

Lon g-Te rm Ca r e

*2019 edition*

**A N I N T R O D U C T O R Y G U I D E**

**T R E Y F A I R M A N , J . D . , L L . M .**

**W W W . T R E Y F A I R M A N . C O M**

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# "...Long-term care may be the largest unfunded liability facing Americans today..."

Long-Term Care Basics

Ken Dychtwald, PhD in his book *Age Wave*

## What exactly is long-term care?

Long-term care (often abbreviated "LTC") refers to a variety of medical and non- medical services provided to those who don’t have a life threatening condition but can’t live independently. Most LTC is designed to assist people with the basic activities of daily living (called “ADLs”) such as eating, bathing, dressing, toileting, transferring, and continence. Those who need supervision because of a cognitive impairment, like alzheimers, often rely on LTC services.

LTC can be provided at home or in professional facilities such as nursing homes or assisted living facilities. LTC expenses are usually not covered by employer provided health insurance.

Government programs such as Medicare and Medicaid only cover the first 100 days of LTC expenses. After that, government assistance is only available to those willing to spend down to a meager amount of assets.

## Why should you learn about LTC?

You likely spend hours discussing and developing plans for your retirement. LTC expenses may be the largest risk to your retirement and could dramatically alter those plans. A LTC claim lasting for three years or more could cost over

$325,000.

## Why should you consider this type of insurance?

As you prepare for retirement, LTC insurance picks up where your disability policy ends. LTC insurance provides funds to cover extended health care costs so your retirement accounts can be preserved and enjoyed.

However, LTC is not just a concern for those over age 65. The Family Caregiver Alliance estimates that 40 percent of the 13 million people receiving long-term care are between the ages of 18 and 64.

How Much Does LTC Cost?

You should begin with a basic understanding of length of care and average costs for care in your area. Though a LTC claim could last over a decade, statistics show it is unusual for someone to need care for more than five yearsi and the majority of claims, if they last more than one year, will last approximately 3.9 years.ii

In my home state of California, the average cost of a semi-private room in a nursing home is over $7,700 a month, while the average monthly rate in an assisted living facility is $4,500. Care provided in the home may be more or less expensive, depending on the amount and level of care required. Genworth Insurance Company surveys LTC costs annually and I have provided a sample below. You can do your own research at [www.genworth.com/costofcare.](http://www.genworth.com/costofcare)

Genworth 2018 Cost of Care Survey, conducted by CareScout®, June 2018

**Home Health Care**

2018

$4,767

$4,799

Homemaker Services

Homemaker Health Aide

Monthly Cost

San Diego Area, CA

*Based on annual rate divided by 12 months.*

Adult Day Health Care

*Based on annual rate divided by 12 months.*

$1,733

**Adult Day Health Care**

Private, One Bedroom

*As reported, private, one bedroom.*

$4,500

**Assisted Living Facility**

Semi-Private Room

$8,517

Private Room

$10,646

**Nursing Home Care**

*Based on annual rate divided by 12 months.*

The information shown above is based on a specific scenario generated by the Genworth 2018 Cost of Care. Future years are calculated by assuming an annual 3% growth rate. ©2018 Genworth Financial, Inc. All rights reserved.

LTC Statistics to Consider

* For people age 65 and older, the lifetime probability of requiring LTC services is 68% iii
* Since 2004, the cost of LTC has increased by 31 - 47% depending on the type of careiv
* In Southern California, the average cost of a room in a nursing home is approximately $300 per day and this cost is inflating at an average of 5% per year v
* Though LTC could be needed for over a decade, only 13.1% of all LTC claims last longer than 3 yearsvi
* According to the U.S. Department of Health and Human Services, a 65 year old entering a nursing home has a 20% chance of staying there for at least five years

# Think about your own situation...

*If you're concerned that you'll need LTC and estimate your care will cost about $300 per day, that equals*

*$9,000 per month ($300 per day times 30 days in a month) or $108,000 per year ($9,000 per month times 12 months)*

*And let's assume that since most claims today don’t last over three years you want to plan for that scenario*

*So* *$108,000 times 3 years of expected LTC expenses*

*equals $324,000. That is the amount you need to set aside for care. Keep in mind this figure would likely be higher due to inflating health care costs.*

*Do you want to retain all of that risk or transfer some of the risk to an insurance company?*

Maybe

Can You Self-insure for LTC Expenses?

Do you self insure the risk for home fires? What about for car accidents? Do you pay for health care costs and prescriptions in cash or do you have health insurance?

Even if you can self-insure for LTC expenses, is that a wise choice considering the variability of the outcomes? Here are some factors to consider before making this decision.

First, you’ll need to estimate your cost of care and the length of care after reviewing statistics. This guide should help you get started.

Second, do you want to start a savings account just for LTC costs or do you plan on using other assets to pay for care?

Let's assume you are disciplined enough to start a long-term care savings account. A conservative account may not keep up with the inflationary costs of long-term care while placing funds in a more aggressive account may jeopardize safety of principal.

If you plan to use retirement assets to pay for care, what are the income tax implications of that choice? What about “market timing” – what happens if you have to liquidate investments in a down market to pay for care? Since those retirement assets are in place to provide income, how do you replace lost income if you have to use the principal to pay for care? If your estimate is too low because costs inflated faster than expected or care is needed longer than planned, how will that affect your plan?

Clearly a few things to consider. But remember, this doesn’t have to be an "all-insurance" or "no-insurance" choice. Many choose to transfer only a portion of the risk to an insurance company.

Types of LTC Policies

“Traditional” policy

* + Premiums are not guaranteed and will likely increase over time
	+ Annual recurring premiums only - no lump sums or short duration payments allowed
	+ No refund value upon surrender and no residual value if not used for LTC
	+ May be difficult to qualify for underwriting
	+ You can customize the monthly benefit amount, the benefit periods, the elimination periods and can add inflation protection if desired

“Hybrid” policy combining life insurance with long term care

* These policies allow access to the tax free life insurance death benefit while the insured is alive to pay for LTC
* Premiums are guaranteed
* Can be funded with a lump sum, short duration payments or payments for life
* May be funded with cash value from an existing life insurance policy
* Offers refund value upon surrender and a death benefit if not used for LTC
* Can be “simplified underwriting” with a 30-45 minute phone interview or “fully underwritten” requiring a medical exam – this may be advantageous for those with health concerns

“Hybrid” policy combining an annuity with long term care

* + Premiums are guaranteed
	+ LTC coverage may be obtained with simplified medical health underwriting – typically no exam needed
	+ May be funded with cash value from an existing annuity or life insurance policy
	+ Continued access to funds for non-LTC expenses

How are Monthly LTC Benefits Paid?

Regardless of the type of policy, you should understand the differences between how benefits are paid at claim time. There are two methods: reimbursement and indemnity.

Reimbursement Method

Under this method, the insurance company will “reimburse” you for all or a portion of the actual expenses incurred, up to the maximum stated in the policy. You will likely have to submit expense receipts and may be limited to the type of eligible service. Most policies are of this type.

Cash Indemnity Method

Under the cash indemnity method, the company will pay the full amount specified in the policy, regardless of the expenses incurred. This type of policy will usually have a higher premium but may minimize hassles at claim time because no monthly bills or receipts need to be submitted.

Which method is better?

Most planners agree that if you enter a LTC facility, there is little difference between a reimbursement and an indemnity policy because the service provider will typically administer billing with the insurance company.

The real difference between cash indemnity and reimbursement is apparent when examining how home healthcare expenses are handled. The reimbursement policy often requires homecare to be provided by a licensed individual to be eligible for reimbursement. However, the cash indemnity policy allows you to hire unlicensed caregivers, or have informal care provided by family or friends. Thus the cash indemnity policy may be ideal if you are looking for flexibility or live far from assisted living facilities and nursing homes.

How to Secure LTC Protection with Funds You Already Have

Do you want LTC coverage but don't want another bill?

You're not alone...many individuals reallocate old accounts into new LTC policies. You likely have acquired life insurance policies over the years for all the right reasons. Life insurance helps families pay off debts, replace lost income, and provide funds for kids go to college. As you now approach retirement, do you really need life insurance protection? For many, the mortgage has been paid off, the kids are long out of college, and you have a nice nest egg for retirement. The original reasons for having life insurance may have changed or no longer exist.

You can transfer those old cash value life policies into a new hybrid LTC policy typically without income taxes. Newer insurance policies allow you to use the death benefit while alive to pay for LTC. If you don’t need LTC, the insurance benefit is paid to your family. Better policies even provide you with a money back guarantee if you change your mind.

# Newer LTC policies are safe and effective tools that meet three primary requirements

1. *They secure a tax free benefit for LTC*
2. *They provide access to your money if you need it*
3. *They return value if not needed for LTC*

Does your Annuity Provide Income Tax-Free LTC Benefits?

# Using the income tax code to your advantage, it's possible to implement a LTC plan with zero out-of-pocket cost

Most annuity owners are concerned about the income tax bill they will incur if and when they access their annuity funds. If you own an annuity you may want to consider a LTC protection strategy we are using for clients who own annuities and are concerned about the consequences of an extended care event.

The LTC provisions of the Pension Protection Act (“PPA”) became effective in 2010. These provisions allow an annuity owner to

1. upgrade an existing annuity to a newer PPA compliant annuity tax- free, and
2. take tax-free distributions to cover qualifying LTC expenses in the future

Unfortunately, older annuities still require you to pay income taxes on the growth before paying long-term care expenses.

With a newer PPA compliant annuity, you have the full value available tax-free to pay for LTC expenses. Depending on your income tax bracket that could save you 30% or more.

And if you don’t need LTC, you still have the benefits typically found in most annuities:

* + **You can spend your money now.** You have access to 10% of your accumulated value free of withdrawal charges each year.
	+ **You can save your money for later.** Your annuity offers tax-deferred growth at a guaranteed interest rate.
	+ **You can transfer this money to your heirs** without the delay, expense or publicity of probate.

Final Thoughts and Next Steps...

LTC is a risk that needs to be understood just like other risks in your retirement planning. Please regularly review your portfolio of investments and insurance to determine if it is properly structured to meet your current and future needs.

Also make sure to review and discuss your LTC plans with those closest to you. If you don’t know exactly how to start, read *The Conversation – Helping Someone You Love Plan For An Extended Care Event* by Harley Gordon.

And finally, remember that each method for planning and preparing for LTC has its own benefits and drawbacks. Please consult with an advisor you trust who is an expert in LTC and finance to help examine options and assist in finding the solution that has the best chance of working for you.

**References**

1. The 2014 Cost of Care Survey by Genworth Financial states the percentage of claims lasting more than 5 years is 15%
2. 2014 Cost of Care Survey by Genworth Financial
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6. A Special Report: How Long Do Long-Term Care Insurance Claims Last - A Guide For Consumers, May 2010, American Association for Long-Term Care Insurance

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