CRITICAL THINGS TO KNOW ABOUT LONG-TERM CARE

Don't avoid planning for long-term care (LTC) as part of your retirement plan, because it's very likely you'll need it, and it's very costly.

What Is Long-Term Care?

Long-term care is not medical care, it's "custodial" care. It's receiving assistance with what are called activities of daily living (ADLs), like getting help from someone with bathing, brushing your teeth, using the bathroom, dressing yourself, eating, and getting around. People who become frail or develop a specific health condition, as well as people who develop a cognitive impairment like Alzheimer's, may need long-term care at some point in their lives.

Most People Will Need LTC in Retirement.[1]

While people don't like to think about potentially becoming unable to care for themselves someday, the fact is that approximately 70% of people who have reached age 65 will require help in performing daily living tasks, and 48% will require paid care according to the U.S. Department of Health and Human Services. People are simply living longer, and they must plan how to pay for care as they become elderly, because long-term care is expensive.

How Much Does Long-Term Care Cost?[2]

Long-term care can quickly wipe out even a robust portfolio of retirement savings. Here are a few numbers to illustrate the median cost of care in 2023:

Yearly Median Cost for 2023

Annual Cost of:

- **Private Room in a NursingHome**: $108,408
- **Semi-Private Room in a Nursing Home**: $94,896
- **Private Room in an Assisted Living Facility**: $54,000
- **Home Health Aide**: $61,776

For some states, the cost is even higher.

Longevity Impacts the Cost.[3]

It's important to remember that longevity increases the amount you will need to spend for long-term care, because the longer you live, the more the cost adds up. Women should plan to spend more, since they usually live longer than men. Statistics show that women will need 3.7 years of care versus 2.2 years on average for men. But planning for LTC costs can be difficult because each individual case is different. More than 20% of people needing long-term care will need it for more than five years.

Unpaid Caregivers: The Sandwich Generation.[4]

According to an AARP study, approximately 38 million unpaid caregivers, or 11.5% of the total population, will be caring for loved ones in 2023. This equates to 36 billion hours at an estimated value of nearly $600 billion provided for free, primarily by female relatives.

These unpaid caregivers, sometimes called the "sandwich generation," may find themselves caring for both their children and aging parents at a very high emotional, as well as financial, cost. Juggling between caring for generations of family members can be physically taxing and stressful because it allows less quality time for each person, not to mention the impact of the loss of the caregiver's own career and income.

Isn't Long-Term Care Covered by Medicare?[5]

No, it isn't. It's a common misconception that Medicare covers long-term care, when in reality, Medicaid is the name of the government program that covers it.

Medicare is health insurance coverage for medical needs, not custodial needs. While Medicare may partly cover up to 100 days of a qualified stay in a skilled nursing facility after a medical event, it does not cover LTC.

What's Involved With Obtaining Medicaid for Long-Term Care?[6,7]

Medicaid is a federal program for people who are low-income or have no means or plan in place to cover LTC costs.

It is run by each individual state and is often the only option for obtaining long-term care in a nursing facility. Medicaid is, however, difficult to qualify for, and it's currently a major target for cuts by some political activists.

When you have a loved one in dire need of long-term care, Medicaid can be heartbreaking. Depending on the laws in your state of residence, qualifying for Medicaid may require you or your incapacitated loved one to "spend down" all assets or even sell the family home, leaving you destitute and with nothing to pass down to heirs. Additionally, there is a two-year lookback, so traditional estate planning methods like putting assets in irrevocable trusts can only be undertaken well in advance of need.

This may be one of the biggest reasons to put a plan in place — to protect your family and your assets.

SHOULD I BUY A TRADITIONAL LONG-TERM CARE INSURANCE POLICY?[8]

Traditional long-term care policies haven't performed well. If you buy them when you're older, they are very expensive. If you buy them when you are younger, you may pay your lower premiums for years, then when you reach age 65 be faced with a choice of paying higher premium costs, lowering the LTC benefit amount, or letting the policy lapse altogether because it's become unaffordable. A standalone LTC policy may not even cover 100% of the costs incurred if you do need or use the coverage, as long-term care costs have escalated over time.

Can I Save to Pay for LTC Myself?

You certainly can. Some retirees may be able to use their own investments or personal savings to cover LTC expenses. They could designate and use certain savings accounts, retirement funds, home equity, or other investment income to pay for custodial care as part of their retirement plan.

But paying for long-term care yourself can be too costly for some people as they struggle to pay for day-to-day expenses, beat inflation, save for retirement, pay for their children's college, pay off their debts, and juggle between various financial obligations in the building of their financial wealth and net worth.

Additionally, withdrawing money from retirement accounts such as traditional 401(k)s or IRAs to cover LTC expenses comes with potential tax ramifications since that money is taxed as ordinary income. It's important to consult with a financial and tax professional to understand all the implications.

New Hybrid LTC Insurance Options.

As insurance companies have become more competitive in the last couple of decades, they have begun offering more innovations and optional benefits to cover long-term care costs. Hybrid LTC insurance now offers a viable alternative to standalone traditional LTC policies for the retirement plan in the form of either an annuity or a life insurance policy.

Hybrid LTC policies often provide more flexibility and options for policyholders while eliminating future premium increases. They can serve multiple purposes. Each policy is unique, and it is recommended that you work with a qualified independent financial advisor to compare between various policies offered by different insurance companies, research each insurance company's financial strength, explore your many coverage options, review and compare premium costs, and go through each policy's specific contract terms so that you understand what each policy covers.

ANNUITY WITH LTC

An annuity is an insurance policy designed to provide monthly retirement income. An annuity can be purchased for a lump sum and start immediately, or be deferred and paid for over a period of years to start paying you a set amount of monthly retirement income at a later time. Some annuities, like fixed indexed annuities (FIAs), even have the potential for growth linked to stock market returns while not being subject to stock market risk.

An annuity with LTC is either designed with long-term coverage built in, or the LTC coverage can be added as a rider to the annuity policy. An annuity with an LTC component provides additional funds if at some point the annuity owner develops the need for long-term care. Sometimes the amount of the annuity even doubles to pay for LTC—each policy is unique.

HYBRID LIFE INSURANCE WITH LTC

Life insurance with LTC coverage is permanent insurance which can be purchased at any age subject to medical underwriting. Like an annuity with LTC, hybrid life insurance is either designed with long-term coverage built in, or the LTC coverage can be added as a rider to the policy.

Perhaps its best feature is that if you never develop the need for long-term care, the policy pays a death benefit to your heirs and chosen beneficiaries. This makes it superior to the traditional standalone long-term care policies of years past, which were money wasted if you never needed care.

Life insurance with LTC comes in many forms, including indexed universal life (IUL) which has the potential for growth linked to a market index, but is not actually subject to market risk. Every policy is unique, and you should work with a qualified independent advisor to compare and examine policy terms.

GLOBAL VIEW CAPITAL ADVISORS

Call us today at (715) 298-0313!

215 Grand Avenue | Wausau, WI 54403
Phone: (715) 298-0313
mbehnke@gvcaponline.com

GVCMIDWISCONSIN.COM

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