

The Navigator

A Financial Planning Resource from
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Those preparing for retirement today should also seek to prepare themselves for a growing financial concern: long-term care. Long-term care is increasingly needed by people over the age of 65, can be very expensive, and is generally not covered by standard insurances, so retirees may find themselves unexpectedly facing large bills. With preparation, these costs are manageable, so those looking ahead to retirement should factor long-term care expenses into their planning.

The Costs of Long-Term Care

by Matthew Blume, CFA

Long-term care is a growing concern for retirees. Almost 70% of people turning 65 in 2019 will need some type of long-term care during their retirement for an average of three years.¹ Long-term care can be extremely expensive, and retirees may be surprised to find that they lack insurance coverage to help them bear these costs.

Typically, long-term care is not medical care, but it is instead assistance with basic personal tasks like bathing, eating, and dressing. Some care also extends to household tasks, including housework, taking medication, and meal preparation and cleanup.² Long-term care can be provided

¹ <https://longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html>

² <https://longtermcare.acl.gov/the-basics/what-is-long-term-care.html>

at home or in a range of nursing or assisted living facilities, depending on the needs of the patient.

In 2018, the national average annual costs for some common care services were as follows:

- \$89,297 for a semi-private room in a nursing home
- \$100,375 for a private room in a nursing home
- \$48,000 for a one-bedroom in an assisted living facility
- \$50,336 for a home health aide, 44 hours per week
- \$48,048 for personal care assistance (personal care includes items like assistance with cooking, errands, maintaining a home, etc.), 44 hours per week
- \$18,720 for health care day centers for adults, five days per week³

These costs vary by region. In the Chicago metro area, for example, a patient could expect to pay as much as \$10,000 more than the national average for a private room in a nursing home or assisted living facility.

As long-term care becomes an increasingly common expense, retirees and their families need to plan for these costs above and beyond their anticipated medical spending in retirement.

Medicare and Medicaid

When considering healthcare planning in retirement, most people probably think of Medicare as the primary way to insure against health expenses. However, Medicare's coverage of long-term care is much more limited than many people realize. On its own, Medicare is unlikely to be sufficient for many of those who require long-term care.

³ <https://www.genworth.com/aging-and-you/finances/cost-of-care.html>



Medicare

Medicare generally does not cover long-term care if it isn't associated with medical treatment.⁴ If a patient covered by Medicare needs to enter a long-term care facility purely for assistance with daily activities, that patient would be responsible for 100% of the costs associated with the facility. This typically means that stays in nursing homes are the patients' financial responsibility.

Medicare will pay for some or all of the costs associated with long-term care if the care is skilled (for example, physical therapy rather than in-home meal preparation help), short-term, and deemed medically necessary. It often covers costs in a few specific circumstances:

- **After hospitalization:** If a patient is hospitalized and then transfers to a nursing facility for continued care, Medicare will typically pay a portion of the costs for the first 100 days.
- **As treatment for a medical condition:** If a doctor prescribes long-term care services to treat an illness or injury, Medicare will pay at least a portion of costs incurred for as long as is necessary. For example, if a patient required ongoing physical therapy, Medicare might pay for some expenses at a long-term care facility because it would constitute doctor-prescribed treatment.
- **To prevent decline:** Medicare will sometimes cover long-term care for people with medical conditions that are unlikely to improve, like stroke, Parkinson's disease, ALS, or Alzheimer's.
- **Hospice care:** Medicare will cover hospice care if a patient has been diagnosed with a terminal illness, is no longer seeking a cure, and is not expected to live more than six months.⁵

Medigap

Medicare Supplemental Insurance, or "Medigap," is additional health insurance purchased from a private company that can help the insured with costs that aren't covered under Medicare. However, they do not significantly expand the breadth of long-term care benefits. A Medigap policy might pay additional reimbursement if long-term care

⁴ <https://www.medicare.gov/coverage/long-term-care>

⁵ <https://longtermcare.acl.gov/medicare-medicare-more/medicare.html>

expenses already qualify for coverage under Medicare. The policies do not, however, change eligibility for coverage, so a patient with a Medigap policy would still only be able to receive reimbursement under the specific scenarios permitted by Medicare.

Medicaid

Medicaid assists people with low income and/or low assets in paying for their healthcare costs. Those with significant retirement income and/or assets will not be eligible for the program, but it does provide a safety net for those whose assets may be depleted unexpectedly.

Unlike Medicare, Medicaid provides significant coverage for long-term care, but its strict eligibility requirements mean that fewer people qualify for the assistance. Medicaid covers long-term care services in nursing homes and personal care services provided at home. Unlike Medicare, Medicaid will cover services that aren't directly associated with medical treatment. Eligibility for Medicaid and Medicaid coverage of long-term care varies from state to state, so you should consult your local guidelines to see which expenses would qualify.

Other Options for Paying for Long-Term Care

Unless you qualify for Medicaid, you could find yourself shouldering significant and unexpected care costs in retirement. For those who wish to prepare for the possibility of needing uncovered care, there are a variety of ways to insure against a significant loss of assets should long-term assistance be needed.

Below, we review common options people may consider for long-term care coverage and how well they may or may not work.

We are happy to review any of the long-term care funding options that you may be considering for yourself.

Disability Insurance

When considering ways to pay for long periods of care, people often think of disability insurance. While disability insurance can be [an important risk-mitigation tool](#), it does not cover long-term care services. Disability insurance also



provides no benefits when the insured is over age 65, which is when he or she is most likely to need long-term care.

Life Insurance

Under certain circumstances, life insurance can help the policyholder pay for long-term care. These policies are as follows:

- **Combination products:** Some insurance companies are beginning to sell a combined life insurance/long-term care insurance policy, which ensures that the buyer will receive a benefit whether or not they require long-term care. These are relatively new products, and as such have changing features and benefits.
- **Accelerated Death Benefits (ADB):** In some cases, the insured can add an Accelerated Death Benefit rider to their life insurance. This rider allows the insured to receive a tax-free advance on his or her life insurance while still alive, subtracting the amount used for care from the ultimate death benefit paid. Different types of ADBs cover different needs, but they will typically provide a cash advance in the event of a terminal or life-threatening diagnosis, a need for extended long-term care, or a permanent move to a nursing home. The monthly benefit is typically limited to two percent of the policy's face value. ADBs often provide more limited payouts than a traditional long-term care policy.
- **Life Settlements:** At a certain age, policyholders can sell their life insurance policies at present value, potentially using the proceeds for long-term care. However, these settlements are taxable and eliminate the death benefit for heirs.
- **Viatical Settlements:** Terminally ill patients can sell their life insurance policies to viatical companies for a percentage of the death benefit, using the payment for needed end-of-life care. The settlement may be received tax-free. However, no death benefit will remain for heirs.

Long-Term Care Insurance

Long-term care insurance policies reimburse the policyholder a set amount per day to offset the costs of long-term care. Most policies are comprehensive and allow the insured to use their benefit at home or in a wide range of facilities including nursing homes, special care facilities for conditions like Alzheimer's, and hospice. These policies typically differ

in the maximum amount paid or length of time benefits will be distributed, with more benefit translating to a higher premium, and they often have different definitions of what constitutes a qualifying long-term care expense.

These policies offer extensive benefits in comparison to Medicare, but they are often extremely expensive and the amount of premiums paid can be wasted if the insured never requires long-term care. [In a previous Navigator](#), we weighed the costs and benefits of purchasing a long-term care insurance policy, and we encourage you to read about these policies in more depth if you are considering pursuing such coverage.

Private Health Insurance

Most health insurance follows the same rules as Medicare: long-term care services are only covered if they are skilled, short-term, and medically necessary, typically after a hospitalization. If long-term care qualifies for Medicare coverage, private health insurance may pay additional benefits towards those expenses.

Self Insurance

For those with significant savings, it's possible to "self-insure" against long-term care needs simply by increasing the size of your asset base in retirement to account for the possibility of significant long-term care expenses. This avoids the possibility that you could pay expensive insurance premiums for years and never need long-term care, though it does require you to bear all the risk of care expenses.

A recent study from Fidelity estimated that the average couple will need \$280,000 in today's dollars for healthcare expenses during retirement excluding long-term care.⁶ Self-insurance against medical and long-term care needs is an expensive proposition for most families, but it could be the most suitable option for those with substantial asset bases.

How to Find Help

Preparing for long-term care needs is a complex issue, but fortunately there are many resources available to help individuals determine what might be the right option for them.

⁶ <https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs>



The [Federal government](#) offers many resources for people considering their long-term care options through the Department of Health and Human Services. Additionally, there is a wide range of nonprofits and community organizations that can also assist people in preparing for their care needs. [AARP](#) is one of the better-known examples, and their website has extensive resources for care-givers and care-receivers. Depending on where you live, there may also be services in your area through nonprofits or local government that can help you evaluate your needs and options.

There are also many elder care “consultants” available for hire. We would caution readers against retaining one of these consultants without thoroughly researching that consultant’s background beforehand. Many of these consultants may receive commissions to sell specific financial or insurance products and will likely not offer unbiased advice. Some nonprofits and religious and governmental organizations offer advice at an hourly fee and do not earn commissions, and we would generally recommend these types of consultants.

First and foremost, we invite you to discuss your long-term care plan with your Pekin Hardy Strauss advisor. We can evaluate the best options for your unique, personal needs and provide both recommendations for coverage and how to manage any additional premium expenses or savings goals. We can also consider long-term care as a part of a full financial plan. As a fee-only advisor and a fiduciary, we never take commissions for selling financial products or insurance, so you can trust that any recommendation we make is in your best interests. Please schedule a meeting with your advisor if you would like to explore this topic further.

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