

May 15, 2023 – Wealth Planning Commentary

### The looming cost of long-term care

The statistics tell us that 70% of people 65 or older will need long term care (LTC). Long-term care is typically for those unable to perform the basic activities of daily living, such as dressing or bathing. The unfortunate reality of aging in America today is how expensive medical costs can be, especially LTC. According to Genworth, in 2023, the average cost of a private room in a nursing home is \$119,500 a year but varies significantly by state. The most expensive LTC is in Alaska and is estimated to cost \$415,000 a year.

Medicare and most health insurance plans do not cover LTC. Some can afford to fully fund the costs by withdrawing from investment and savings accounts. Others have long term care insurance. Some elderly without resources may be able to rely on Medicaid. In between are clients who can afford to maintain their lifestyle throughout retirement but cannot fund long-term care.

During our planning process, we assume that at least one spouse will require long-term care for the last three years of their life. The probability that *both* spouses will require long term care is about 25%. If a couple is considering long-term care insurance these statistics make a case for a joint policy, which are typically less expensive than two individual policies. Insurance is one way to fund the costs. Other options include selling a residence, a reverse mortgage if one spouse is still living in the house, contributing to a Health Savings Account (HSA) over time, investing in a 'Synthetic Annuity' (a low-cost variable annuity with flexible terms), adding a long-term care rider to an existing life insurance policy to name a few.

Several states are attempting to help with long-term care funding. Washington state has a long-term care program called WA Cares. Benefits are scheduled to go into effect starting July 2026 at \$36,500/person, adjusted for inflation. The WA Cares program is funded through a payroll tax of 0.58% that starts in July. An employee may opt out of the tax if they are insured for LTC. California, Minnesota, New York, and Pennsylvania are considering public long-term care insurance programs.

If long-term care costs aren't enough to plan for, there may also be other housing costs in the later stages of life. Continuing Care Retirement Communities (CCRC) are developments that have apartments for independent living as well as assisted living facilities. CCRCs may help make the transition to long-term care easier. However, these apartments can be pricey, with an average buy-in fee of over \$300,000 and an average monthly fee of \$3,353.

Please reach out to your wealth manager with questions on planning for long-term care costs.

#### Disclosures

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