SMART INSIGHTS FROM FINANCIAL PROFESSIONALS

One Of The Big Risks Of Aging? Not Planning For Long-Term Care

By Eric Lahaie, Investment Advisor Representative, RICP®
Co-Owner & Co-Founder JEHM Wealth | Dec 8, 2021

When we talk to people about the importance of planning for long-term care, the most common response we get is, “It’s not going to happen to me,” or, “I’m not going to live in a nursing home.”

But the reality is a long-term care event in your life is quite possible, and the definition of long-term care is broader than living in a nursing home. Basically, it means needing assistance with two of your activities of daily living (bathing, continence, dressing, eating, toileting and transferring). And statistically, 70% of people **over age 65 will need some type of long-term care** over their lifetimes.

So for people who think it’s not going to happen to them, the odds say differently. Therefore, it’s important for people to take into consideration the cost of long-term care and how they’re going to manage that risk.

Unfortunately, health insurance and Medicare don’t cover long-term care expenses. Medicaid will, but only for lower-income Americans. Long-term care is expensive and continually going up. According to Genworth’s annual **Cost of Care Survey**, the cost for facility and in-home services rose an average of 1.88% to 3.8% percent annually from 2004 to 2020. In 2020, the survey showed that the median yearly cost of a private room in a nursing home in the U.S. was $105,850; an assisted living facility ran $51,600; a home care health aide was $54,912.

These are the four choices one can make in managing long-term care risk:

- **Self-insure**. Basically, this means you have enough assets so that if you or your spouse incurs a long-term care event, the money is available to cover those expenses.

- **Rely on friends and family.** For some families, this is a great choice. Maybe the children have bought a home with a second master bedroom on the main floor, so when their parents get to the age when they can’t take care of themselves, they can move into that main floor and the children will be there to take care of them. If relying on your friends and family is your way of managing that risk, I would strongly suggest you talk to them and let them know what your wishes are.

- **Rely on Medicaid.** One of the challenges with relying on Medicaid is you pretty much have to be impoverished to qualify for assistance. Another challenge is that if Medicaid is paying your bills, it will be dictating the type of care you get and who you get it from. A comment we hear from people is they want to leave the house behind to their children. If you end up needing Medicaid assistance, Medicaid will come after your estate after you die and try to get repaid, which means that the house you tried to leave to your children will have to be sold. Medicaid will have to be paid back, and your children may not get much of anything.

If Medicaid is your choice, you need to be proactive and work with an attorney who’s familiar with Medicaid laws that can protect the assets you want to pass on. And you need to get those protections at least five years prior to going on Medicaid assistance. Medicaid has a five-year look-back period, and here’s how it works. Medicaid has an asset or resource limit for those who apply. Medicaid’s look-back period is intended to prevent applicants from giving away assets in an attempt to meet the asset limit. All asset transfers within the five-year window are reviewed, and if the rule was violated, a penalty period is established. But if one gifts or transfers assets prior to the five-year window, there is no penalty.

- **Purchase an insurance product.** You can do this in various ways – a traditional long-term care policy; a form of life insurance with an accelerated benefits rider; or a hybrid long-term care policy that is a combination of life insurance and long-term care insurance.

  With traditional long-term care insurance, one disadvantage is that your premiums are not locked in, and if you cancel the policy, you lose all the premiums you paid in. Most people will buy some form of long-term care insurance when they're in their late 50s and 60s. We typically don't need to use those policies until we're in our 80s, which means we're setting ourselves up for making premium payments, which could increase, for an average of about 20 years. When you purchase the policy, it may be affordable, but 10 to 15 years down the road you may get to the point where you no longer want to make premium payments or can't afford to.

  If legacy is important to you, and you have a need for the death benefit, then a life insurance policy with an accelerated benefits rider may be a good option. It allows you to borrow against the death benefit tax-free to cover long-term care expenses. And then when you pass away, whomever you named as beneficiary gets a tax-free death benefit.

  With a hybrid policy, your premium and benefits are guaranteed and known up front. You can choose to make one premium payment and be done, or spread your premium payments out over a three-year, five-year, seven-year, or 10-year period. Once your premium is all paid, typically you have the option to cancel the policy in the future and get all of your money back. If you're lucky and you never have to use the long-term care benefits, then everything is leveraged up and gets passed on tax-free to your named heirs. Because it's a hybrid policy, even if you use all the long-term care benefits, when you pass away there will still be a tax-free death benefit that gets paid out to your named beneficiaries.

The data shows that we're living longer, and also that as we get older, we start to deteriorate. It pays off to proactively position money so that you have the income if and when you require long-term care.

About Eric Lahaie, RICP®, CFS®

Eric Lahaie (www.jehmwealth.com) is co-owner and co-founder, with his wife, Jennifer Lahaie, of JEHM Wealth & Retirement. He holds the RICP® (Retirement Income Certified Professional) designation and can offer both insurance and securities products. Additionally, he holds the Certified Fund Specialist (CFS®) designation.

Contact information: Email: info@JEHMwealth.com; phone: 864-527-0482; website: www.jehmwealth.com

Dan Dunkin contributed to this article.