

Ways to prepare for long-term care expenses

One of the highlights of retirement is the sense of freedom it imparts: You get to set your own agenda, and every day can be a Saturday, if you wish. But sometimes as we age, declining health and cognition can mean a loss of independence. For a percentage of people, a standard of care known as long-term care might become necessary.

I can help you with understanding the financial implications of long-term care as well as with implementing potential funding solutions.

What is long-term care?

Long-term care services help individuals with activities of daily living:

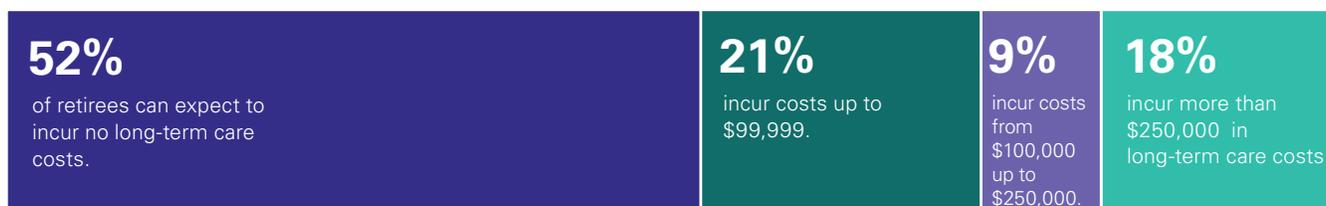
bathing • dressing • toileting • transferring (getting out of a bed or chair) • continence • eating

It's considered *long-term* if someone needs help with these activities for 90 days or more. Long-term care also includes tending to someone with severe cognitive impairment who requires substantial supervision for safety reasons.

How likely is the need for long-term care?

Statistically speaking, most people will never require long-term care. But it's important to talk about and plan for, just in case. In the most extreme instances—which you may have heard or read about—long-term care can prove extremely expensive. Fortunately, these cases are fairly uncommon.

Percentage of retirees by expected long-term care costs for people turning age 65 between 2020 and 2024



Source: Assistant Secretary for Planning and Evaluation Issue Brief, *Long-Term Services and Supports for Older Americans: Risks and Financing 2020*, Table 5.

Planning for the potential need for long-term care is a challenging balancing act: While the probability of needing lengthy, expensive care is small, the impact if you do require it is significant. And yet, earmarking a large portion of your assets for a worst-case scenario would mean cutting back spending on more fun aspects of retirement, such as travel or hobbies.

The truth is there is no simple answer. Unlike ordinary health care costs, which you are certain to incur, long-term care might not be an issue for you (or your partner). Consider the following:

More than half of retirees can expect to pay zero long-term care costs.

About one in five can expect total costs of \$100,000 or less.

Most who require long-term care only need it for two years or less.

Sources: Vanguard and Assistant Secretary for Planning and Evaluation Issue Brief, *Long-Term Services and Supports for Older Americans: Risks and Financing 2020*, Table 5.

Talk about it

To get a better handle on determining your potential long-term care needs, it will be helpful for us, as well as for you and your family members, to explore a few key questions:

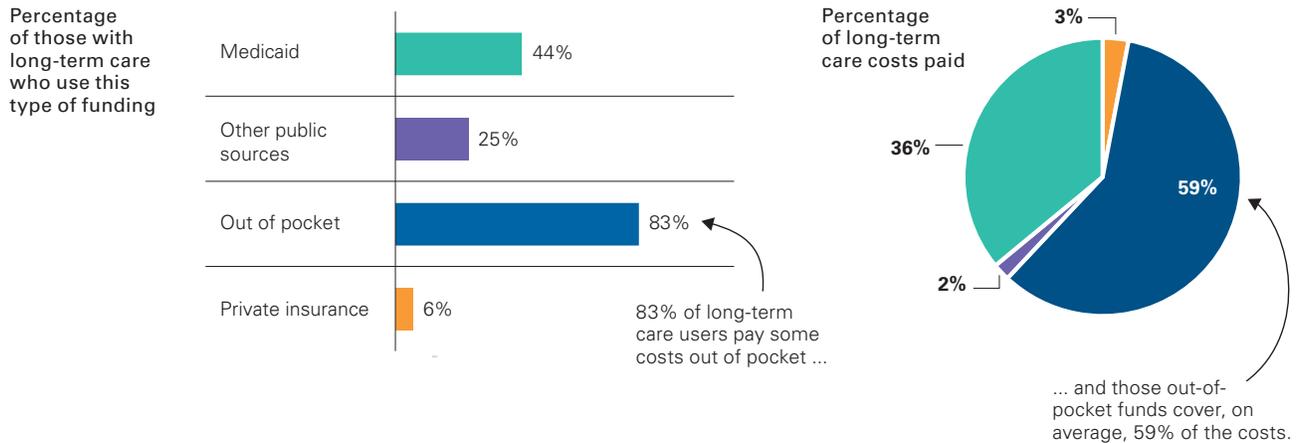
Unpaid caregivers. Do you have a partner, child, other family members, or close friends who would be willing and able to provide long-term assistance for free, if needed? This type of “unofficial” help goes a long way toward containing the cost of long-term care.

Long-term care insurance. What kind of long-term care insurance is available, and will it be suitable? Such policies have historically been expensive, and most have benefit caps that may reduce their usefulness in the most severe scenarios. However, as the market evolves, new policy types may emerge that you'd like to evaluate.

Letting your wishes be known. It's best that loved ones know ahead of time what your preferences would be during a period of long-term care. For instance, if given a choice, would you prefer in-home care or a residential facility, such as a nursing home, where you could receive around-the-clock care?

The majority of long-term care expenses are paid out of pocket

For people turning age 65 between 2000 and 2020



Source: Assistant Secretary for Planning and Evaluation Issue Brief, *Long-Term Services and Supports for Older Americans: Risks and Financing 2020*, Table 3B and Table 5.

Consider funding sources

Reducing expenses

Costs such as travel or traditional housing might shrink or go away completely if replaced by a nursing home stay, for instance.

Nest-egg assets

The biggest source of long-term care funding is private, out-of-pocket spending. It's prudent to plan—as a contingency—on spending from retirement assets to pay some long-term care expenses.

Home equity

You can leverage value from your home as a contingency reserve for large long-term care expenses. Just keep in mind that if you have a partner, you will both have to consider their continued use of the home.

Income annuities

Single-premium income annuities and qualified longevity annuity contracts may be worth considering for some married retirees, not so much as a source of funding for care but rather as insurance for a surviving spouse.

Medicaid

A catastrophic, long-term care event could deplete your assets. In the spirit of planning, it's good to at least understand Medicaid, the government's insurance program for low-income individuals (and certain other qualified groups).

Geography

Give some thought to where you plan to retire. Nursing home costs vary greatly throughout the country, and knowing where you expect to live in retirement may help when considering how much you might need.

Key conclusions

As with regular health care expenses, long-term care costs are highly personalized.

Many complexities determine the cost and duration of long-term care, for instance, whether it's temporary (such as rehabilitation after an injury) or ongoing (such as dementia or some other cognitive impairment requiring constant care for life). In addition, your current health, habits, and family medical history, as well as random events, such as an accident or unexpected diagnosis can all play a role. The important thing is to engage loved ones and trusted professionals in conversation proactively—so you can chart an appropriate course before any need for long-term care arises.

All investing is subject to risk, including the possible loss of the money you invest.

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