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Five Solutions to Funding Long-Term Care Expenses

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According to a recent estimate[1], the number of Americans age 65 and older is expected to increase from around 40 million in 2010 to approximately 88.5 million in 2050. Improved longevity, due in large part to medical advances, helps uphold this trend. But such advances also further shift health concerns from the acute to more chronic illnesses. As a result, the need for long-term care (LTC) is also expected to grow.

According to Genworth's 2017 survey[2], these are the national median *annual* costs of LTC:

- Home health care - $47,928
- Assisted living facility - $45,000
- Nursing home (private room - $97,452, semi-private room - $85,776)

These costs are substantial and increasing. So how should you prepare to deal with this risk? Here are five solutions to fund LTC expenses:

1. **Fund yourself:** This option involves personally retaining the risk. You estimate the future costs of LTC, and then earmark certain portfolio assets for those future expenditures. It sounds simple, but the amount you may need to set aside could be considerable. Even three years of a semi-private nursing room could cost over $250,000 in today's dollars. If you project to have sufficient financial resources available, you may be comfortable relying on this self-funding approach.

   Some might lean toward this path for other reasons. You might believe you have a reduced risk of LTC due to favorable current health and family history. Maintaining healthy habits, such as good diet and regular exercise, arguably can reduce the risk of needing LTC.

   Alternatively, you may have family members who are willing and able to provide care. It's important to communicate well with those family members and consider that your future care could impose a large financial and emotional burden on them.

2. **Purchase insurance:** Given the potential costs of LTC, you can transfer the risk to an insurance company by purchasing LTC insurance[3]. The idea here is to protect the majority of your financial assets while maintaining more control over how those assets are liquidated and distributed.

   Due diligence is needed before purchasing an insurance policy. The first question you might ask is when should you buy insurance? Purchasing in your early 50s can keep costs down and provide a better chance you will be healthy enough to purchase the product[4].

   How much benefit should you buy? This can be broken down into how much daily or monthly benefit you purchase, along with the duration of how long the benefits will pay out. These decisions will be the primary drivers on how much your annual premium[5] will be. Answering this effectively involves a close look at your cash flow plan to understand how much coverage you can afford. It also involves your investment plan because paying premiums means there's an opportunity cost lost by not keeping those same dollars invested.

The insurance products available can be tailored to your budget and needs through various restrictions or optional riders[6]. Business owners and certain individuals may even qualify for additional tax incentives[7] for purchasing LTC policies.

3. **Use housing equity:** This is most commonly done by establishing a line of credit through a Home Equity Conversion Mortgage (HECM) or reverse mortgage, which you can access when a LTC event occurs. A growing body of research[8] suggests strategic use of home equity can improve your retirement income plan.

   While there are a number of ways to use a reverse mortgage in retirement[9], the primary idea in this context is to use it as a contingency fund for future spending needs, such as LTC. Those carrying a traditional mortgage into retirement can also consider refinancing it[10] into a reverse mortgage. This could eliminate your monthly mortgage payment obligation, and the resulting cash flow can be re-deployed to build up financial assets or pay premiums on a LTC insurance policy.

   The main caveat to this approach is that care usually must be based out of your home[11]. For many people, this is fine because they prefer to receive care in the privacy and comfort of their own homes. Extended time living outside of your home (such as in a nursing home) could require a reverse mortgage be repaid.

4. **Join a Continuing Care Retirement Community (CCRC):** CCRCs[12] are becoming an increasingly popular solution for retirees. They are a combination of independent living, assisted living and nursing homes. They may be appealing to those who prefer to live in one place and already have their LTC needs figured out in advance. Others may like them for the social opportunities they offer.

   There are a number of factors to consider when choosing a CCRC[13]. The challenge is they are likely to be the most expensive of your LTC options. Fees can vary considerably by location, community size and services offered. Based on your contract, the upfront fees may be partially refundable. A life care contract[14] may ensure all health care needs will be met even if your personal resources are depleted.

   There are a number of other areas to research in a CCRC you're considering. Is the facility licensed? Is the location practical? Do they have the capability of delivering specialized care should you need it in the future? Discussing all this with family members is recommended. Finally, you must carefully read the contract and admissions agreement to avoid any surprises down the road.

5. **Take advantage of government programs:** For many, this would be a last-resort option. It's important to understand that Medicare provides only a very limited amount of LTC coverage[15].

   Medicaid is the No. 1 financing source in the U.S. for LTC[16]. However, it's not generally the path most would like to take.

Because Medicaid is designed to help those who are impoverished, you may need to spend down personal assets before you can qualify. Going down this path may require legal assistance to execute properly. Medicaid is administered by each state, so specific criteria for qualifying[17] will vary from one state to another.

The solutions described above are not mutually exclusive. It’s often most practical to use some combination of these solutions over time. LTC planning is complex because it involves considering many financial factors while simultaneously navigating an emotional situation. Your advisor can help you carefully weigh the options and develop a plan that is the best fit for you.

Sources:

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