DON'T LET LONG-TERM CARE BE YOUR FINANCIAL BLINDSPOT

Retirement Income Source®

Don’t Let Long-Term Care Be Your Financial Blindspot

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It’s no secret that Americans are living longer than ever. While that’s great news, it also creates many personal and social challenges. According to the Centers for Disease Control, for a couple in their mid-60s, there is a 50% chance that at least one of them will live into their mid-90s. That means Americans planning to retire in their mid-60s need financial plans that help ensure sufficient income and savings for up to 30 years and account for any potential unforeseen expenses. One of the most significant of these is the necessity for long-term care. Statistics on the subject are telling. According to a report by the Kaiser Family Foundation:[1]

- 70% of seniors will, at some point, need long-term service and support because of a physical or cognitive impairment, and the average length of time that assistance with daily activities is needed, in these cases, is three years.
- Because of the size of the Baby Boomer demographic, the number of Americans needing long-term care will reach an estimated 27 million by the year 2050, more than double the number (12 million) in 2010.
- 48% of people aged 40 or older predict they will need long-term care as they age, but only 35% say they have set aside funds to pay for their long-term care needs.

That last statistic is the most important and relevant to this report, which is intended to illustrate why considering the potential impact of long-term care (LTC) in your income-based financial plan is so important. To put it simply, the impact of a long-term care event on your retirement income could be massive. According to a 2010 study by Genworth Financial, 88% of retirees paying for long-term care said it reduced their household income by an average of 34%.[2]

That number has likely risen significantly in the past 10 years when you consider the current national average monthly costs of various types of long-term care, as determined by the 2024 Genworth Cost of Care Survey:[3]

- In-Home Care: $5,417 (homemaker services), $5,625 (home health aide)
- Community and Assisted Living: $1,847 (adult day health care), $4,917 (assisted living facility)
- Nursing Home Facility: $8,641 (semi-private room), $9,872 (private room)

Again, those are monthly costs, and surveys show consistently that a majority of Americans are ill-prepared to meet them. According to a survey by Mathew Greenwald and Associates, 85% of people don’t have a plan for covering LTC costs, and many agree that long-term care is a “blind spot” in the portfolios of many Americans as they near retirement.[4]

Even with Medicare factored in, the costs of long-term care can be damaging—even devastating—if they are not realistically accounted for in your retirement plan. The old saying, "hope for the best but prepare for the worst," is a sound bit of advice where LTC planning is concerned. But what might that preparation involve?

Long-Term-Care Insurance

Purchasing a long-term-care insurance policy is certainly an option to consider in conjunction with your financial advisor. According to a survey, roughly 72% of Baby Boomers whose parents had long-term-care insurance said they believed it was a good value for many reasons. These included increasing quality of life, ultimately decreasing the family's financial contribution for care, and preserving their parents' nest egg. Among Boomers who didn't have coverage, 71% said they believe it would have benefited their families.[5]

Hard numbers also illustrate the potential value of LTC insurance for many individuals. For example, compared to those without LTC coverage, those with insurance reduce their out-of-pocket care costs by between $3,000 and $5,000 a month (depending on the service setting), according to a study by American Health Insurance Plans.[6] In addition, the average annual cost for LTC insurance is equal to half the amount of one month in a nursing home or one month of professional in-home care.

Tax Breaks

There is more positive news regarding LTC insurance, according to the American Association for Long-Term Care Insurance (AALTCI) advocacy group. Tax-deductible limits for traditional long-term care insurance premiums paid in 2024 have remained almost identical from 2023.

Below are the increased deductible limits on premiums paid for traditional LTC insurance, based on age:[7]

Attained Age Before Close of Taxable Year	2024 Limit
40 or less	$470
More than 40 but not more than 50	$880
More than 50 but not more than 60	$1,760
More than 60 but not more than 70	$4,710
More than 70	$5,880

According to AALTCI, the tax-deductibility of some qualified LTC plans can provide significant value to consumers, especially after they retire when a person's income often declines.

Investing for Income

According to the Employee Benefit Research Institute, roughly 47% of early Baby Boomers (now 56 to 62 and nearing retirement age) are likely to exhaust their retirement savings.[8] Failing to prepare for the potential burden of long-term care costs can be one key factor in that unfortunate statistic. However, in my experience, there is a more common overriding factor: failing to shift one's financial focus from growth and accumulation to protection and income as retirement draws near.

I believe focusing on strategies that help protect your principal assets while generating more reliable income in the form of interest and dividends is one of the most surefire ways to decrease the potential of cannibalizing your nest egg. That's what can happen over time when you are forced to pull money from your principle for any reason, whether it's to satisfy your Required Minimum Distributions or pay for long-term care.

To learn more about "defensive" financial strategies designed to help protect your assets and ensure you'll have sufficient income to cover all your potential needs and achieve your retirement goals, contact our office today for a no-obligation consultation.

Sources:

1. Visualizing Health Policy, Kaiser Family Foundation, Volume 310, No. 8, August 28, 2013

2. Beyond Dollars: The True Impact of Long-Term Caring. Genworth Financial. September 30, 2010.

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4. John Hancock's online survey conducted September 2011 by Matthew Greenwald & Associates, Inc.

5. Mathew Greenwald & Associates, Market Research Survey, 2010

6. America's Health Insurance Plans, "The Benefits of Long-Term Care Insurance and What They Mean for Long-Term Care Financing," November 2014

7.https://www.aaltci.org/news/long-term-care-insurance-association-news/2024-tax-deductible-limits-for-long-term-care-insurance

8. ltcconsumer.com

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