

Making sense of long-term care



Understanding the three types of long-term care policies so you can decide which one may be right for you.

An unexpected illness or injury could have a lasting impact on your financial situation, and recent research suggests that an increasing number of people will need long-term care at some point in their lives. If you've had a family member who needed long-term care, you know how quickly those costs can add up.

Medicare covers only limited stays in a skilled nursing home or rehabilitation center, or a limited amount of at-home care. Over time, long-term care expenses can eat away at wealth you may have earmarked for retirement. To better plan for the potential financial risk associated with long-term care expenses, many people opt for long-term care insurance.

Long-term care policies cover the costs of services or support to meet your personal care needs, including help due to a chronic illness or disability associated with aging. Services can range from assistance with day-to-day activities (like bathing, dressing and eating) to skilled care provided by nurses and therapists. Like all forms of insurance, long-term care policies can provide peace of mind and protect against the unexpected. Even if you're wealthy enough to self-insure, a long-term care policy may help you preserve your assets for future generations.

Keep in mind, to receive benefits, many insurance carriers will require that an individual is cognitively impaired or unable to perform two of the six "activities of daily living" (eating, bathing,

getting dressed, toileting, transferring, and continence). In addition, you can request to have long-term care benefits paid directly to the care provider, which can include:

- Adult day care
- Home health care
- Hospice services
- Nursing home care services
- Alternative care services
- Assisted living

Like many other things, the best time to think about long-term care insurance is before you need it. Your wealth management team can help you determine whether long-term care insurance is an appropriate option for your situation, and how it best fits into your comprehensive plan. Below, we discuss three different types of long-term policies and who may benefit from them.

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Three types of long-term care insurance

From stand-alone, traditional policies to hybrid structures that combine life and long-term care insurance, there are several options available. Keep in mind, greater flexibility typically comes with a higher cost.

① Traditional stand-alone policy

What is it?

A stand-alone long-term care policy is a pay-as-you-go, individual plan. You pay premiums for protection that you may need in the future. The premiums may be tax-deductible and are typically the lowest among the three types of policies. Benefits are income-tax free and adjusted for inflation. This type of policy generally requires standard underwriting, meaning you would complete a medical form and exam.

Who is it for?

If you're concerned about cost and want to be able to deduct your premium expenses from your income taxes, a traditional policy may be right for you. Keep in mind, if you never need long-term care services, the money you paid toward premiums is nonrefundable.

② Asset-based life/long-term care policy

What is it?

This type of policy offers a combination of long-term care and life insurance, plus premium flexibility. For example, you can choose to pay a lump-sum premium or pay periodic premiums over a short time period (such as 10 years). If you need long-term care, the death benefits are accelerated and paid out income tax free to cover your qualified long-term care expenses. If you never need the long-term care coverage, the death benefit remains intact and payable to your beneficiaries, just like traditional life insurance, but unlike a traditional stand-alone long-term care policy which is use-it or lose-it.

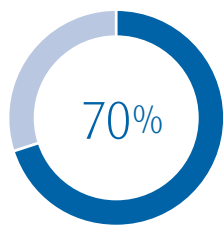
In addition, with many asset-based policies, you can choose to share the benefit with your spouse. Benefits are income-tax free and adjusted for inflation. Underwriting is simplified and does not require a medical exam.

Who is it for?

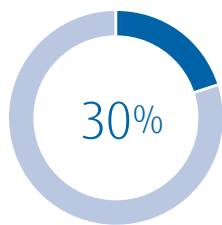
If you're willing to pay a higher initial premium, this form of hybrid policy offers greater flexibility, including a return of your premium if you don't use it, and a death benefit to your heirs. In addition, for those with annuities and cash value life insurance, there may be the option of a 1035 tax free exchange into an annuity asset-based long-term care policy.

Will you need long-term care insurance?

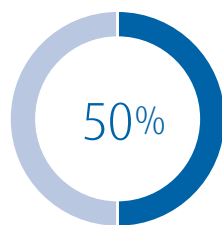
Here are some statistics to keep in mind:



Someone turning age 65 today has almost a **70% chance of needing some type of long-term care** services in their remaining years.¹



One-third of today's 65 year-olds may never need long-term care, but **20% will need it for longer than five years.**²



On average, **an American turning 65 today will incur \$138,000 of long-term care expenses.** Families will pay about **half of the costs** themselves out-of-pocket, with the rest covered by public programs and private insurance.³



③ Life insurance policy with a long-term care rider

What is it?

Similar to an asset-based policy, this type of policy incorporates both long-term care and life insurance. However, it offers greater flexibility of premium payments; you can choose a 1-to-10 year premium structure, premiums up to age 65, or lifetime premium payments. If you need long-term care coverage, your death benefit is accelerated. Then, any unused portion is paid to your beneficiaries in the form of a tax-free death benefit.

A life insurance policy with a long-term care rider is an individual policy that cannot be shared with a spouse. It requires full underwriting, so you'll need a complete medical exam.

Who is it for?

If you want the most premium paying flexibility and are concerned with having a higher death benefit, this type of policy may appeal to you.

Incorporating long-term care into your wealth plan

Long-term care insurance can be an important part of your comprehensive wealth plan. It can provide peace of mind, knowing you will be well cared for in the event you can no longer take care of yourself. And, long-term care policies help ensure that the assets you've accumulated stay in your estate to be used as you stipulate, whether that means passing assets on to your heirs or using them to support a charitable organization or other cause.

Ask your financial professional to help you determine whether a long-term care policy fits within your overall wealth plan. Share details of existing life or long-term care insurance you have, and ask for design options that can help you maximize benefits. Together, you can identify a solution that makes sense for your needs.



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Is a hybrid plan right for you?

Traditional policies have lost much of their appeal in recent years due to rate increases and carriers exiting the market. Here are some of the reasons hybrid plans have taken center stage:

- Flexible payment options, such as lump-sum, limited and lifetime payment plans
- Flexible payment options are guaranteed and cannot go up
- Flexible asset options, such as qualified, nonqualified, cash, annuities, cash-value life insurance policies or income
- Return of unused premiums—up to 100%, depending on the design
- Payment to beneficiaries of remaining death benefits not used for long-term care
- Wider appeal, with simplified underwriting and solutions for individuals up to age 85

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¹ Source: U.S. Department of Health and Human Services: LongTermCare.gov. How much care will you need? Accessed 01/04/2021. <https://acl.gov/ltc>

² Ibid

³ Long-term Services and Supports for Older Americans: Risks and Financing Research Brief. U.S. Department of Health and Human Services. 07/01/2015 (revised February, 2016). Accessed 8/25/18: <https://aspe.hhs.gov/basic-report/long-term-services-and-supports-older-americans-risks-and-financing-research-brief>

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