

The Cost of Long Term Care

2022



Understanding the Cost of Long Term Care 2022



SOME [PEOPLE] BELIEVE MEDICARE WILL COVER LONG TERM CARE EXPENSES - A COSTLY AND INCORRECT ASSUMPTION.

We plan for retirement – it's just a part of life. Yet we do very little to plan for a long-term care need. And that's something that could literally wipe out the retirement savings Americans have worked so hard for.

Planning before actually needing care is a wise approach and knowing what to expect when it comes to overall costs is a good place to start.

There is no way to stop the aging process – at least not yet. But when it comes to long-term care planning, many people take a wait-and-see approach. They don't want to think about the possibility of needing extended care or how they plan to pay for that care. Some assume they can't afford an insurance plan so just leave it to chance or their children. Others believe that Medicare will pay for it – a costly and incorrect assumption. Once people face the reality, it is often too late to plan due to health issues or financial resources.



Issues That Impact Long Term Care Costs

The cost of long-term care continues to rise and there are several reasons why that is not expected to slow down anytime soon:

- A large population of aging baby boomers needing care
- Long term impacts of COVID

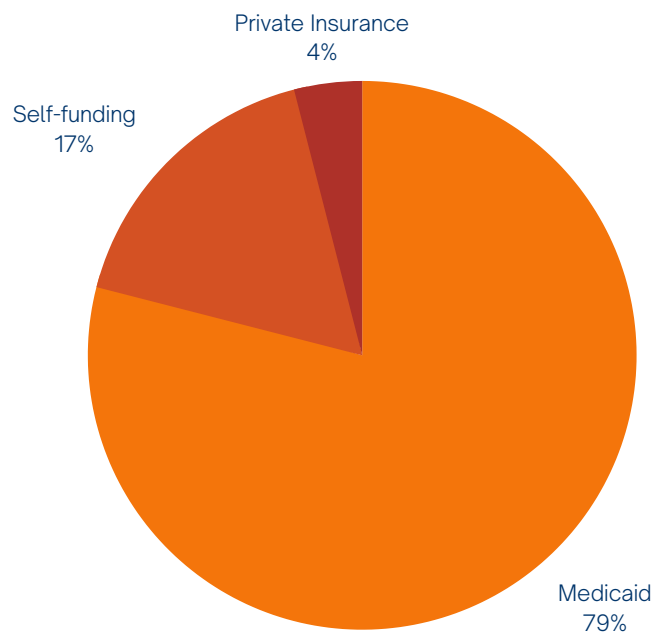
- Shortage of qualified home health care workers
- Wage increases for professional care providers

Let's take a look at the different ways that care costs are paid and then look at a recent study that reflects estimates of future care.

Who Pays for Care?

Unpaid Caregivers

There are roughly 53 million unpaid caregivers in the United States. These caregivers are providing billions of hours of care to their loved ones. According to a 2021 study by AARP, the imputed value of this care, or the amount that it is worth if each caregiver were to receive compensation, is approximately \$470 billion per year. In addition to giving their time, however, the study reports that on average, caregivers spend 26% of their personal income on caregiving expenses.



- Medicaid: \$273 billion
- Self-Funding: \$60 billion
- Private Insurance: \$12 billion

Who Pays For Care?



Medicaid

Medicaid is the primary payer for institutional and community-based long-term care services and supports (LTCSS) covering an estimated \$196.9 billion in care costs. However, there are specific asset qualifications that a person must meet to qualify for these dollars that can have a significant impact on lifetime savings. For instance, an individual applicant is permitted countable assets valued up to approximately \$2,000 (varies by state). With couples, the most the

healthy spouse can keep is just under \$140,000. The rest of the assets must be spent down to the approximately \$2,000 amount. Assets of a couple count, regardless of which spouse's name the assets are in, and a pre-nuptial agreement doesn't change this.

Self-Funding

Americans are spending approximately \$60 billion to self-fund their extended care. Self-funding care means that you are prepared to absorb all the risk for your long-term care costs. In other words, you are prepared to pay full price for your care. There is no risk pool to help absorb the costs, but you also aren't paying premiums for benefits that you may never use. You maintain full control over the dollars you would have used to pay for insurance. However, you will use savings left over after taxes and investment fees to fund your care. People who do not choose to self-fund the entire risk generally do so for three reasons:

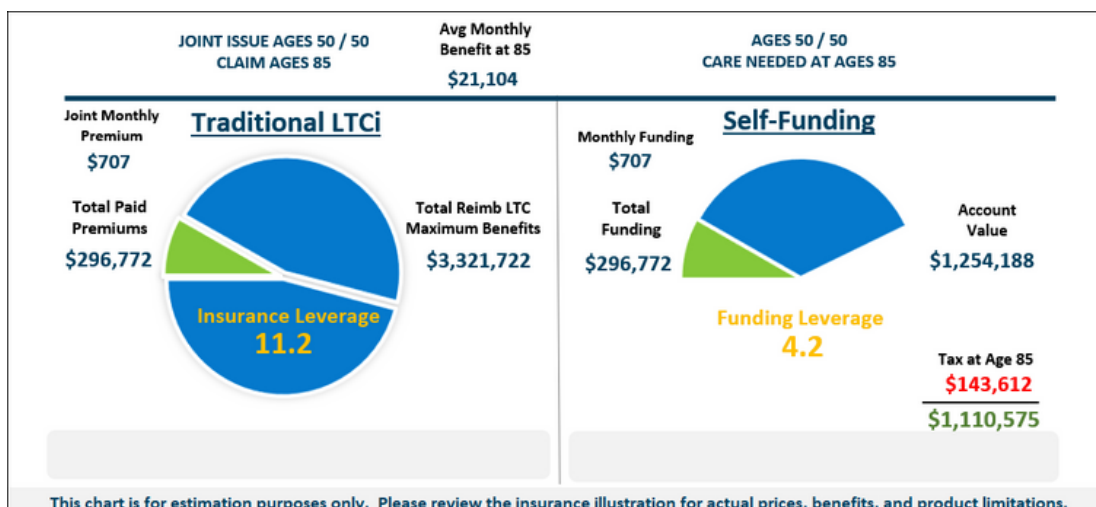
1. Insurance products leverage self-funding dollars and make them last longer
2. Tax incentives may be associated with some insurance products
3. The desire to have an earmarked LTC fund to make access easier for family members when care is needed.



Long-Term Care Insurance (Private Insurance)

Approximately 7.5 million Americans have long-term care insurance. In 2021, the long-term care insurance industry paid out more than \$12 billion in claims. When you purchase long-term care insurance you are benefiting from a risk pool which makes it advantageous when you consider premium paid versus total benefits available.

In the example below, you can see how a long-term care insurance plan provides almost \$11 for every premium dollar. Self-funding at a robust return averaging 7 percent provides only \$4 for every dollar saved. Further, the self-funding dollars will be reduced by taxes and investment fees.



Cost of Care Survey

According to the Genworth Cost of Care Survey, below are the current **median** monthly cost estimates and projected costs after 25 years. Keep in mind that costs vary widely by state and even city. (Note: “Median” means half cost more and half cost less. These numbers do not reflect upscale assisted living and nursing facilities.)

The Cost of Long Term Care		
Care Type	Monthly Cost	Projected Cost in 25 Years*
Assisted living facility, private, one bedroom	\$4,500	\$15,000
Adult Day Health Care	\$1,690	\$5,700
Home Health Aide Services	\$5,148^	\$16,600
Homemaker Services	\$4,957	\$16,000
Nursing Home Care (semi-private)	\$7,908	\$26,700
Nursing Home Care (private)	\$9,034	\$30,500

*Projected monthly cost in 25 years based on 5% inflation
^ 6 hours per day

Projected Total Cost

The average time a person spends in long term care is 2.5 years, but for people who need care for longer than a year, the average is 4.4 years (men average 3.8 years and women average 4.7 years.) This includes home care, assisted living facilities, and nursing homes. Studies indicate that people aged 65 and older survive an average of four to eight years after a diagnosis of Alzheimer’s, yet some live as long as 20 years.

Since care is typically blended between care locations, e.g. some at home and some in a facility, let’s use the cost of an upscale assisted living facility to project future costs for both types of averages. The cost of the upscale assisted living facility can be derived by adding \$1500 a month to the median cost of \$4500 a month. This amount of \$6000 should also provide for a significant amount of home care, perhaps 7-8 hours per day.

Source: Genworth Cost of Care Survey 2021. Check your area online or by downloading the full report.
<https://www.genworth.com/aging-and-you/finances/cost-of-care.html>
<https://pro.genworth.com/riiproweb/productinfo/pdf/131168.pdf>

Projected Total Cost of Care				
Care Type	Current Total Cost of All Claims*	Projected Total Cost in 25 Years*	Current Total Cost if care > 1 year^	Projected Total Cost in 25 Years if care > 1 year^
Upscale Assisted Living Facility, private, one bedroom (\$6,000/month)	\$180,000	\$609,500	\$312,000	\$1,050,500

*Average is 2.5 years
^ Average is 4.4 years

A Short Story About Planning

Ida knew the time had come. Her husband, George, had been in declining health for several years as he battled Alzheimer’s. Ida was finding it increasingly difficult to manage his needs even with the help of their adult children. George required round-the-clock care.

Now in their early 70s, Ida and George had planned for this day for almost two decades. When George was first diagnosed, the family was prepared to coordinate their schedules to help him. As his condition progressed and it became clear that George needed the help of home health aides, the decision years ago to purchase long-term care insurance was an enormous relief.

At the time they started planning, the annual cost for an assisted living facility was \$20,000. Now, the average cost for that same facility is nearly **\$54,000** per year, but George’s cognitive care will cost more. Further,



A Short Story About Planning

the cost is projected to grow at approximately 5 percent per year. George and Ida purchased a long-term care insurance policy with inflation protection at a time when they were younger and healthier.

The impact that their benefit dollars will have on their overall retirement savings is significant. The result of planning when they were still healthy meant that they were able to qualify for meaningful coverage at a rate they could afford over the long term. It was a decision that gave them access to a greater pool of benefit dollars than if they had tried to self-fund their care. For this couple, their long-term care insurance plan provided their family with peace of mind at a sensitive time. Ida is especially grateful for the burden it takes off their adult children.

Planning for care well before you need it can have a profound impact on overall cost, your care options, and your family's peace of mind.

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The Human Toll



THE OTHER COST OF NOT HAVING LONG TERM CARE IS THE HUMAN COST IN MANAGING STRESS, LOST WAGES, AND JOB INSECURITY DUE TO CARING FOR A LOVED ONE WHILE ALSO MAINTAINING A FULL-TIME JOB.

The direct cost associated with long-term care isn't the only consideration. It is also about the human cost in managing stress, lost wages, and job insecurity due to working caregivers having to take off or go to work late or leave early. Some wind up leaving the workforce, even though their income is needed for household expenses.

Other significant points from a recent survey* are:

- Although the average caregiving time is 4.5 years, 1 out of 3 caregivers reports providing care longer than 5 yrs.
- 1 in 5 caregivers provide 41 or more hours of care a week (full-time job)
- 36% report emotional strain/stress
- 61% report impact on work



**Source: Caregiving in the United States; National Alliance for Caregiving in collaboration with AARP. May 2020
Caregiving in the US 2020 | The National Alliance for Caregiving*

Impact of COVID on the Cost of Long Term Care

It remains to be seen what impact COVID will have on the need for long-term care services, particularly with the uncertainty around long COVID.

According to a recent study, the following factors are contributing to the rising cost of care:

Other factors affecting the cost of long term care



Labor Shortages

Employee
Recruitment and
Retention
Challenges

Personal Protective
Equipment (PPE)
Costs

Wage Pressure

Regulatory
Changes, Update
CDC Guidelines

Supply and
Demand

Planning Can Impact Future Costs and Options

Planning for an extended care event is a personal choice. Living a healthier lifestyle can certainly help you avoid needing care at a younger age; however, anyone can have a serious accident that leads to extended care. But as you age, the more likely you are to need care. A recent study reports that a healthy 65-year-old male/female couple has a 44% chance (male) and 56% chance (female) of needing some form of long-term care if they live to their projected life expectancy. Can you see how planning today may give you more options in the future? For instance, if you were to purchase long-term care insurance, you would benefit from a risk pool that gives you a greater benefit per dollar than self-funding. In addition, you're more likely to be able to qualify for long-term care insurance the younger and healthier you are when you apply.

A HEALTHY FEMALE HAS A 56% CHANCE OF NEEDING SOME FORM OF LONG TERM CARE IF SHE LIVES TO HER PROJECTED LIFE EXPECTANCY.



IF YOU WERE TO PURCHASE LONG TERM CARE INSURANCE, YOU WOULD BENEFIT FROM A RISK POOL THAT GIVES YOU A GREATER BENEFIT PER DOLLAR THAN SELF-FUNDING.

Source Odds of needing care: "Long-Term Care and Financial Planning", HealthView Services, June 2021

Questions to Consider

Where do you plan to retire?

Are you planning to move out of state?
Will you have any family nearby who might be able to assist with your care?
Cost of care can vary dramatically by state.

What impact will needing extended chronic care have on your income?

What will happen to your income should you or your spouse require extended care while one or both of you are still working? Relying on Medicaid to pay for long-term care means that you and your spouse will be subject to



asset thresholds that can wipe out most of your retirement savings.

Note: Ask your insurance professional about a special long-term care insurance policy that allows you to keep your assets equal to the benefits paid out, with no limit if the insurance isn't enough and you have to turn to Medicaid to pay your bill.

What impact will needing extended chronic care have on your assets?

Retirees typically use assets for income. What would spending a significant amount of your assets on long-term care do to your income?

Questions to Consider

What type of care do you prefer?

Do you want the option for home health care? Would you want to be able to use less costly informal caregivers? Do you want the option for a really nice assisted living facility, sometimes referred to as a “country club” assisted living facility?

What can you comfortably afford over the long term?

If you’re considering long-term care insurance, meaningful coverage can have many benefits. Make sure that

whatever plan you choose, you can afford it for the long term. A nice feature of many plans is that the premium is waived when you start receiving benefits. Some plans have guaranteed premium, so you never have to worry about a rate increase.

SOME PLANS HAVE GUARANTEED PREMIUM, SO YOU NEVER HAVE TO WORRY ABOUT A RATE INCREASE.

For More Information

To speak with a long-term care planning specialist about creating your own long-term care plan, visit [Long Term Care Insurance | TrustPARMA.](#)

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