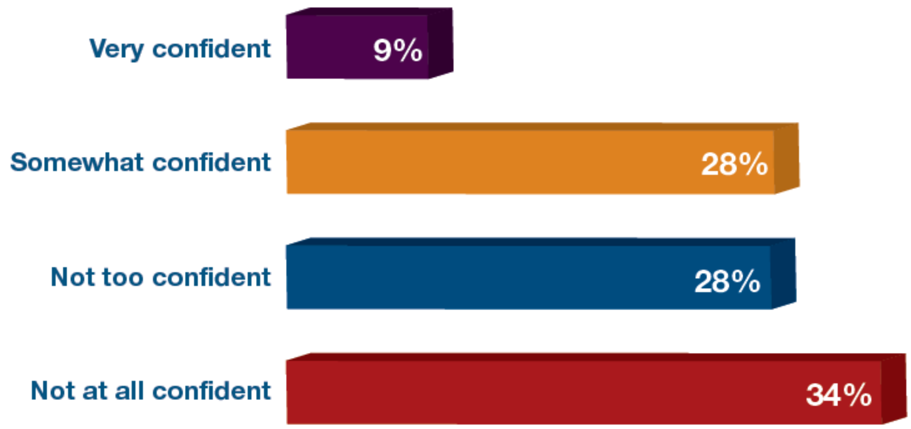
As a result of Mr. Savalot's LTC expenses, it's possible they could run out of money by age 79. Thus, they face some difficult decisions. They must either reduce their standard of living — which may require moving out of their current home — or risk outliving their savings.

The *Savalots*' portfolio



This hypothetical example is used for illustrative purposes only. Taxes and investment expenses are not considered. Actual results will vary.

Worker confidence in having enough money to pay for long-term care in retirement



Source: Employee Benefit Research Institute, 2012

How Confident Are You?

Statistics suggest that the growing population of aging Americans is woefully unprepared to meet the potential costs of long-term care. Two-thirds of single people and one-third of married couples would exhaust their funds after just 13 weeks in a nursing home, and 90% would be bankrupt within two years.[1]

People are living longer, which is generally a positive sign but also contributes to the possibility that retirees may need more assistance in their later years and that they could eventually outlive their retirement assets.

If your retirement-needs calculations don't take the potential need for long-term care into account, it may be time to evaluate your options for covering the potential costs. In many cases, it's much easier emotionally for families to make these important decisions long before the need for care arises.

1) 2012 Field Guide, **National Underwriter**

If you wait until you are older or your health deteriorates before considering possible long-term-care needs, your options may become limited or significantly more expensive. You may not be able to receive care at the facility of your choice. You may not even be eligible for long-term-care insurance to help cover the costs.

An unforeseen health crisis that requires an extended period of custodial care may result in moderate to serious financial hardship — and could possibly jeopardize your quality of life during retirement.

Whether you have aging parents or are concerned about preparing for your own long-term-care needs in the future, a financial professional can open a dialogue that may help preserve independence, dignity, and family harmony while coordinating decisions about common concerns.

For information about planning for long term care…

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David P. Schaeffer is a Certified Long Term Care Planning Consultant.
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