

# You'll Likely Need Long-Term Care – But How Will You Pay For It?

Chances are that you will need long-term care as you age. Almost 70% of today's 65-year-olds<sup>1</sup> will need some type of long-term care service and support in the remaining years of their lives.

Long-term care can span years and can be expensive depending on the type of care you need and the venue for the care. For example, the cost of a semi-private room in Maryland is \$101,379 a year versus the cost of Home Health Aide of \$45,760 per year<sup>2</sup>. More importantly, the cost of care will be much higher in the next 10, 20, or 30 years when you are paying for care.

## PAYMENT OPTIONS

Many are under the misconception that Medicare or their health insurance will cover the costs of long-term care services. These only pay for long-term care if you require skilled services or rehabilitative care for a limited period of time, and you may still be paying out of pocket, depending on the length of the long-term care stay.

So, what other options are there to cover the expenses for long-term care?

- Pay for long-term care out of your retirement savings
- Take out a long-term care insurance policy
- Buy a life insurance policy with a long-term care rider
- Invest in an annuity with a long-term care rider
- Get a home health care only policy

### *Pay Expenses Yourself*

One option is to pay out of pocket for these expenses from your income and savings if you have significant income and investments. Things to consider in making this decision are:

- How does this impact the lifestyle needs for your spouse?
- Who will be making the decisions at the time you require care?
- Which assets will be sold to pay for care? How does the timing affect the value of your assets?
- What will the tax consequences be?
- How much is enough to self-insure?

### *Purchase Long-Term Care Insurance (LTCI)*

LTCI reimburses a daily or monthly amount (up to a pre-selected limit) to you for services to assist with activities of daily living or for skilled nursing care due to a cognitive impairment.

The policy premium is based on a number of factors: 1) How old you are when you buy the policy, 2) The maximum amount that a policy will pay per day, 3) The number of days (years) that a policy will pay, 3) The lifetime maximum amount the policy will pay, 4) Any optional benefits you choose, such as inflation protection, shared care and 5) Your gender (women pay more with most carriers). You may like a solution that combines insurance and retirement income. Be sure you have the income to cover the premiums over time.

These policies help protect your income and assets from being exhausted by the long-term care expenses. It also gives you the independence to determine where you receive care and enables your family members to supervise the care rather than provide hands-on care themselves.

### *Combine Long-Term Care with a Life Insurance Policy or Annuity*

These options add benefits (or "riders") to a life insurance or annuity contract. It may be attractive to those with concerns of the "Use it or lose it" structure of LTCI, to those who don't qualify for LTCI due to age or health issues, and to those who have assets but lack disposable income.

A life insurance hybrid plan is structured as a Universal or Whole Life insurance policy and requires underwriting. The policy contains a rider that provides tax-free<sup>3</sup> payments in the event you require long-term care. If you never use the long-term care benefit, the death benefit is paid out to your heirs at the death of the owner.



(over)

An annuity/Long-Term Care Contract is a structured series of payments guaranteed for a specified period of time that is normally purchased with a lump sum investment. An annuity may guarantee income for a lifetime, a fixed number of years, or both. It contains a rider that increases your tax-free<sup>3</sup> income in the event you require long-term care. In many cases, the expanded benefit is double or triple the basic annuitized payments.

*Get a Home Health Care Only Policy*

A Home Health Care only policy provides cash payments based on services used. Medical underwriting is not as stringent as LTCI, so this is attractive to those that may not qualify for LTCI based on health or to those who are older and just want some coverage.

The long-term care plan for you could be a combination of a various plans with your retirement income and other sources. GEBA's Consultants can help you navigate the intricacies of the options to find the best plan to meet your needs.

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<sup>1</sup>National Clearinghouse for Long-Term Care Information, available at [www.longtermcare.gov](http://www.longtermcare.gov). <sup>2</sup>Cost of Care 2015 Survey, median costs and projections for Maryland. Genworth Financial, Inc. available at [www.genworth.com](http://www.genworth.com). <sup>3</sup>In accordance with the Pension Protection Act of 2006.