Preparing for the Unexpected:

Planning for Long-term Care Expenses

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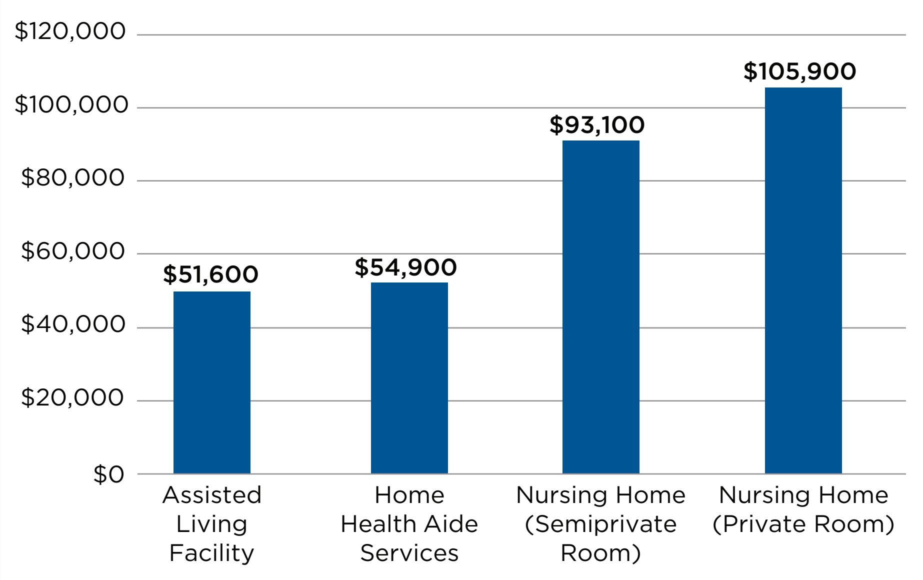
Health care is expected to remain one of the biggest expenses in retirement. Medicare, along with Medicare-approved insurance plans such as Medigap or Medicare Advantage, may cover a large part of traditional medical expenses. However, it does not cover all health care expenses. Long-term care is potentially the largest of these. That's why it is important to include potential long-term care costs in your retirement strategy, whether you are preparing for retirement or are already retired.

How Much Could It Cost?

While many people associate long-term care (LTC) with a nursing home, long-term care can come in many forms. If long-term care is necessary, there may be options to control where care is received – at home, in an assisted living facility, adult day care or nursing home. In fact, more people receive long-term care services in their homes than anywhere else.[1]

Annual costs can vary dramatically based on where the care is administered. Other factors such as your age, gender, state of residence and level of care also can affect the cost of long-term care services.

Annual Cost of Long-term Care Options – 2020



Source: Genworth 2020 Cost of Care Survey

The above chart provides an estimate, but costs continue to rise. Health care inflation has averaged 4% to 5% a year, which we believe is a good estimate for planning purposes. But even assuming a more modest inflation rate of 3%, full-time care in your home could cost more than $100,000 per year in 25 years, or over $180,000 for a semiprivate room in a nursing home.[1] Thus, we believe your plan should incorporate the potential for rising costs.

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What Is the Likelihood I Will Need Long-term Care Services?

So, what's the risk of needing long-term care services? About 40% of people older than 65 receive some form of paid in-home care, with an average care period lasting less than one year, according to the U.S. Department of Health and Human Services. However, about one-third of the population receives care in a nursing home; of those individuals, about half stay more than one year.

As highlighted above, not everyone will need long-term care. **But, because of the high cost and relative risk, we recommend you plan for two to three years of long-term care expenses as part of your overall retirement strategy.** Depending on your gender (women tend to need longer coverage) and/or your family medical history (for example, if your family has a history of dementia), you may want to incorporate a longer potential stay. In addition, since the cost of care continues to rise, we also recommend you include inflation in your estimates, which could help cover the potential, much higher cost of long-term care in the future, particularly for people in their 50s and 60s. Additionally, since costs can vary significantly by region, it is important to ensure your strategy incorporates the cost of potential long-term care expenses based on where you live.

Preparing for Long-term Care Expenses

You can prepare for long-term care expenses by:

- Incorporating the potential costs into your projected retirement expenses ("self-insuring")
- Transferring the risk to an insurance company through an insurance policy
- Combining self-insuring with insuring through a policy; for example, you could plan to self-insure the expected costs of one year's worth of long-term care expenses and buy insurance for additional expenses.

Self-insuring

When considering self-insuring for long-term care expenses, it's important that you work with your financial advisor to run retirement strategy scenarios. For example:

- Can your retirement strategy cover two to three years (or more) of potential long-term care expenses without derailing your retirement goals?
- How might these potential costs affect your spouse and family, both financially and emotionally, in the long term?
- How might other financial goals be affected by your decision to self-insure this need? For example, do you have specific legacy goals or have a goal that a specific need is covered? Would your plan meet such goals if you have to self-insure several years of long-term care expenses?

Working with your financial advisor can help you better understand the effects self-insuring has on your ability to reach your goals and determine the role, if any, insurance might play.

Insuring

You also have several options if you want to insure against the risk of long-term care expenses. Using traditional long-term care insurance historically has been the primary way to insure against such expenses.

Long-term care insurance is still available and can provide the highest amount of coverage per dollar of premium. But concerns about premium increases and the "risk" of paying for insurance you may not use has resulted in the creation of additional insurance options. Some of these options combine features of life and long-term care insurance, such as hybrid/linked benefit insurance and life insurance with long-term care/chronic illness riders.

These insurance options can provide for a long-term care need by allowing you to access the death benefit early, and could even provide for long-term care needs over and above the value of the death benefit in the case of hybrids. But they also provide the traditional life insurance death benefit if long-term care services are not needed.

Each of these options has different features and trade-offs that may be appropriate depending on your goals. That said, it's important to know under which conditions the policy may be used to provide for your care. Not all chronic illness riders are the same; some policies require that your chronic illness be deemed permanent before you can use it for a long-term care need. **We do not view permanent chronic illness riders as long-term care insurance.**

When to Plan for a Potential Long-term Care Need

While long-term care services are typically needed later in life (more than 60% of new claims occur after age 80[2]), we believe there are benefits to planning for long-term care earlier in life, particularly between the ages of 55 and 65. This is especially important if you decide insurance is an appropriate solution, because:

- You may have more flexibility with insurance premiums. The younger you are, the more likely you are to have lower premiums and the ability to spread the premiums over a longer time frame.
- Your health may be better, increasing the likelihood of either lower premiums or ensuring coverage can be obtained.
- You may still be working and be better positioned financially to pay the premiums.

Ultimately, the earlier you plan for a potential long-term care need, the more flexibility you may have to decide what type of solution works best for your situation.

Long-term Care and Your Family

Another consideration as you plan for long-term care expenses is the potential impact on your family. For example, often the primary caregiver initially may be a spouse or family member, such as a child. This could put physical, mental and/or financial strain on the family caregiver. For example, studies show retirement balances for women are generally lower, in part because they may need to leave the workforce for a few years to care for an aging parent.[3] Consequently, your decisions on how to prepare for long-term care affect not only you but your family members who may be caring for you.

In addition, it is important to consider the effect on your spouse's retirement strategy if you are married. Assets earmarked for daily living may have to cover the cost of unexpected care for you and/or your spouse. Incorporating long-term care expenses into your retirement strategy may help you be better prepared for this scenario. Should you have legacy desires, you may also consider life insurance as a potential asset-transfer strategy. Using life insurance will allow a planned amount to transfer to your beneficiaries while allowing other assets to cover additional unexpected health care costs.

A Healthy Retirement Portfolio

While some health care costs may be beyond your control, you can control how you prepare, which includes a strategy for covering traditional health and long-term care expenses. While long-term care may be a difficult topic, discussing in advance not just how you might want care to be administered but how to cover these costs can better position you, your family members and your retirement strategy should the need arise. Your Edward Jones financial advisor can work with you to better understand your desires, and run different scenarios to help ensure your strategy can provide for you, and your potential care needs, over the long term.

1 Source: U.S. Department of Health and Human Services

2 Source: http://www.aaltci.org/long-term-care-insurance/learning-center/fast-facts.php

3 Source: MetLife

Long-term Care Options

Determining how to potentially cover long-term care expenses is an important decision. The following table compares the different options to pay for potential long-term care expenses, as well as the potential features, benefits and trade-offs of each.

LTC Options and Trade-offs

	Self-insure	Traditional Long-term Care Insurance	Hybrid/Linked Benefit insurance	Life Insurance with Long-term Care/ Chronic Illness Rider
Description	Using existing assets to cover costs associated with a LTC event	Insurance policy that reimburses for qualified LTC costs only	Life insurance that allows for accelerating the death benefit to pay for LTC costs, but also provides an optional feature that creates an additional pool for LTC costs after the death benefit has been exhausted	Rider attached to a permanent life insurance policy to allow for accelerating all or a portion of the death benefit to pay for LTC costs
Primary Goal	Self-funding for potential LTC costs	LTC insurance	Balancing potential LTC with legacy goals if death benefit remains	Leaving a legacy, but being able to use death benefit for LTC costs if needed
Cost/Affordability	100% of expenses paid from assets	Initially may be more affordable than other LTC insurance options, since premiums are paid annually (although premiums could increase over time) and there is no death benefit	Generally requires the largest investment of the three insurance options. Not only is the insurance covering two goals (LTC and legacy), but premi-ums are usually paid over a shorter period of time.	Amount required to fund depends on amount of life insurance desired. This option generally has more flexibility to pay premiums over time versus a larger dollar commitment required for a hybrid policy.
LTC Insurance Benefit per Premium Dollar	Not applicable in comparison with the other three options	Higher	Medium	Lower
Death Benefit/ Legacy Potential	Portfolio value, if remaining	None	Death benefit is what is left over after any benefit is used for LTC.	Death benefit is what is left over after any benefit is used for LTC.
Benefits	• Control of decision-making and how to use assets • Asset growth if LTC expenses are not realized	• Most LTC coverage for premium dollars paid in comparison to other insurance options presented • Most flexibility in product design in terms of inflation protection and elimination period (how long you self-insure before coverage begins)	• Premiums guaranteed to stay at a fixed amount • Ability to have LTC coverage in excess of death benefit • Modest flexibility in product design in terms of inflation protection and benefit period (length of time benefit is paid)	• Ability to pay over one's lifetime • Some policies offer premiums guaranteed to stay at a fixed amount. • Some riders cover expenses on an indemnity basis (protec-tion against a loss or other financial burden). • More types of policies and riders available
Trade-offs	• Potential depletion of assets due to LTC costs	• No death benefit/cash value if LTC is not needed • While future premium increases are expected to be more modest, multiple increases should be expected, with the risk that some could be significant.	• Affordability may be an issue given shorter premium payment period. • Limited flexibility in payment options	• Amount of LTC cover-age is limited by death benefit. • Any amount used for LTC will reduce the life insurance available to beneficiaries. • No inflation-protection option

Other Important Long-term Care Insurance Considerations

Affordability

When considering insurance for long-term care expenses, it is important to understand whether you can afford the premiums – today and in the future – relative to your overall budget. For example, if your retirement assets are less than $250,000, trying to insure long-term care expenses may be cost-prohibitive unless most of your income needs are already met by a pension and Social Security.

Activities of Daily Living (ADLs):

You cannot use your LTC insurance for just any care-related expense. Generally, a physician must certify that you can no longer perform at least two of six activities of daily living (ADLs) – eating, bathing, dressing, continence, transferring and toileting – or deem you severely cognitively impaired before you can qualify for an insurance benefit.

Inflation

We generally recommend planning for expenses that are significantly more than current costs of care, particularly the younger you are (e.g., in your 50s and 60s).

Premiums/Flexibility

For hybrid and life insurance with long-term care riders, the premiums are typically guaranteed to remain at a fixed amount, unlike for traditional long-term care insurance. However, premiums are generally higher and may require larger upfront payment(s) relative to traditional long-term care insurance. Life insurance policies with a long-term care rider generally offer the most flexibility over how to pay your premiums, but they do not have options such as inflation protection or the ability to add additional long-term care coverage above the value of the death benefit, such as with hybrids.

Spousal Planning

You also must determine whether to insure one individual or both. Women, on average, tend to use more paid long-term care services, due in part to a longer life expectancy. Age, current health and family history are also important considerations when determining who needs more coverage and whom to insure. It may be helpful to run different scenarios with different coverage options – for example, budgeting long-term care expenses for each partner – to understand which options make the most financial sense.

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A Permanent Chronic Illness Rider Is Not Long-term Care Insurance

A long-term care rider on an insurance policy is often referred to as a "chronic illness rider." This rider allows you to access the death benefit on the insurance policy for medical reasons. However, there are two types of chronic illness riders: chronic illness riders and permanent chronic illness riders. It's important to understand the difference.

Usually, a permanent chronic illness rider requires a doctor's evaluation that your condition is permanent, meaning you are not expected to recover. This definition is different from what we would consider a long-term care rider, because long-term care riders don't have a "permanent" requirement. If your covered condition is expected to last for at least 90 days and be recoverable (mild stroke, orthopedic surgery, etc.), a long-term care rider may provide benefits; a permanent chronic illness rider would not. Although the requirements are more rigid, a permanent chronic illness rider can provide a benefit if the permanent qualification is met. Because of this difference, we do not recommend permanent chronic illness riders as a substitute for long-term care insurance.

