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Protecting wealth from long-term care expenses

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WHITE PAPER

OVERVIEW

Even though many Americans don't anticipate needing long-term care, it's possible that they may need some form of care in retirement. Protecting wealth from long-term care expenses is an important part of a sound financial strategy. This paper reviews how you may plan for the rising costs of care and help maintain control of your financial future.

- **Myths of long-term care expenses**
  Learn about some common misconceptions and explore some of the ways to make smart decisions about these costs.
- **Long-term care funding solutions**
  Today, there are a number of solutions that may be used individually or in combination to fit your financial plan. Find out about some of the options available.

* "Managing Long-term Care Risks," Hanover Research and Lincoln Financial Group, October 2014; https://www.lfg.com/LincolnPageServer?LFGPage=/lfg/lfgclient/rna/rsrch/index.html.

Because of advances in medicine, people are living longer than previous generations. While longevity has its advantages, it also can increase the likelihood of facing health-related issues associated with aging. This includes the possibility of needing long-term care.

It's important to prepare for the years ahead. Planning can help you and your loved ones protect wealth, maintain relationships, and achieve better financial outcomes.

The misconceptions about long-term care expenses

Myth 1: It won't happen to me

It's not uncommon for individuals to believe that unpleasant things such as serious illness may happen to others but not to themselves. As a matter of fact, in a recent survey conducted by Lincoln Financial, just over 2 in 10 respondents said they are likely to need some form of long-term care during their lifetime. And just 1 in 10 have discussed care planning with a financial professional.* While it's understandable to want to avoid discussing this topic, planning ahead as a family to help protect wealth from long-term care expenses may help loved ones get the care they deserve in the way they want.

Myth 2: Medicare and Medicaid have me covered

Many people avoid conversations about how to address long-term care costs because they think Medicare or Medicaid will pay for all of these expenses. Yet, Medicare does not cover long-term care in the event of an injury. It may cover a portion of skilled nursing facility costs for up to 100 days. And it only provides limited amounts of coverage for certain types of home healthcare.

To qualify for long-term care benefits under Medicaid, an individual must have limited resources and spend down assets to a diminished state that demonstrates the need for governmental support. Spouses are also capped on the amount of assets they can own and the income they can earn.

There are a number of other drawbacks to relying on Medicaid. When individuals spend down their assets, they incur any resulting taxes. Ultimately, these requirements mean that they may not be able to stay at home, choose where to receive care, meet other financial obligations, or help their family members.

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Myth 3: My family will be able to take care of me

In past generations, spouses and children took care of their loved ones when they needed care. Why can't the same approach work today?

Many spouses plan to and do care for their loved ones when long-term care situations arise, but eventually this outlay of time and energy exacts a cost. Even if one spouse is healthy and strong enough to provide care to the other, that ability may change as the couple ages. Given the amount of physical and emotional effort a caregiver endures, it is possible this can lead to stress and exhaustion.

When a spouse can no longer provide care or needs help providing care, grown children often step in. Yet getting assistance from a grown child with activities of daily living, such as eating, dressing, and bathing, may be uncomfortable, creating a role reversal that affects the entire family.

Some say providing care to a loved one is like having a full-time job—or in some cases, another full-time job if they have a career.

By contrast, employing a caregiver at home may help the entire family preserve the independence of their parents and their everyday relationships. It also frees family members to supervise the care instead of provide it, and to help maintain thoughtful attention to the financial aspects of care.

Myth 4: That's what my savings are for

Many people expect to pay for long-term care costs out of pocket or with their investment assets. Some people prefer this strategy because they don't want to waste the cost of insurance if they never need care. Yet even those with sufficient wealth and retirement income should consider that paying for care costs out of pocket will likely reduce their total investment assets, which may reduce their income and increase their tax exposure. If long-term care is required for a number of years, the financial impact on an individual's total savings and retirement lifestyle could be significant.

The costs of care can certainly add up over time. Depending on the type of care one desires, there are several options to consider. Hiring a home health aide is often the least expensive option when compared to a skilled home healthcare worker like a registered nurse. Families also should consider options like skilled nursing homes. Single or multiple instances of home or nursing care within a family may erode the retirement portfolio—and leave a healthy spouse with less wealth to live on.

Most importantly, crafting a well-made plan may prepare the family and provide guidance for a loved one at a critical moment. Should they provide care themselves? Can they afford to get professional help? What would their loved one want, if it's not clear? Talking about the challenge of long-term care costs in advance, and making a sensible financial plan, may help protect the wishes and emotional well-being of the entire family.

The long-term care funding continuum

Fortunately, there are more ways than ever to protect wealth from long-term care expenses. And while these options are presented as distinct choices, they could be blended to suit a range of needs and circumstances.

Forms of insurance

The risks of experiencing a long-term care event such as a stroke, cancer, or dementia are similar to other risks in everyday life, such as having a car accident or house fire.

Unlike paying out of pocket, with an insurance solution you may be able to obtain benefits that increase to offset inflation. In addition, buying an insurance policy shifts some of the expenses from a long-term care event to an insurance company, much like a home or auto policy does. Individuals pay into the policy and receive benefits if they encounter a qualified health condition that renders them either incapable of performing at least two activities of daily living or cognitively impaired. Some policies cover all conditions that meet these criteria and are known as long-term care policies. In contrast, some policies focus only on nonrecoverable conditions, such as paralysis after an accident or dementia, and are known as chronic care solutions.

From a financial perspective, insurance provides leverage to a retirement portfolio. When or if individuals need care, the amount they would have paid into the policy is likely to be cents on the dollar compared to the amount they would have paid out of pocket for their care.

Traditional long-term care insurance

Compared to paying out of pocket, traditional long-term care insurance may offer inflation-adjusted coverage for qualified long-term care expenses. It can be an affordable way to attain tax-free reimbursement for qualified long-term care costs. In cases where policyholders die before they need benefits, their families may not recover the money paid into the policy. In addition, premium amounts may rise.

Hybrid insurance

Hybrid, or linked-benefit, solutions combine long-term care coverage with a life insurance policy or an annuity. They suit people who have multiple needs and want greater financial flexibility.

When facing the array of hybrid solutions in the marketplace, it's important for families to focus on their goals. If financial flexibility is a consideration, families may find a solution that allows return of premium in case another financial need arises. Features such as premiums that will never increase or inflation protection may be more expensive in the short term but may help protect a family's wealth over the long term.

A solution that offers robust life insurance with the option to accelerate some portion of the benefit for a long-term care event may help preserve the financial well-being of a surviving spouse or other loved ones should a long-term care event arise.

Matching the hybrid solution to your need

Long-term care coverage with financial flexibility:

- Coverage for recoverable and nonrecoverable conditions
- Qualified long-term care costs reimbursed income tax-free*
- Return of premium feature available if individual needs change
- Legacy for loved ones if policy goes unused
- Flexible premium options and inflation protection available

Designed for individuals who primarily want to protect wealth from long-term care expenses but also want financial flexibility.

A robust legacy with long-term care coverage:

- Transfers wealth income tax-free for loved ones
- May be accelerated to cover cost of chronic or long-term care
- Benefit provided in monthly installments or an income tax-free lump sum

Designed for individuals who primarily need a wealth transfer solution but also want to protect wealth from long-term care expenses.

One thing to consider: Different long-term care solutions have varying underwriting requirements. For individuals who are not able to meet these underwriting standards, purchasing an annuity and setting aside its guaranteed income stream for long-term care costs may be another option.

The advantage of choice

No one can see into the future. So, the smartest way to handle uncertainty is to plan ahead. Working with a skilled financial professional, families can explore what matters most to them and create a personalized plan to protect wealth from long-term care expenses.

*Based on IRC Section 104(a)(3).

About the authors

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