# PLANNING FOR QUALITY CARE AND INDEPENDENCE

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

RAYMOND JAMES

# Plan to live your best life

We are living longer. Back in 1935, when Social Security was introduced, the average 65-year-old received benefits for a lifespan of 12 to 15 years.[1] Today, about one out of every four 65-year-olds will live past age 90.[2]

While we cherish the idea of leading long, full and productive lives, we also must acknowledge the possibility of facing additional challenges as we live well into our 80s and 90s. Studies suggest that nearly 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]

As baby boomers and subsequent generations diligently plan and save for retirement, it's important to understand how simply living a long life can impact your income, health and quality of life.

## HOW MUCH DOES LONG-TERM CARE COST?

In 2018, the median annual national cost for care in an assisted living community was $48,000. A private room in a full-time skilled nursing care facility cost an average of $275 a day – more than $100,000 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 85% of retirees who need long-term care depend exclusively on family and friends.[5]

## WHY YOU NEED A LONG-TERM CARE PLAN

Health insurance, whether provided by a private company or through Medicare, does not pay for long-term care. Coverage is limited to acute care associated with a short-term illness or injury, such as recovery or rehabilitation.

Medicaid will cover long-term care costs, but only for people of extremely low means who meet eligibility requirements. 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. 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. Therefore, it is important to work with your financial advisor to develop a plan for your situation.

### TRADITIONAL LONG-TERM CARE INSURANCE

One of the ways that you can prepare for your future is to buy a long-term care insurance policy. This 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. 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.*

1 SocialSecurity.gov. Life Expectancy for Social Security, 2012.

2 SSA.gov/planners/lifeexpectancy.html (2019)

3 LongTermCare.gov, "How Much Care Will You Need?," February 2017; longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html

4 Genworth Financial, Genworth 2018 Cost of Care Survey.

5 National Alliance for Caregiving in collaboration with AARP; "Caregiving in the United States," June 2015.

## 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 six-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 $430,000, or a monthly maximum of $6,000, 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 $150,000.

### LIFE INSURANCE WITH LONG-TERM CARE OR CHRONIC ILLNESS RIDER

An alternative to the traditional long-term care policy is to purchase a universal life policy that offers a long-term care or chronic illness rider.

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 or chronic illness 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.

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

### 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. Historically, asset-based policies were purchased with single premiums; however, today they provide multiple payment options such as 10 years or pay to age 65. 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. Withdrawals that are made for long-term care purposes come out tax-free due to the Pension Protection Act of 2006.

Life insurance policies have exclusions and/or limitations. The cost and availability of life insurance depend on factors such as age, health and the type and amount of insurance purchased. 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. Guarantees are based on the claims paying ability of the insurance company.

*This case study is for illustrative purposes only. Individual cases will vary. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Prior to making any investment decision, you should consult with your financial advisor about your individual situation.

## 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. Creating your own long-term care plan lets you make your own choices while you still can, and takes the burden off 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.

## 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 nonforfeiture 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.

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

RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863