



Protecting wealth from long-term care expenses

Andrew J. Bucklee, CLU[®], ChFC[®], CFP[®]; Michael R. Hamilton, FSA, MAAA; Liz Casals

WHITE PAPER

OVERVIEW

Even though most Americans don't anticipate needing long-term care, statistics show that the majority of individuals will need some form of care in retirement.¹ Protecting wealth from long-term care expenses is an important part of a sound financial strategy. This paper reviews how you may help plan for the rising costs of care and help maintain control of your financial future.

- **Myths of long-term care expenses**

Learn about some common misconceptions and get the facts to help you make smart decisions about these costs.

- **Long-term care funding solutions**

Today, there are a number of solutions that may be used individually or in combination to fit your financial plan. Find out about some of the options available.

Seven years after Bill left his career in engineering, he and his wife, Grace, felt confident about their financial security.* They had saved enough to enjoy their lifestyle, travel the way they always dreamed of doing, and spend time with their children and friends. With a diversified investment portfolio, they were convinced that they were well-positioned to weather any uncertainties ahead of them. Then the unexpected happened. Bill suffered a stroke, and they found his compromised health condition would require a level of care they simply had not anticipated.

Overlooking this key aspect of living longer may leave people vulnerable to a surprising and sudden change in their financial and emotional circumstances. But planning ahead lets families protect their wealth, maintain relationships with loved ones, and achieve better financial outcomes.

The misconceptions about long-term care expenses

Myth 1: It won't happen to me

Most people think that unpleasant things like serious illness are more likely to happen to others than to themselves. As a matter of fact, most Americans believe they won't need long-term care, even though the U.S. Department of Health and Human Services estimates that 70% percent of all individuals turning 65 will need some form of long-term care during their lifetime.² In a recent survey conducted by Lincoln Financial, just over 2 in 10 respondents said they are likely to need this kind of care. And just 1 in 10 have discussed care planning with a financial professional.³ While it's understandable to want to avoid discussing worrisome topics, planning ahead as a family to help protect wealth from long-term care expenses may help loved ones get the care they deserve in the way they want.

Myth 2: Medicare and Medicaid have me covered

Many people avoid conversations about how to address long-term care costs because they think Medicare or Medicaid will pay for all of these expenses. In fact, Medicare does not cover long-term care in the event of an injury. It may cover a portion of skilled nursing facility costs for up to 100 days. And it only provides limited amounts of coverage for certain types of home health care.

To qualify for long-term care benefits under Medicaid, an individual must have limited resources and spend down assets to a diminished state that demonstrates the need for governmental support. Spouses are also capped on the amount of assets they can own and the income they can earn.

There are a number of other drawbacks to relying on Medicaid. When individuals spend down their assets, they incur any resulting taxes. Ultimately, these requirements mean that they may not be able to stay at home, choose where to receive care, meet other financial obligations, or help their family members.

* Hypothetical example.

Products issued by:
The Lincoln National Life Insurance Company

^{1,2} U.S. Department of Health & Human Services, "Medicare & You 2015," www.Medicare.gov, www.Medicare.gov/Pubs/pdf/10050.pdf, revised December 2014.

³ "Managing Long-term Care Risks," Hanover Research and Lincoln Financial Group, October 2014; <https://www.lfg.com/LincolnPageServer?LFGPage=/lfg/lfgclient/rna/rsrch/index.html>.

Myth 3: My family will be able to take care of me

In past generations, spouses and children took care of their loved ones when they needed care. Why can't the same approach work today?

Many spouses plan to and do care for their loved ones when long-term care situations arise, but eventually this outlay of time and energy exacts a cost. Even if one spouse is healthy and strong enough to provide care to the other, that ability may change as the couple ages. And the caregiver spouse tends to suffer from the emotional and physical stress of caring for the other. Studies have found that a woman taking care of her disabled spouse is almost six times as likely to suffer from depression or anxiety than normal.⁴

When a spouse can no longer provide care or needs help providing care, grown children often step in. Yet getting assistance from a grown child with activities of daily living, such as eating, dressing, and bathing, may be uncomfortable, creating a role reversal that affects the entire family. In addition, women caring for parents are twice as likely to experience depression or anxiety as non-caregivers.⁵

One-third of family caregivers spend more than 30 hours per week providing care, which is almost the equivalent of a full-time job.⁶

By contrast, employing a caregiver at home may help the entire family preserve the independence of their parents and their everyday relationships. It also frees family members to supervise the care instead of provide it, and to help maintain thoughtful attention to the financial aspects of care.

Myth 4: That's what my savings are for

Many people expect to pay for long-term care costs out of pocket or with their investment assets. Some people prefer this strategy because they fear wasting the cost of insurance if they never need care. Yet even those with sufficient wealth and retirement income need to realize that paying for care costs out of pocket will likely reduce their total investment assets, which may reduce their income and increase their tax exposure—a painful chain of events. Considering that most long-term care situations last multiple years, the financial impact on their total savings—and their style of living in retirement—may be significant.⁷

The national average fee for a home health aide is \$21.77 per hour, which may quickly add up to \$3,500 per month.⁸ Yet the costs are significantly greater for skilled home health care: The national average fee for a registered nurse is \$79.27 per hour, which may cost nearly \$13,000 on a monthly basis.⁹ And the national cost of a private room in a skilled nursing home is \$97,611 per year, with costs rising to \$147,982 in cities like Boston.¹⁰ Single or multiple instances of home or nursing care within a family may significantly impact the retirement portfolio—and leave a healthy spouse with less wealth to live on.

Most importantly, crafting a well-made plan may prepare the family and provide guidance for a loved one at a critical moment. Should they provide care themselves? Can they afford to get professional help? What would their loved one want, if it's not clear? Talking about the challenge of long-term care costs in advance, and making a sensible financial plan, may help protect the wishes and emotional well-being of the entire family.

The long-term care funding continuum

Fortunately, there are more ways than ever to protect wealth from long-term care expenses. And while these options are presented as distinct choices, they could be blended to suit a range of needs and circumstances.

^{4,5} Press Release (2002, August). Reverberations of family illness: A longitudinal assessment of informal caregiving and mental health status in the nurses' health study. American Journal of Public Health, as quoted in Family Caregiver Alliance, "Women and Caregiving: Facts and Figures," February 2015, <https://caregiver.org/women-and-caregiving-facts-and-figures>.

⁶ Caring.com, Family Caregiver Usage and Attitudes Survey, 2014, <https://www.caring.com/research/senior-care-cost-index-2014>.

⁷ U.S. Department of Health & Human Services, "Medicare & You 2015," www.Medicare.gov, www.medicare.gov/Pubs/pdf/10050.pdf, revised December 2014.

^{8,9,10} LTCG, "2014 Cost of Care Survey," January 2015. For a printed copy, call 877-ASK-LINCOLN.

Forms of insurance

The risks of experiencing a long-term care event such as a stroke, cancer, or dementia are similar to other risks in everyday life, such as having a car accident or house fire. The only difference is that over two-thirds of Americans age 65 and older will actually need long-term care at some point—far more than will experience a house fire.¹¹

Unlike paying out of pocket, with an insurance solution, you may be able to obtain benefits that increase to offset inflation. In addition, buying an insurance policy shifts some of the expenses from a long-term care event to an insurance company, much like a home or auto policy does. Individuals pay into the policy and receive benefits if they encounter a qualified health condition that renders them either incapable of performing at least two activities of daily living or cognitively impaired. Some policies cover all conditions that meet these criteria and are known as long-term care policies. In contrast, some policies focus only on nonrecoverable conditions, such as paralysis after an accident or dementia, and are known as chronic care solutions.

From a financial perspective, insurance provides leverage to a retirement portfolio: When or if individuals need care, the amount they would have paid into the policy is likely to be cents on the dollar compared to the amount they would have paid out of pocket for their care.

Traditional long-term care insurance

Compared to paying out of pocket, traditional long-term care insurance may offer inflation-adjusted coverage for qualified long-term care expenses. It can be an affordable way to attain tax-free reimbursement for qualified long-term care costs. In cases where policyholders die before they need benefits, their families may not recover the money paid into the policy. In addition, premium amounts may rise.

Hybrid insurance

Hybrid, or linked-benefit, solutions combine long-term care coverage with a life insurance policy or an annuity. They suit people who have multiple needs and want greater financial flexibility.

When facing the array of hybrid solutions in the marketplace, it's important for families to focus on their goals. If financial flexibility is a significant concern, families may find a solution that allows return of premium in case another financial need arises. Features such as premiums that will never increase or inflation protection may be more expensive in the short term but may help protect a family's wealth over the long term.

A solution that offers robust life insurance with the option to accelerate some portion of the benefit for a long-term care event may help preserve the financial wellbeing of a surviving spouse or other loved ones should a long-term care event arise.

Matching the hybrid solution to your need

Long-term care coverage with financial flexibility:

- Coverage for recoverable and nonrecoverable conditions
- Qualified long-term care costs reimbursed income tax-free¹²
- Return of premium feature available if individual needs change
- Legacy for loved ones if policy goes unused
- Flexible premium options and inflation protection available

Designed for individuals who primarily want to protect wealth from long-term care expenses but also want financial flexibility.

A robust legacy with long-term care coverage:

- Transfers wealth income-tax-free for loved ones
- May be accelerated to cover cost of chronic or long-term care
- Benefit provided in monthly installments or an income-tax-free lump sum

Designed for individuals who primarily need a wealth transfer solution but also want to protect wealth from long-term care expenses.

One thing to consider: Different long-term care solutions have varying underwriting requirements. For individuals who are not able to meet these underwriting standards, purchasing an annuity and setting aside its guaranteed income stream for long-term care costs may be another option.

¹¹ U.S. Department of Health & Human Services, "Medicare & You 2015," www.Medicare.gov, www.medicare.gov/Pubs/pdf/10050.pdf, revised December 2014; "U.S. Fire Experience by Region," Michael J. Karter, National Fire Protection Association, www.nfpa.org, 2013.

¹² "Based on IRC Section 104(a)(3)."

The advantage of choice

No one can see into the future. So, the smartest way to handle uncertainty is to plan ahead. Working with a skilled financial professional, families can explore the needs and risks that matter most to them and create a personalized plan to protect wealth from long-term care expenses.

About the authors

Andrew J. Bucklee, CLU®, ChFC®, CFP® is senior vice president and head of Insurance Solutions Distribution, responsible for spearheading all aspects of strategy, partnership, client engagement and overall distribution of Lincoln's broad portfolio of wealth transfer and long-term care offerings. He joined Lincoln in 2009 from Merrill Lynch.

Michael R. Hamilton, FSA, MAAA, is vice president and head of Institutional Product Solutions for the Life Solutions segment of Lincoln Financial Group. He has extensive experience in life insurance pricing, product development and product management. He joined Lincoln in 2006 with the acquisition of Jefferson Pilot.

Liz Casals is head of Market Research & Producer Intelligence at Lincoln Financial Distributors. She has 20 years of research experience, including at Stanford University and the Institute for the Future. She joined Lincoln in 2013.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May lose value (variable products)

©2015 Lincoln National Corporation

LincolnFinancial.com

Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates.

Affiliates are separately responsible for their own financial and contractual obligations.

ICC15LCN1198467
POD 10/15 Z01

Order code: LFD-WP-WPR001



Talk with your advisor today.

Take charge of your future by starting the planning process. Ask your advisor about Lincoln wealth protection strategies that may help you protect your savings, your loved ones and your financial independence.

The purpose of this communication is the solicitation of insurance. A licensed agent/producer may contact you.

Important disclosures:

Lincoln Financial Group® affiliates, their distributors, and their respective employees, representatives and/or insurance agents do not provide tax, accounting or legal advice. Please consult an independent advisor as to any tax, accounting or legal statements made herein.

Annuity policies may involve market risk, including possible loss of principal.

Hybrid policies are universal life policies or annuities with optional long-term care benefit riders. The policies and riders have exclusions, limitations, and/or reductions. For costs and complete details of the coverage, call or write your agent/producer.

Products issued by The Lincoln National Life Insurance Company, Fort Wayne, IN.

For use in states where products are available under the Interstate Insurance Product Regulation Commission (IIPRC).