PLANNING FOR QUALITY CARE AND INDEPENDENCE

Why you need to plan for long-term care assistance, and what funding options are available.

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LONG-TERM CARE COSTS

Regardless of the setting, the cost of long-term care can add up quickly.

Long-term care typically occurs in three settings: at home, in the community or in a residential facility. It can range from light housekeeping to round-the-clock nursing care. As this chart shows, all forms have associated costs that, over time, could alter your financial outlook.

2021 Long-Term Care Costs[1]

	Type of care	National median monthly rate	National median annual rate	Change since 2020[2]	Five-year annual growth[3]
Home	**Housekeeping[4]:** Hands-off help with household tasks, such as cooking, cleaning and running errands.	$4,957	$59,488	10.64%	5.39%
	Health aide[4]: Hands-on personal care with activities of daily living, including bathing, dressing, eating and toileting.	$5,148	$61,776	12.5%	5.92%
	Skilled nursing: Hands-on medical care requiring a registered nurse, licensed practical nurse and/or licensed vocational nurse to provide services like administering medication, wound care, rehabilitation and IV therapy.				Cost per visit $87.50
Community	**Adult day care[5]:** Social and support services in a community-based, protective setting; designed to offer socialization, supervision and structured activities; personal care, transportation, medical management and meals may or may not be included.	$1,690	$20,280	5.41%	2.78%
Residential facility	**Assisted living[6]:** Personal care for activities of daily living, as well as limited health services; not as extensive as skilled-nursing care; often an alternative or intermediate level of care.	$4,500	$54,000	4.65%	4.40%
	Skilled nursing[7]: Medical care in a clinical setting for acute, chronic and rehabilitative conditions; personal care for activities of daily living; highest level of supervision outside of a hospital.	**Semi-private room**			
		$7,908	$94,900	1.96%	2.93%
		Private room			
		$9,034	$108,405	2.41%	3.25%

[1]Reference: Genworth Cost of Care Survey 2021

[2]Represents the year-over-year growth rate based on the Genworth Cost of Care Survey. This rate can be influenced by a number of factors, such as random variation in samples, different sample sizes and new surveyed providers.

[3]Percentage increase represents the compound annual growth rate for surveys conducted from 2017 to 2021.

[4]Based on national average daily rate at 44 hours per week for 52 weeks.

[5]Based on national average of $75/day rate for five days a week.

[6]Based on 12 months of care, private, one bedroom.

[7]Based on 365 days of care.

States Considering Implementing Long-Term Care Tax

In Washington State, those who do not have a private long-term care policy are now subject to an income tax – even though Washington does not have a regular state income tax!

Thirteen states in the U.S.—including California, New York, Pennsylvania, Illinois, Michigan, and Minnesota—are considering taxing those without a long-term care insurance policy.

In Washington, where the mandate has already passed, residents were given a grace period to purchase a long-term care insurance policy to avoid the payroll tax of 58 cents on every $100 earned.

The launch of this program was originally planned for January 2022, but it has been delayed. Critics have cited problems with the payroll deductions for the program, which has now been pushed back to July 2023, with benefits only becoming available in July 2026. At present, thirteen states have voiced their support for the new long-term care tax.

What happens if one doesn't have a long-term care insurance policy? Such individuals may qualify for the state-supplied benefit, which allocates $36,500 for lifetime extended care needs. Still, this will not be enough to cover the full costs of long-term care needs, especially in places with a higher cost of living, like Washington, where the average cost of in-home care is around $6,700 per month. Additionally, the cost of nursing homes is expected to rise from $12,000 a month to an average of $23,000 per month by 2050. This is hardly enough even cover a few months of long-term care.

How will the tax money be spent? The new long-term care tax is intended to fund the Medicaid program, the country's primary payor of long-term health care expenses. For this reason, other states hope that introducing the new tax will relieve some of the financial pressure on the government-run Medicaid program and provide sufficient long-term care support and services to low-income citizens. Frankly, this is just another way for States to raise money and we expect this to be more widespread.

One key question is whether states give their residents enough advanced notice to obtain long-term care insurance to avoid the tax. For those who are eligible, it can take approximately six to eight weeks to apply and get approved for long-term care coverage. In Washington, many residents ran out of time to obtain long-term care insurance because they were given only a short amount of time to apply.

Another concern among citizens is that the tax is based on a resident's earned income and does not come with a cap. This means that the more money someone earns, the more tax they pay, leaving mid-to-high-income earners worried about the high tax they will need to pay.

We believe that long-term care insurance can be a very valuable tool for protecting both your assets and your lifestyle. While some people may have enough money to 'self-insure' the potential expense can be huge if utilized. Statistically, someone who is 65 today has a 70% chance of needing sometime of long-term care service (longtermcare.gov) and on average this will be for 3 years. The cost of this today can easily exceed $300,000!

We view long-term care insurance as a way to avoid going to a nursing home or facility and have a way to pay to stay at home. The problem is that in many states, including Ohio, insurance is very limited and may be very expensive.

In addition to traditional long-term care insurance, there are so-called hybrid policies which are annuities or life insurance that provide home health care and long-term care benefits.

In 1965, Medicaid was established as a joint federal and state program to provide healthcare to low-income individuals. While Medicaid was primarily designed to provide medical care to children and pregnant women, it also covered long-term care for the elderly and disabled. However, Medicaid was not intended to be the primary source of funding for long-term care, and as the population aged, the strain on the program increased. We view the new tax as a way for states to try and prop up this system.

As the demand for long-term care continues to grow, many states are considering implementing a long-term care tax to help bridge this gap. This tax would be levied on all workers and would be used to fund programs that provide long-term care services to those in need. Proponents of the tax argue that it would provide a stable source of funding for these programs and would help ensure that all individuals have access to the care they need.

Our experienced team will work with you to determine what long-term care asset protection strategy may make sense.   We are monitoring the legislative changes, and this will be something for everyone to take into consideration.

The issue of long-term care funding is a complex and multifaceted one, and there are no easy solutions. While implementing a long-term care tax may help address some of the funding gaps, it is not a panacea. As states continue to grapple with this issue, it is important to consider all of the potential benefits and drawbacks of different solutions and to work towards a system that provides high-quality care to all individuals in need.

2023 · WHAT ISSUES SHOULD I CONSIDER WHEN PURCHASING LONG-TERM CARE INSURANCE?

LTC NEEDS	YES	NO
Are you concerned about outliving your income/assets?	☐	☐
Do you want to protect a legacy to pass to your heirs?	☐	☐
Do you expect to reach an advanced age at which you are likely to need assistance with everyday tasks? If so, consider the following: ■ There are six general categories of activities of daily living (ADLs); assistance with two or more will trigger the activation of benefits under most LTC policies. ■ Cognitive impairments can also trigger LTC benefits, even if assistance with ADLs is not required.	☐	☐
Do you wish to assess your likely need for LTC services? If so, consider the average use of LTC services and your expectations regarding your health and independence, in light of your personal circumstances.	☐	☐
Do you have family who can provide and/or manage your care? If so, consider whether a policy pays for family caregivers and/or covers caregiver training.	☐	☐
Do you need to consider how your family (i.e., spouse or adult children) might be impacted if you require LTC services?	☐	☐

COVERAGE OPTIONS	YES	NO
Do you need to review what your current health insurance does and does not cover, and what gaps may be filled by LTC insurance?	☐	☐
Do you expect to need and qualify for Medicaid? If so, consider the following: ■ Medicaid might cover limited LTC needs. Be sure to review them. ■ A partnership-qualified (PQ) LTC insurance policy could provide asset protection for Medicaid purposes. For every dollar of insurance coverage paid, you could earn one dollar of Medicaid "asset disregard," allowing you to keep more of your assets above the Medicaid threshold. (continue on next column)	☐	☐

COVERAGE OPTIONS (CONTINUED)	YES	NO
Do you need to review the costs of LTC services? If so, consider the average annual costs of different levels of care in your community.	☐	☐
Do you need to review how your age and health affect your eligibility for coverage and pricing? If so, consider the following: ■ Certain pre-existing conditions are a bar to qualification for coverage. ■ Medical underwriting varies by insurer.	☐	☐
Do you want to insure for home health care, adult day care, assisted living, and/or nursing home care?	☐	☐
Do you need help determining what duration and amount of coverage works for you?	☐	☐
Do you want the option to purchase additional coverage in the future?	☐	☐
Do you want reimbursement for home modifications, medical equipment, etc.?	☐	☐

LTC FUNDING ISSUES	YES	NO
Do you have adequate personal savings to fund your anticipated LTC costs? If so, compare self-funding any future costs to paying up-front premiums for LTC insurance. Weigh the impact on your cash flow, asset base, and wealth transfer planning.	☐	☐
Do you have an HSA? If so, you can pay a portion of your LTC premiums from your HSA, based on your age at year-end ($480 up to age 40, $890 up to age 50, $1,790 up to age 60, $4,770 up to age 70, $5,960 over age 70).	☐	☐
Are you married and seeking coverage for yourself and your spouse? If so, explore discounts for married couples.	☐	☐
Does your employer offer LTC insurance, and is it portable?	☐	☐

2023 · WHAT ISSUES SHOULD I CONSIDER WHEN PURCHASING LONG-TERM CARE INSURANCE?

POLICY ISSUES	YES	NO
Do you need to review an insurer's quality? If so, consider the insurer's financial strength, reputation, and customer service ratings.	☐	☐
Could an insurer increase premiums? If so, review the history and frequency of premium rate adjustments.	☐	☐
Could you adjust your benefit amount, elimination period, and/or policy duration to control the costs of the policy?	☐	☐
Do you need to review any restrictions or exceptions?	☐	☐
Do you want inflation protection and/or nonforfeiture protection?	☐	☐
Are you interested in any other riders?	☐	☐
Do you need to determine what benefit payment best suits you? If so, compare fixed daily payments (i.e., cash indemnity) to reimbursement payments, subject to caps.	☐	☐

TAX ISSUES	YES	NO
If you are contemplating self-funding, do you need to examine the potential tax impact? If so, consider how relying on your retirement accounts and taxable portfolio might expose you to ordinary income tax, capital gains tax, Net Investment Income Tax (NIIT), and possible surcharges and/or penalties.	☐	☐
Do you have deductible medical expenses that approach 7.5% of your AGI? If so, premiums paid for a qualified LTC insurance policy can be included with other unreimbursed medical expenses ($480 up to age 40, $890 up to age 50, $1,790 up to age 60, $4,770 up to age 70, $5,960 over age 70). If you itemize, you can deduct unreimbursed medical expenses (including LTC premiums) that exceed 7.5% of AGI.	☐	☐
Do you need to review the federal taxation of benefits paid under an LTC insurance policy? If so, consider the following: ■ Reimbursement benefits paid from a qualified policy are generally income tax-free. (continue on next column)	☐	☐

TAX ISSUES (CONTINUED)	YES	NO
■ Indemnity benefits paid from a qualified policy are income tax-free up to $420 per diem, or your actual LTC expenses, whichever is greater. Payments that exceed the dollar cap, and for which no actual LTC costs are incurred, are included in taxable income. ■ Benefits paid from a non-qualified policy may be subject to income tax.		
Does your state offer tax incentives tied to LTC insurance coverage?	☐	☐

MISCELLANEOUS ISSUES	YES	NO
Do you need to explore alternatives to traditional LTC insurance? If so, consider the following: ■ A linked-benefit life insurance product could offer LTC coverage if there is a need, or a death benefit if the policy isn't used to pay for LTC services. ■ A rider on an annuity could provide LTC benefits in addition to residual value. ■ If you are age 62 or over and want to remain in your primary residence, a reverse mortgage could provide a lump sum or monthly payment, or a line of credit to fund LTC costs.	☐	☐
Do you need to gather your medical history in order to complete your application? If so, be sure to collect full and accurate records in order to provide truthful information.	☐	☐
Do you have an existing permanent life insurance policy or non-qualified annuity that no longer fits within your financial plan? If so, consider whether a 1035 exchange could offer a tax-free transition to a more suitable product.	☐	☐
Are there any other state-specific issues to consider?	☐	☐

LTC OPTIONS

Basics	Advantages	Disadvantages
Self-Insure • Use your portfolio as needed • Use traditional investments and savings • Pay as needed/as you go	• No special rules when using for care • No qualification requirements • May be used as needed	• Potential risk to market value if invested • Earnings need to keep up with increasing cost of care • Timing of sales in volatile markets • May not have enough saved
Traditional Life Insurance • Can be Whole, Universal or Term • Can be lifetime pay with/without cash value build-up • Must go through underwriting	• Known annual out of pocket costs • Immediate benefit • Premiums may end while needing care • Death benefit may be tax-free • Allows assets to be used for LTC needs	• Only pays at death, no value for care • Must qualify for policy • Must be used with another method; self-insure, LTC policy, or hybrid policy • Insured must die for policy to pay benefit
Traditional Long-Term Care • Specialized insurance policy that will pay for care if you are in need of qualified care based on doctor's evaluation • Typically no earnings and can only be used for long-term care needs	• Typically most cost effective means to cover costs of care and most leverage of premium costs • Depending on your state, could qualify for partnership for Medicaid • Premiums may end while receiving care • Money for care is tax-free on qualified contracts, subject to certain limitations	• Premium can be expensive and increase over time • Canonlybe used for care,nocash value or death benefit • Must qualify for policy, most rigorous underwriting • Premiums paidarelostif nocare needed
Annuity Hybrid • Built for long-termcare needs, but remains an asset for your use • Specialized annuity will pay for care if in need of qualified care based on doctor's evaluation • Earnings on annuity usually fixed and amount of insurance is set at onset of contract	• Could have tax-free withdrawals if used for care • Rates and benefit amount known from inception • Premiums remain your asset that can be used for other needs • Contract value may increase each year • Asset value can pass on to heirs	• Large upfront cost • Earnings on annuity may be lower than other investments • Could have surrender penalties,not liquid • Withdrawals prior to 591/2 subject to IRS penalty • May not provide enough death benefit or care benefits as traditional policies
Life Insurance Hybrid • Built for long-term care needs, but remains an asset for your use • Specialized life insurance policy that will pay for care if you are in need of qualified care based on doctor's evaluation. • Allcontract ratesaresetatonset of contract • Potential for higher death benefit if LTC is not needed	• Could have tax-free withdrawals if used or care • Rates and benefit amount known from inception • Premiums remain your asset that can be used for other needs • Premiums are refundable • Potential for higher death benefit if LTC is not needed	• Low/no growthto premiums if canceled • Could have surrender penalties,not liquid • May not provide enough death benefit or care benefits as traditional policies

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