FirstPoint Financial

Long-Term Care:
Don’t Wait to Prepare for the Long Term

When Social Security was introduced in 1935, it created a relatively new concept of retirement and introduced a more formalized way of planning for life after work in the United States.

The retirement age for benefits was set at 65 at a time when the average life expectancy for men was 58, and the expectancy for women was 62. Since then, the retirement age has remained relatively static, while both our expectations for a meaningful retirement and life expectancies have grown. According to the U.S. Census Bureau, the average life expectancy for men in the United States has increased to 75 years, while the expectancy for women is now 81. As modern medicine continues to find ways to ways extend people’s life expectancies, a well-built financial plan must employ techniques and strategies that support people in retirement longer than ever before. When planning, it is important to understand the attributes associated with long-term care and considerations when assessing coverage options.

What is Long-term care?

Most people think of retirement as a time to realize the goals they have set after a lifetime of work. These goals may include a second home, traveling abroad or spending time with loved ones. What many people fail to consider, however, is the aspect of retirement that comes when specialized care is necessary to assist in advanced age. According to government statistics, 70% of people over the age of 65 will require long-term care services at some point in their lives. By definition, long-term care is considered a nursing home, assisted living or home health care services for individuals who are over age 65 and are chronically ill or suffer from a disabling condition that requires constant supervision. This can include the loss of activities of daily living, sometimes referred to as the “loss of ADLs.” These activities include bathing, dressing, eating, mobility and toilet hygiene. So, with the odds of needing this type of assistance being so high, why don’t more people address this need as part of their retirement planning?

What are My Options?

For many people, long-term care is either a topic they don’t want to think about, or they are misinformed as to how this type of care is provided. In fact, one of the most common misconceptions about long-term care is that it is covered by Medicare. Medicare actually pays for very little, if any, cost associated with long-term care. And what Medicare does pay for is limited to a very short period of time (usually no longer than 100 days in a nursing home) and for only certain types of illnesses or ailments. This means that many people, by default, are paying for care out of their own savings. That is a potentially devastating financial obligation considering, on average, someone who is 65 years old today will need some type of long-term care service or assistance for three years. Assuming the current national average cost of long-term care, that's a cost of $225,570. Those costs double when considering care for a couple. In fact, it's not uncommon for people who self-insure for long-term care to ultimately have to turn to their family for support and, when that's no longer an option, turn to a Medicaid facility as their only option after all financial resources are exhausted.

Given these scenarios, more people today are considering another option for long-term care planning, which is long-term care insurance.

What to Consider

When assessing potential options for a long-term care insurance policy, there are three main questions to ask:

1. Where would I be eligible to receive long-term care?

One of the primary concerns people have when considering long-term care is where they will be receiving their assistance. The best policies cover a wide range of settings, and it's important to understand the differences in settings when choosing a policy. Again, while the majority of people over age 65 will require some form of long-term care, the differences in the type of long-term care can widely vary.

- Home health care is a supportive care that is provided within the patient's home by licensed medical professionals. These professionals can assist the patient with bathing, eating, preparing meals or cleaning the home.
- Assisted living facilities are housing residences that provide assistance activities of daily living, but they do not provide 24-hour care. While it may no longer be appropriate for residents in assisted living facilities to be living alone at home, many enjoy the more independent lifestyle made available by these residential communities.
- Nursing homes provide residential care for people who require 24-hour assistance and have significant deficiencies in activities of daily living. Residents in these facilities may also require physical or rehabilitative therapies following an illness or accident.

2. How much coverage is the right amount?

The amount of coverage needed varies based on the state in which you reside. To estimate the amount of coverage you'll need, look into prices for the various types of care in the area in which you plan on retiring. Once you've seen the cost for the daily or monthly living expenses, you can then understand how much of that expense you can plan on paying yourself.

Below is a table that provides the daily cost of a private nursing home in several different states:

State	City	Daily Cost of Private Nursing Home Room
California	Los Angeles	$271
Oklahoma	Oklahoma City	$189
Kansas	Topeka	$183
Nebraska	Lincoln	$205
Ohio	Columbus	$230
New Jersey	Trenton	$289

John Hancock Cost of Care Survey, conducted 2011 by Life Plans, Inc., based in Waltham, MA

3. How long will I need coverage?

An important consideration when long-term care insurance coverage is how long the coverage itself will last. According to a 2011 study by the American Association for Long-Term Care Insurance, 20% of individuals over the age of 65 will need two to five years of some type of long-term care, while another 20% will need it for longer than five years. With these statistics in mind, it's often recommended to look at policies that provide benefits for at least three years. Keep in mind that any unused benefits after receiving long-term care can remain in a policy for future use.

Another consideration regarding the length of coverage is the elimination period before the policy begins paying benefits. Think of the elimination period as a deductible, or the amount of coverage an individual is willing to pay before the policy begins to pay for benefits. Generally speaking, the longer the elimination period, the less expensive the premium payments become. In general, most policies are written with a 90-day elimination period, which can be a good starting point when comparing different policies.

Trends in Long-Term Care Insurance

Due to a number of factors, the long-term care industry has seen a great deal of change over the last several years. As more people are living longer and requiring long-term care services, the cost for those services has risen. Additionally, the prolonged low interest rate environment has made it difficult for insurance companies to pay out long-term care benefits, as the costs associated with care continue to rise. As a result, a number of insurance carriers have stopped selling long-term care policies. Companies that continue to sell these policies have often raised annual premiums in order to offset the rising costs of long-term care and the low interest rates that make it challenging to pay out benefits. However, in an effort to protect consumers, many states have recently adopted laws that restrict the amount a particular policy may increase its premiums. And, as interest rates eventually begin to rise, the necessity of raising premium rates is expected to subside.

With the concerns surrounding the long-term care insurance marketplace, it becomes increasingly important to look at a number of carriers and different types of policies when researching long-term care options. Your wealth advisor can play a critical role in helping you understand the different options available within the long-term care marketplace.

What If I Never Need Long-term care?

One of most the common concerns people have about purchasing long-term care insurance is what happens if they never actually need the benefits. While this is an understandable concern, it helps to acknowledge that people buy homeowner's insurance and auto insurance without a thought as to whether they'll ever actually need that coverage. As mentioned previously, however, the odds of needing long-term care for someone over age 65 remain quite high (70%). In order to address the concerns of people worried about not needing their long-term care policy, the insurance industry has created several "hybrid" options for people to consider as alternatives to a stand-alone long-term care insurance policy.

One popular option in the hybrid category is a life insurance policy with a type of long-term care insurance rider on the policy. For example, consider a single premium life insurance policy that can offer the flexibility to pay for long-term care expenses if necessary and, if the policy owner doesn't use the long-term care benefits, those unused benefits can be paid to beneficiaries in the form of a death benefit.

Other hybrid options available are annuity products with long-term care riders. These products can offer the flexibility of receiving a steady stream of income through retirement or having funds be directed to a long-term care facility, if necessary. It should be noted, however, that many of these hybrid options have a less comprehensive scope of benefits relative to stand-alone long-term care policies. They can also have very expensive initial investment requirements, and the cost of the long-term care rider can negate any potential return within the annuity, especially in this low interest rate environment.

Shared Policies

A long-term care strategy growing in popularity is the shared coverage option. A shared coverage option allows for a couple the flexibility to combine individual benefit periods and split the benefits in a way that best fits their circumstances. For example, if both individuals purchase five-year benefit periods, their shared coverage would provide a combined 10-year benefit period. This would allow for one of the partners to access the other's benefit, should he or she require coverage for longer than the five-year benefit purchased. For example, if a husband required seven years of long-term care, he would use the five years of benefits within his policy, and would also be able to access an additional two years of benefits from his wife's policy. This would still leave her with three years of coverage. Alternatively, if the husband died after using only two years of his benefit, his wife would be able to access his remaining three years of benefits for a total of eight years of long-term care coverage.

The Best Time to Plan is Now…Especially for Women

One common truth that people often fail to consider when planning for long-term care is that you'll never be younger or healthier than you are right now. The majority of people (54%) who apply for long-term care insurance are between the ages of 55-64. And of those people who apply for long-term care insurance, only 14% ages 50-59 are rejected due to unacceptable health. This number increases to 23% for those ages 60-69, and to 45% for those ages 70-79. These statistics reveal the benefits of applying for long-term care at a relatively young age, especially if one were to unexpectedly require long-term care benefits at a younger age than anticipated.

Another important consideration is that many long-term insurance carriers offer discounts for couples who apply for a policy together. Aside from the financial benefits, this is an especially critical planning topic for women. Historically, long-term care insurance was priced as a unisex product, also referred to as "gender neutral." In other words, the pricing for a woman's policy was the same as a man's. In 2011, however, a study revealed that 67% of all long-term care benefits paid are for care received by women. Since that data has been published, industry-leading providers of long-term care, such as Genworth, have increased their insurance premiums for single women by 20% to 40%, and those costs are expected to grow. In fact, Genworth suspended the sale of individual long-term care policies in March of 2013 until replacement coverage could be approved by the California Department of Insurance. While gender neutral policies are still available in the marketplace, the trend is suggesting most carriers will be moving to a gender-based pricing model for their long-term care policies.

Conclusion

These recent developments regarding premium prices and the availability of long-term care policies signal one very important truth regarding the topic of long-term care: this type of care is becoming increasingly expensive and is now needed for an increasing length of time. If this wasn't the case, coverage would be inexpensive and widely available.

It is important to keep in mind that long-term care planning remains one facet of an overall financial plan. There are many factors that should be considered when assessing a long-term care strategy, and they should be taken into consideration as they relate to the goals and objectives outlined within your financial plan. Should you have any questions or concerns about long-term care planning or your overall financial plan, please don't hesitate to contact your advisor or visit our website at www.firstpointfinancial.com.