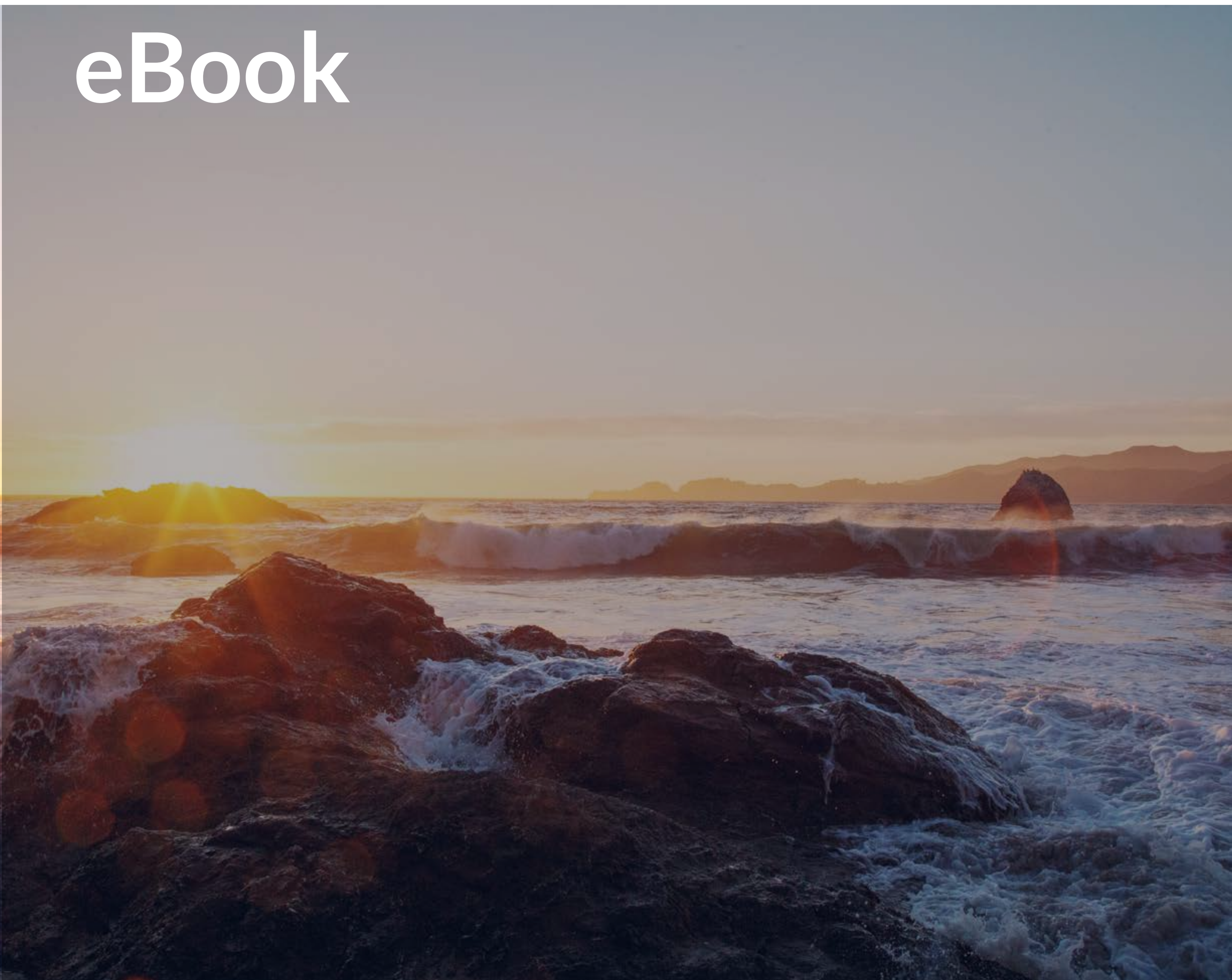
THAYER PARTNERS

Long Term Care

eBook



What is Long-Term Care, and Do I Need it?

Introduction: What is LTC?

Odds are, if you're reading this, you've already heard the phrase "long-term care," or LTC, a few times and know that it has something to do with retirement. But, what is long-term care, exactly?

Long-term care is a blanket term that covers almost any form of prolonged medical care or assisted living that takes place over the course of months or even years. This can take the form of nursing home care, prolonged hospital stays, and in-home assistance with daily tasks, among other forms of care.

Three scary facts about long-term care include:

1. **There's a 70% Chance You'll Need Care.** As stated by longtermcare.gov, "70% of people turning age 65 can expect to use some form of long-term care during their lives." So, if you reach retirement age, odds are that you'll need LTC during some portion of your retirement.

2. **It Can Wipe Out Your Savings.** Long-term care can be very expensive. The average cost for a year of nursing home care in America is about $80,300, according to 2015 cost-of-care statistics from Genworth. In Massachusetts, the annual cost of care is $128,845 according to Genworth!

3. **Care Typically Lasts for Years.** According to longtermcare.gov, "women need care longer (3.7 years) than men (2.2 years)." So, if they pay the average rate for nursing home care:
    a. Men can expect to spend about **$176,660** on LTC
    b. Women can expect to spend about **$297,110** on LTC

Because of these three statistics, long-term care can be a scary issue for almost any retiree. These facts also make a strong argument for acquiring long-term care insurance, which is why insurance industry types love to harp on these facts. But, let's take a step back and reassess things.

Determining if You NEED Long-Term Care

Long-term care is, above all, a wealth preservation strategy for retirees who have something to lose.

For example, if you have more than $1 or $2 million in assets and want to keep them intact, either for yourself or your heirs, acquiring LTC insurance may make sense because it will help you protect your assets if you ever need prolonged care of any kind.

> *"...acquiring LTC insurance may make sense because it will help you protect your assets..."*

However, those who have considerably less than $1 million in assets may find LTC insurance too costly for the benefit they receive, and most certainly have other uses for that money. So, Long-term care insurance isn't for everyone, and there are viable solutions for people of almost all economic circumstances.

Ways to Pay for Long-Term Care

Personally, I'm not wed to long-term care insurance one way or other. Like many things, it is often an emotional decision to buy it and know that you have a safety net in place.

Other folks may feel comfortable that their portfolio will be able to pay for LTC later on down the road if they need it. We refer to this as self-insuring, and there's nothing wrong with this approach, if you have the considerable liquid assets needed to pay for it. Many more people must rely on public funding (such as Medicare or Medicaid).

If you do find that you have a need for long-term care, it's important to have a way to fund these costs without breaking the bank.

Let's look at three ways to fund long-term care costs:

Method 1: Acting as Your Own General Contractor

Also known as "self-insuring" or "self-funding" long-term care, this method has you basically paying out of pocket using the liquid assets you have available at the time you need LTC.

Typically, this method is only an option for those with large and liquid portfolios that can take the brunt of LTC costs without spending down their retirement nest eggs. For most Americans, this would not be a viable option.

Method 2: Acquiring "Concierge" Healthcare Services via an LTC Insurer (Buying LTC Insurance).

One of the more common ways to fund LTC costs is to go to a broker and purchase an insurance policy from them. Where things get complicated is in choosing a specific type of LTC insurance product.

Examples of LTC insurance policies include:

- **Linked Benefit Plans.** Also known as Life/LTC Hybrid plans, these plans feature a life insurance product paired with coverage for a long-term care event, such as prolonged hospitalization or nursing home care. These plans feature a large up-front premium, but one that creates and immediate death benefit for your heirs and a pool of funds for LTC costs.

- **Fixed Annuity Plans with LTC Riders.*** Some fixed annuity plans now offer LTC benefits. Annuities provide fixed income for a set period of time, and the addition of an LTC rider can help pay for long-term care if the need arises. This has the advantage of providing an income source in retirement if you don't need the LTC, and the cost of the LTC rider may be less than the cost of standalone LTC insurance. However, the rider can reduce the interest the annuity earns, which is already low.

- **Standalone LTC Insurance.** Rather than linking your LTC insurance to a life insurance policy or an annuity, you can purchase long-term care insurance as a standalone policy.
Generally speaking, the younger you are when you buy this kind of policy, the more affordable it will be. However, many prospective retirees are skittish about buying straight LTC insurance because rates aren't guaranteed to stay the same, and benefits might not increase when rates do go up.

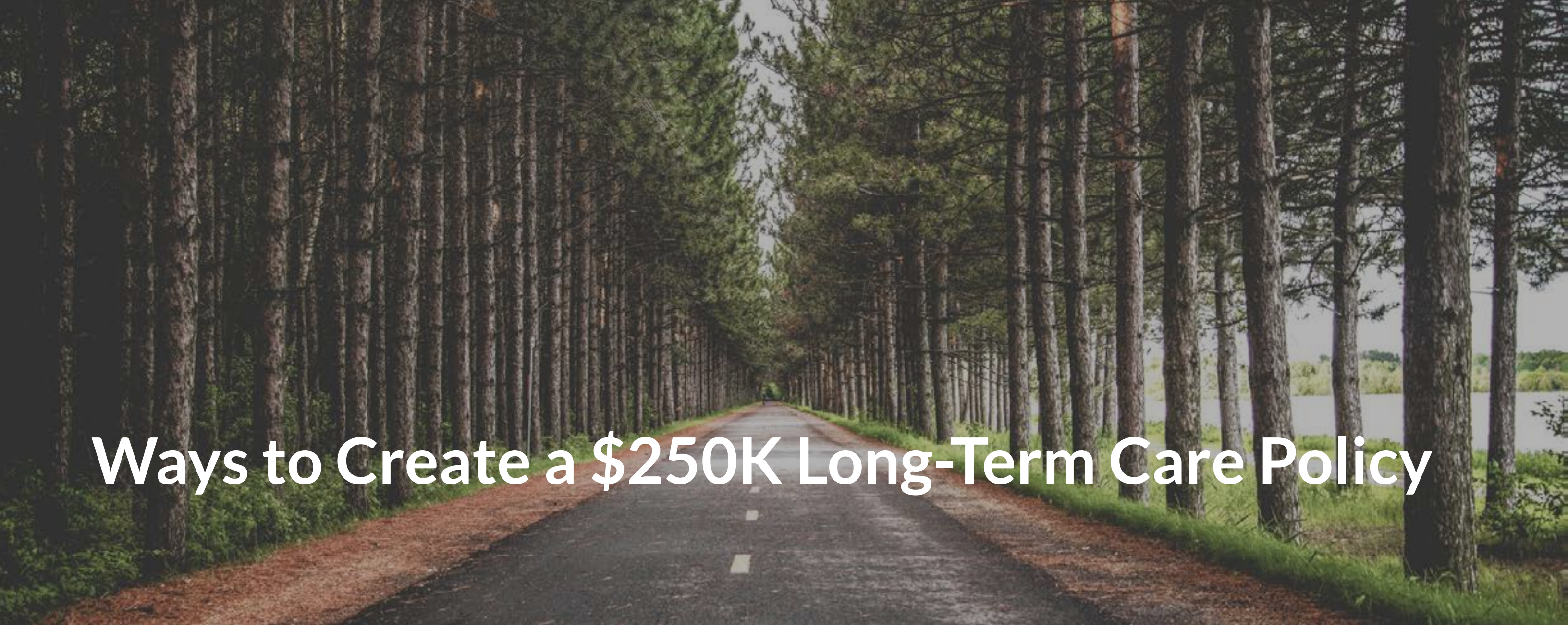
Method 3: Allowing the Government to Act as Your General Contractor

Some folks who don't have the assets needed to cover the cost of LTC and need the money they do have for more immediate concerns end up using the government as a general contractor to cover the cost of long-term care.

These individuals rely on programs such as Medicare and Medicaid to help them cover their LTC expenses. However, using these programs can be tricky, as there are a lot of restrictions and requirements that have to be met before you can qualify for government assistance.

For example, Medicare only covers 100 days of LTC expenses in a given benefits cycle, and there is a copay for the care that is provided. Medicaid, on the other hand, cannot be accessed if your income exceeds certain a certain amount, which gets updated from time to time.

* Guarantees are based on the claims-paying ability of the issuer.



Ways to Create a $250K Long-Term Care Policy

If LTC insurance isn't necessarily for everyone, how can you fund a "Long-Term Care Event" such as a long hospital stay or nursing home care if you need to?

Here is a list of **four different ways** that you can fund $250,000 in long-term care expenses :

1. Self-insure using $350k of IRA (pre-tax) money or $250K in safe and liquid investments.
2. Obtain a $2,432 annual stand-alone life-pay LTCi insurance policy.
3. Obtain a $5,098 annual life-pay Universal Life/LTC product (hybrid life plus LTC) or a $9,848 annual 10-pay UL/LTC product.
4. Obtain a $62,973 single premium Life/LTC Linked product.

Each of these strategies will provide about $250k in LTC insurance for you, and they all have their own pros and cons that might make one of them a great fit for your needs, or not.

For example, the $9,848 annual 10-pay UL/LTC product might have a higher up-front cost than the $2,432 annual stand-alone life-pay LTCi policy, but after 10 payments, your policy is fully-funded and won't be invalidated because of a missed payment after that. With the $2,432 LTCi policy, if something happens where you cannot make a payment on time, **your coverage might lapse**, even if you've already paid steadily into the policy for over a decade.

Before purchasing or setting up any kind of LTC insurance, you'll probably want to speak to a specialist in long-term care to go over your options and financial situation first.

A Clever Way to Pay for LTC: Repurposing "Dead" Assets

Many folks were sold life insurance or annuities years ago for protection against a specific risk or to fulfill a financial need in the case of their premature death. Examples include paying off the mortgage, paying for the kids' college, replacing the primary earner's income, etc.

Over the years, you've paid the premiums or added to the annuity or the policy's cash value, but the original reasons for having insurance have changed or no longer exist—the mortgage has been paid off, the kids are long out of college, or you're nearing retirement—so here you have an asset with meaningful cash value pretty much sitting idle.

One creative approach would be to re-purpose this asset, by using the built up cash value of the annuity or life insurance policy to fund a Long Term Care insurance policy for your spouse or yourself.

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[1] Value of these funding methods based on 2015 data for a 55-year-old in good physical and mental health. Actual amount of coverage may change based on your specific situation.

Consult an Expert Before Choosing a Funding Strategy for LTC

Each of the methods for paying for long-term care listed above have their own benefits and drawbacks. Before choosing a funding strategy, it is strongly recommended that you consult an expert in long-term care and finance to go over your options so you can find the option that has the best chance of working for you.

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