

The Impact of Long-Term Care: Are You Prepared?

Summary

- *70% of 65-year-olds will need some type of long-term care services during their lifetime.*
- *The cost of nursing-home care in a private room has surpassed \$100,000/year.*
- *41 million people are providing unpaid care for family members in the United States.*

As alarming as the figures above may sound, many people brush off the potential costs of needing long-term care services and do not have any plan in place. In a survey conducted by The Associated Press, over 65% of respondents aged 40 or older said they had done little or no planning for their own long-term care needs. However, many people will tell you that a lack of planning can impact the entire family when a loved one needs full-time care. While nobody can predict what their health will look like in the future, it is necessary to have a basic understanding of long-term care costs and have the assets in place to potentially cover these costs. Although long-term care may not be the most “fun” topic to discuss like discussing the different investments in your portfolio, it can be the most important type of planning that benefits you and your family years down the road. This article will introduce the basics of long-term care planning and walk you through an illustration to calculate the total potential costs of a long-term care event.

What is Long-Term Care (LTC)?

Long-term care, or LTC, is custodial care received in a nursing home, an assisted living facility, or at home when you are **unable to perform two or more activities of daily living**. These activities include **dressing, eating, transferring, toileting, bathing, and continence**. LTC is also received when you need supervision due to cognitive impairment, such as Alzheimer’s or a Stroke. There are three common reasons why people may be unable to perform the activities of daily living and qualify for LTC: **(1)** they may have an illness such as cancer or a stroke that requires full-time attention; **(2)** they may obtain some sort of injury that severely limits their mobility and ability to function independently; **(3)** natural aging may require an individual to receive supervision, especially if they have a cognitive impairment such as Alzheimer’s or Dementia. Ultimately, there are a wide range of reasons why you may need LTC, and it is important to recognize that anyone can develop one of the issues listed above at any time.

What Are the Specific Costs?

Monthly Median Costs: *National (2020)*

In-Home Care	Community and Assisted Living	Nursing Home Facility
Homemaker Services ¹	Adult Day Health Care ²	Semi-Private Room ²
Home Health Aide ¹	Assisted Living Facility ³	Private Room ²
\$4,481	\$1,603	\$7,756
\$4,576	\$4,300	\$8,821

Understanding LTC costs is the first step in planning for it. The chart above shows the monthly median costs for the three types of LTC services: **(1) in-home care, (2) community and assisted living, and (3) a nursing home facility**. Nursing homes are the most expensive form of care with an average cost exceeding \$100,000 annually in the U.S., while in-home care and assisted living facilities are half that amount on average. However, nursing homes include the costs of skilled nurses and trained medical staff that are not provided for at an assisted living facility. In addition, in-home health care costs do not include household expenses such as food and other conveniences that are fully provided for at a nursing home. Furthermore, many family members take time off work to help a loved one at home, and the lost income they incur is not added to total LTC costs. While the costs above may vary between different states, these numbers provide a foundation that you can use to begin planning.

How Long Does the Average Person Need LTC?

Determining when and for how long you may need LTC will also help you plan for it. Although LTC may be required at any age, the average claim is typically made between ages 81 and 87. The amount of time that someone will require LTC services varies from person-to-person. Data shows that on average, women will need care for 3.7 years while men will need care for 2.2 years. For LTC claims that last more than one year, the average claim lasts 3.9 years. LTC may be even more prolonged when it involves a cognitive impairment, as the average life expectancy following an Alzheimer’s diagnosis is between eight and ten

years. Ultimately, it is difficult to determine at exactly what age and for how long you may need LTC services, and planning assumptions differ among individuals based on future health expectations. However, a **4-year LTC duration** is assumed for illustration purposes.

Designing Your LTC Action Plan: An Illustration

A “hypothetical” LTC illustration that shows the total potential costs you will incur in the future is one of the best ways to begin planning. There are three steps involved in this process: **(1)** we will list the assumptions needed for the analysis (age/duration of your LTC event); **(2)** we will determine the total future costs of your illustrated LTC event; **(3)** we will take the present value of your total future LTC costs and compare it to your current investment assets to determine how you will come up with the funding for LTC.

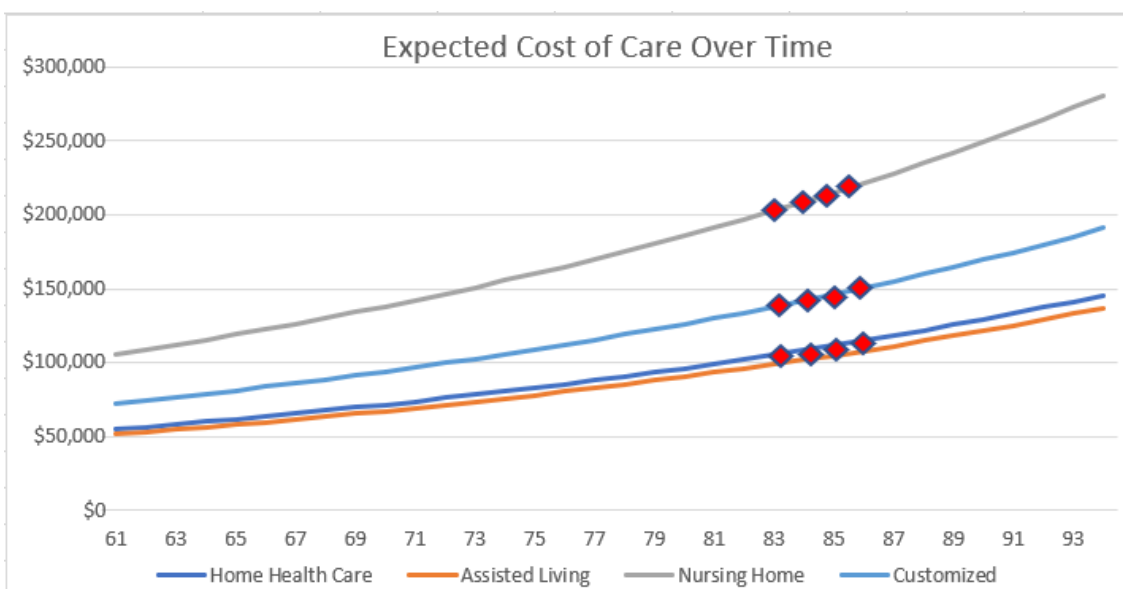
Step 1: Assumptions

Assumptions	
Age:	61
LTC Event Beginning at Age:	83
Years Until Event:	22
Inflation:	3%
Duration of LTC (Years):	4

The first step is listing out all assumptions that will dictate the results of the analysis. For this illustration, we will assume that the client’s current age is 61. LTC will begin at age 83 since this is within the range of when the typical LTC claim is made. Therefore, there will be 22 years until the LTC event takes place. The different types of LTC costs (nursing home, assisted living, and in-home care) will be inflated at 3% each year until LTC begins. Lastly, LTC is needed for an assumed duration of 4 years.

Step 2: The Costs

Type of Care	Current Monthly Cost	Years Until Event	Inflation	Future Monthly Cost	Future Annual Cost
Home Health Care	\$4,576	22	3%	\$8,768	\$105,217
Assisted Living	\$4,300	22	3%	\$8,239	\$98,871
Nursing Home	\$8,821	22	3%	\$16,902	\$202,823
Customized	\$6,000	22	3%	\$11,497	\$137,959



The next step is to determine what the current LTC costs will be in the future when the client needs care. Using the assumptions that LTC will be needed in 22 years and that costs will increase by 3% inflation each year, we are able to calculate the monthly and annual costs when LTC starts at age 83. You will see a “customized” option that costs less than a nursing home but more than home health care to illustrate a

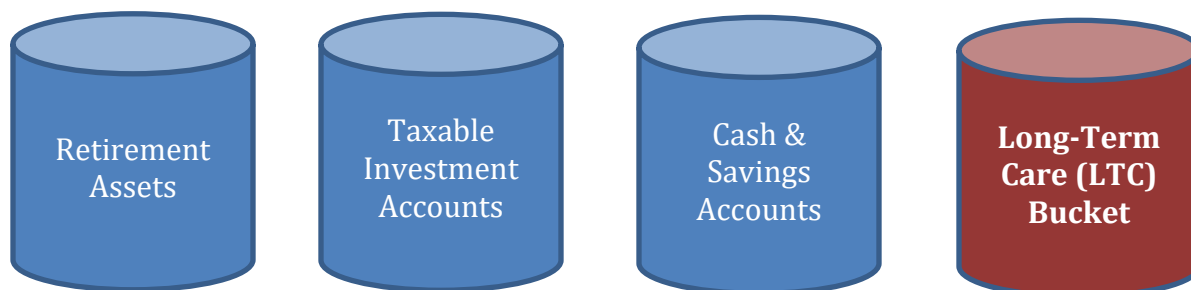
mixture of different LTC costs used over the 4-year event. The chart above also shows four red dots on each line representing the four years that the client will need care starting at age 83.

Type of Care	Future Value of Total LTC Costs @Age 83	Present Value of Total LTC Costs Today
Home Health Care	\$440,189	\$229,731
Assisted Living	\$413,639	\$215,875
Nursing Home	\$848,537	\$442,845
Customized	\$577,171	\$301,221

Once we understand the future LTC costs, we can determine the total cost of the LTC event in both “future dollars” and “today’s dollars”. In future dollars, the client will need \$848,537 to fund 4 years of nursing home costs at age 83. This equates to \$442,845 that they would need in today’s dollars. Once we have this present value estimate of total costs, we can determine if sufficient assets are in place to fund LTC.

Step 3: Determine Funding Sources – Your “LTC Bucket”

Now that we have an estimate of what LTC might cost, the client can determine if portfolio assets are sufficient to cover both retirement living expenses **AND** additional LTC costs. One way to do this is by creating your own “LTC bucket” and determining the amount you need to set aside for LTC purposes in addition to the spendable assets in your retirement plans, taxable investments, and cash/savings accounts. By adding an LTC bucket, you will have specific assets earmarked for LTC purposes and can fund/invest those assets to meet your potential LTC need. From there, the primary question we will discuss is: **where do you hold these LTC assets and how do you invest them?**



Where to Hold Your LTC Dollars?

There are many different places where you can store and contribute LTC funds. You may decide to use a traditional or Roth IRA as the primary funding vehicle. A Health Savings Account (HSA) is another option because it provides favorable tax treatment for qualified healthcare expenses such as LTC costs. However, the one downside of using an HSA is that the contribution limits will reduce the amount you can save. Insuring is another option to supplement or even replace your self-fund plan. There are 3 types of LTC insurance options: **(1) traditional “stand-alone” LTC, (2) life insurance with an LTC rider, and (3) a hybrid Life/LTC policy.** First, traditional LTC is the least expensive and most simple form of LTC insurance. It is referred to as the “use it or lose it” option because premium dollars are solely used to cover LTC costs if you qualify; if LTC is not needed during your life, there is no death benefit or return of premium on the back end. Second, life insurance with an LTC rider is primarily meant for the death benefit, but you pay an additional cost to accelerate or “draw down” the death benefit during your life if you qualify for LTC. Third, a hybrid Life/LTC policy is a combination of the previous two options. Its primary purpose is to provide LTC benefits if you qualify, but it also provides a death benefit on the back end if LTC benefits are never needed.

Conclusion

- Everyone should have a basic understanding of LTC costs and a preliminary plan in place.
- LTC is typically needed between ages 81-87, and a 4-year duration is used for illustration purposes.
- Compare the total value of future LTC costs to your investment assets and determine how you will begin funding your “LTC bucket”.
- Decide where to hold your LTC dollars: traditional/Roth IRA, taxable account, HSA, or some type of LTC insurance policy.

Sources:

1. American Association for Long-Term Care Insurance, 2019 LTCi Sourcebook
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3. Genworth Cost of Care Survey (2020) – Sourced from [Cost of Long Term Care by State | Cost of Care Report | Genworth](#)
4. 100 Must-Know Statistics About Long-Term Care: Pandemic Edition – Sourced from [100 Must-Know Statistics About Long-Term Care: Pandemic Edition | Morningstar](#)

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