Insured Retirement Institute

The Long-Term Care Challenge

Developing a Plan Can Lead to Greater Confidence

November 2012

About the Insured Retirement Institute: The Insured Retirement Institute (IRI) is a not-for-profit organization that for twenty years has been a mainstay of service, commitment and collaboration within the insured retirement industry. Today, IRI is considered to be the authoritative source of all things pertaining to annuities, insured retirement strategies and retirement planning. IRI proudly leads a national consumer education coalition of nearly twenty organizations and is the only association that represents the entire supply chain of insured retirement strategies: Our members are the major insurers, asset managers, broker dealers, and more than 150,000 financial professionals. IRI exists to vigorously promote consumer confidence in the value and viability of insured retirement strategies, bringing together the interests of the industry, financial advisors and consumers under one umbrella. IRI's mission is to: encourage industry adherence to highest ethical principles; promote better understanding of the insured retirement value proposition; develop and promote best practice standards to improve value delivery; and advocate before public policy makers on critical issues affecting insured retirement strategies and the consumers that rely on their guarantees. Visit www.IRIonline.org today to experience the vast resources of the Insured Retirement Institute for yourself.

With an aging society, the need for long-term care will grow. According to the Census Bureau, the number of individuals age 85 and older is projected to increase by 52% over the next 20 years. Census data also show that individuals age 80 and older are most at need for long-term care. In 2010, 71% had a disability, 56% had a severe disability, and 30% only needed some assistance with daily living. Another study shows among individuals age 65 in 2005, 69% will experience a need for some type of long-term care during the balance of their lives with the average duration of needed care reaching three years. IRI data shows that most Americans find these figures intimidating. Only 24% of Baby Boomers and 28% of Generation Xers (Gen-Xers) are extremely or very confident they will have enough money to cover their own long-term care expenses.

In addition to planning for their own long-term care needs, many American families are struggling to cope with the long-term care needs and expenses of their parents. IRI has found that confidence levels are even lower regarding the ability to meet the long-term care costs of parents. Among Boomers, IRI found that only 14% are extremely or very confident they will have enough money for the long-term care expenses of their parents and only 21% of Gen-Xers have that confidence.

The long-term care issue is not all doom and gloom. As with most aspects of life, these costs can be managed with proper planning. In fact, IRI has found that confidence levels increase when working with an advisor to develop a plan to meet the costs of long-term care. Among Boomers, for example, IRI found that confidence levels in having enough money for long-term care costs increased about 58% for those who work with an advisor.

This report will present data on the costs involved with long-term care. It will examine confidence levels among Boomers and Gen-Xers, noting the particular concerns for women regarding long-term care. The report concludes with an overview of various government programs and financial products to help individuals cover the costs of long-term care.

Key Findings

- Working with an advisor does have positive effects on confidence levels regarding long-term care costs. For example, IRI found that among Boomers who work with an advisor, 30% are extremely or very confident they will have enough money to pay for their own long-term care costs compared with only 19% who did not work with an advisor.
- Confidence in meeting long-term care costs appears to decline with age. IRI has found that Boomer confidence in meeting long-term care costs for themselves and for their parents is lower than for Gen-Xers. This trend was detected across all sub-demographics, including gender, marriage status, and income level.
- Confidence in meeting long-term care costs is lowest for women, those making less than $30,000, and those not married.
- There is an enormous range in cost differentials among long-term care services. For example, the costs of a private-room nursing home stay are 497% higher than adult day-care services. Geographic location has a large impact on costs as well. The average annual cost of a private-room nursing home stay in Alaska ($250,755) is almost five times the cost as in non-metropolitan Oklahoma ($53,655).
- For women, long-term care costs are particularly challenging. IRI's research report, *Women and Retirement: Overcoming Retirement Income's Challenges Facing Women*, shows women have greater longevity and are more likely to live into advanced ages,

when the likelihood of needing long-term care services is greatest. Census data show that individuals age 80 and older are most at need for long-term care.

- Among women, confidence levels vary. For example, IRI found only 12% of Boomer women are extremely or very confident they can meet the long-term care costs of their parents compared with 21% of Gen-X women.

What Is Long-Term Care?

Long-term care is a general term that refers to services and assistance provided for individuals who have impairment in at least two of the defined activities of daily living (ADLs): eating, bathing, grooming, toileting, and transferring into or out of chairs and beds. Services may be provided in one's home and/or community, through home care and adult day-care programs; in residential settings, such as assisted living facilities; or in institutions, such as nursing homes. The intensity and cost of services vary widely, depending on an individual's functional and health status, the severity of the disabilities, and the location in which services are provided. Long-term care excludes medical and nursing services needed to manage the underlying health conditions that lead to frailty or disability.

What Are the Costs of Long-Term Care?

The costs associated with long-term care can be quite high depending on the type of care needed and the geographic location and facility where the care is provided.

Costs by facility and services

According to the most recent survey on long-term care costs from MetLife, *Market Survey of Long-Term Care Costs: The 2012 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services and Home Care Costs*, annual costs can range from $90,520 for a private room in a nursing home to $18,200 for adult day care. This large cost variance is due to the level and number of services needed.

National Summary of Long-Term Care Costs, 2012

	Nursing Home		Assisted Living Communities
	Semi-Private Room	Private Room	
Average Rate	$222/day	$248/day	$3,550/month
Median Rate	$206/day	$231/day	$3,324/month
Annual Rate	$81,030	$90,520	$42,600
	Home Care		Adult Day Services
	Home Health Aide	Homemaker[a]	
Average Rate	$21/hour	$20/hour	$70/day
Median Rate	$21/hour	$19/hour	$65/day
Annual Rate	$21,840	$20,800	$18,200

[a]Homemakers or companions provide services that include light housekeeping, meal preparation, transportation, and companionship. This type of care is often appropriate for those with Alzheimer's disease or other forms of dementia who may be physically healthy but require supervision.

Source: MetLife Mature Market Institute

Costs by state

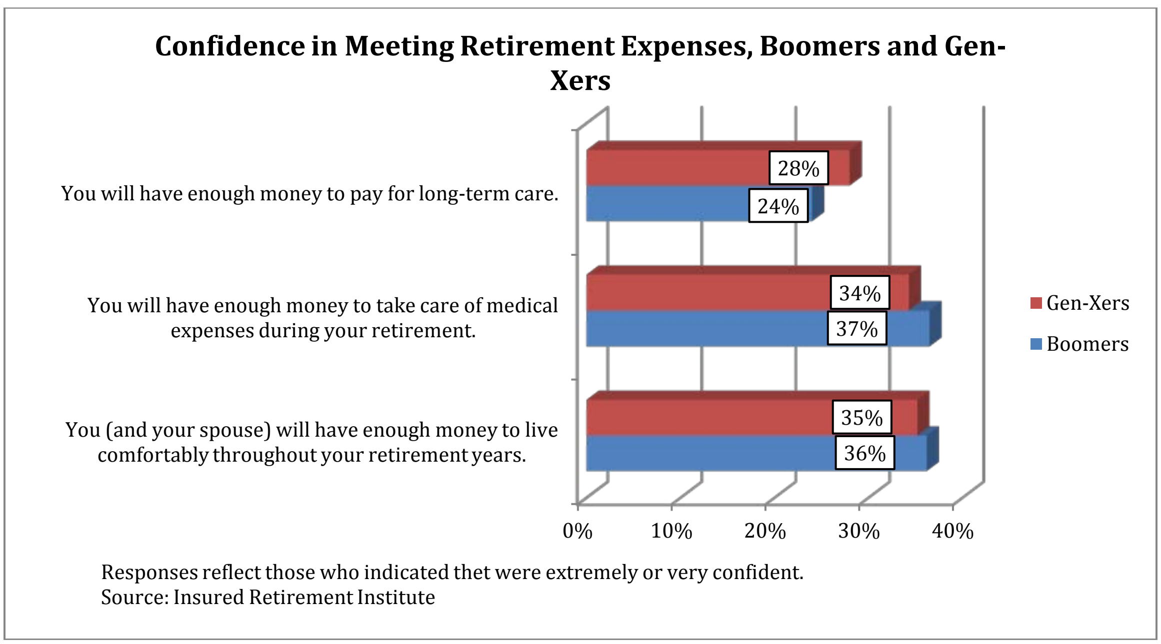
The same MetLife study found that the costs of long-term care vary significantly by location in the country. For example, the average annual cost of a private-room nursing home stay in Alaska was $250,755, while the average annual cost in non-metropolitan Oklahoma was $53,655. Costs will vary by state due to the difference in costs of living by state and different regulatory requirements.

Confidence in Meeting Long-Term Care Expenses

Given that long-term care costs can be high with a great degree of variation, how confident are individuals that they will be able to meet these costs, if the need arises?

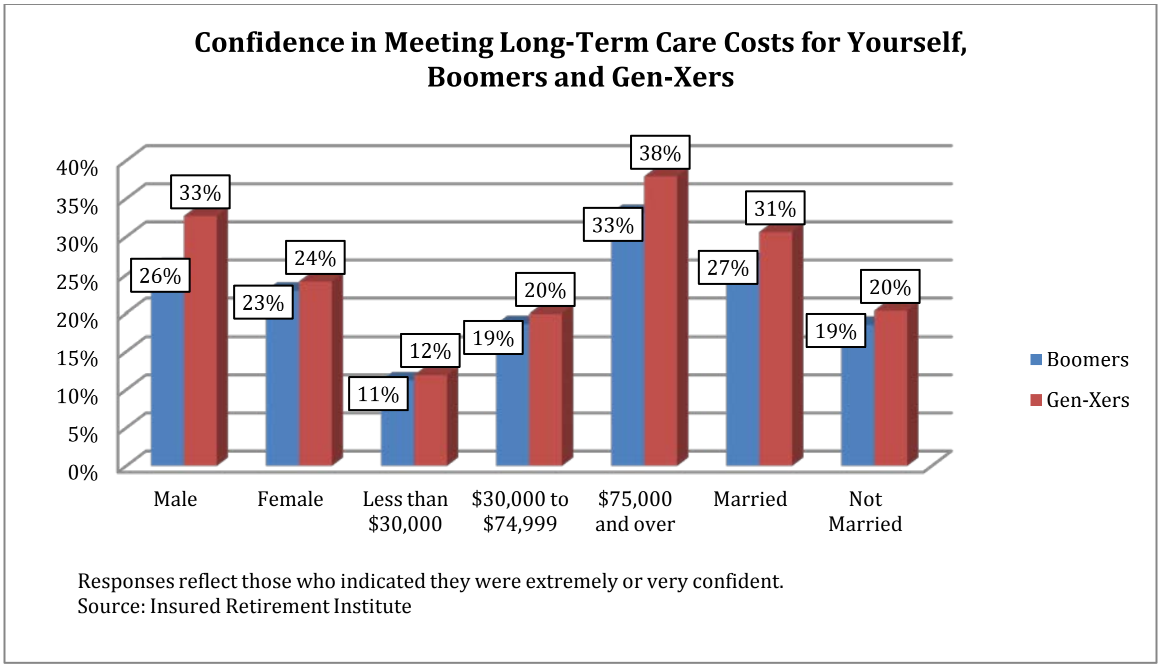
Individual's own long-term care expenses

According to IRI survey data, among three measures of retirement confidence -- having enough money to live comfortably throughout retirement years, having enough money to take care of medical expenses in retirement, and having enough money for long-term care expenses – the majority of both Boomers and Gen-Xers were "least confident" they will have enough money to pay for their own long-term care expenses.



Confidence in meeting long-term care costs declines with age. Long-term care appears to be more of a concern for Boomers than Gen-Xers: 28% of Gen-Xers compared with 24% of Boomers were extremely or very confident in having enough money for their own long-term care costs.

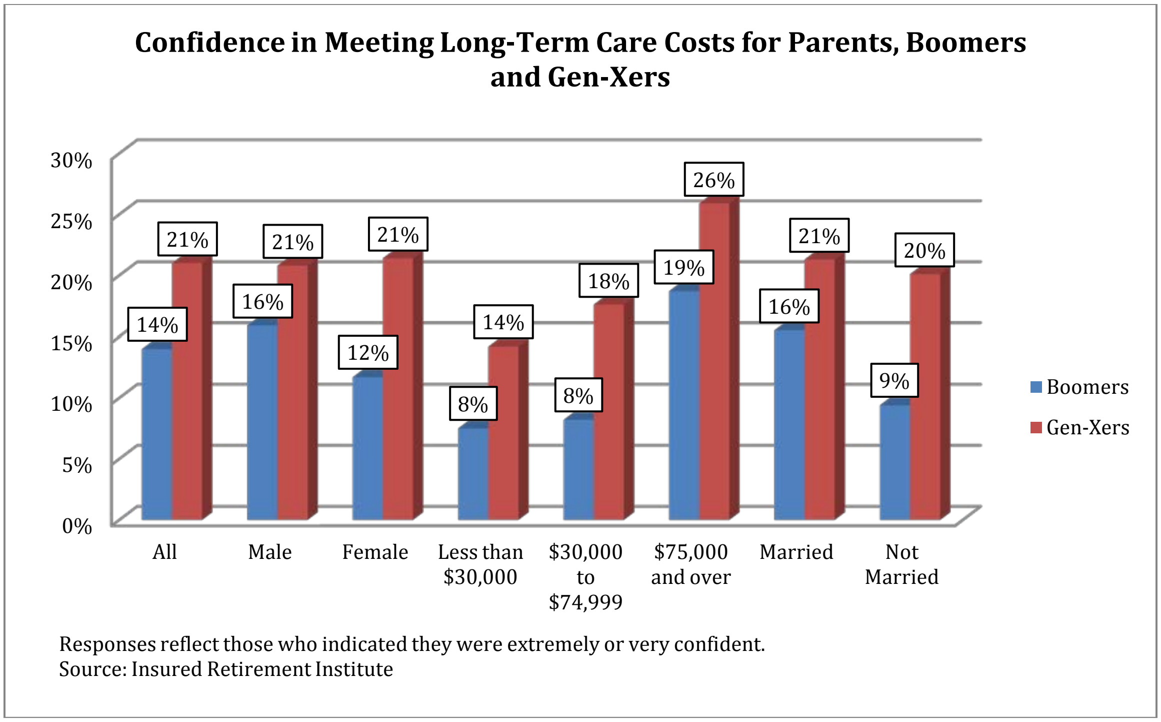
A deeper dive into the data by demographics reveals that women, individuals with income less than $30,000, and those who are not married have less confidence in meeting their own long-term care expenses. For all demographics, Boomers have lower confidence in meeting their own long-term care expenses than their Gen-X counterparts.



For women, long-term care costs are particularly challenging. IRI's research report, *Women and Retirement: Overcoming Retirement Income's Challenges Facing Women*, found women have greater longevity and are more likely to live into advanced ages, when the likelihood of needing long-term care services is greatest. Census data show that individuals age 80 and older are most at need for long-term care. In 2010, 71% had a disability, 56% had a severe disability and 30% only needed assistance with daily living. In addition, women are more likely to be family caregivers than men are. According to data from Family Caregiver Alliance, the percentage of family or informal caregivers who are female ranges from 59% to 75%. These challenges should lead women to develop a plan to meet these challenges, yet a study by GenWorth Financial, *GenWorth's 2012 State of Planning Study*, found that 60% of surveyed women do not have a long-term care plan in place.

Long-term care expenses for parents

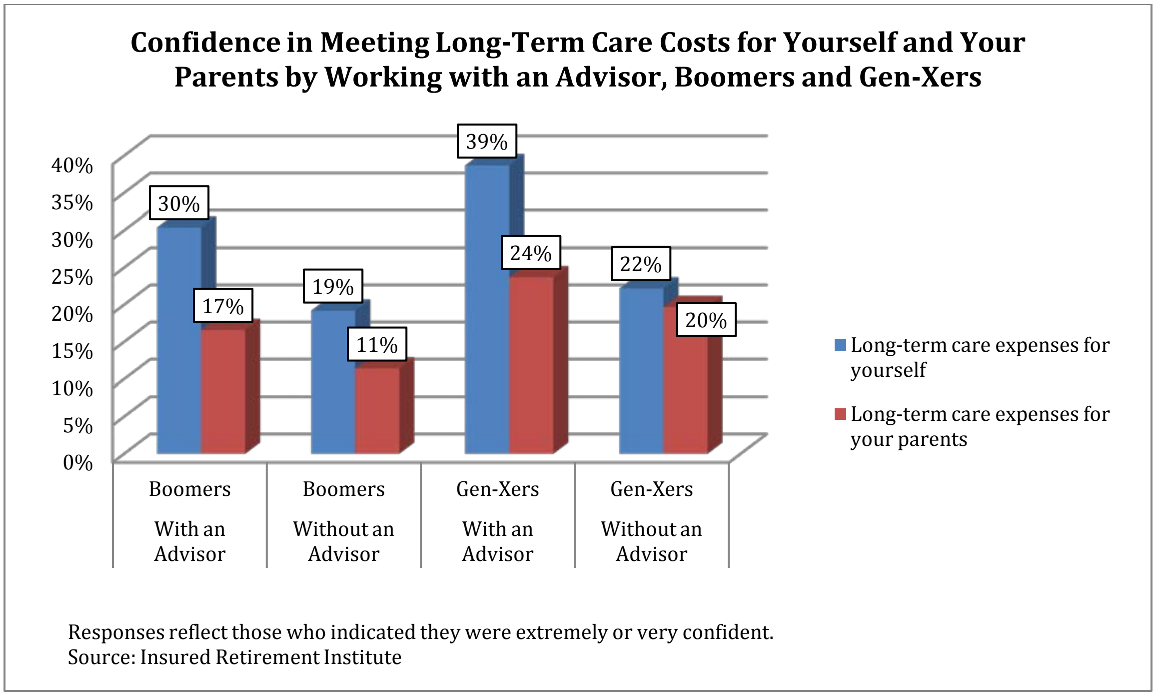
The responsibilities of family care giving present additional long-term care challenges. Many individuals are finding themselves in a position of having to care for aging parents. How confident are Boomers and Gen-Xers that they will be able to meet the long-term care costs of their parents if needed? Fewer are extremely or very confident they will have enough money for their parents' long-term care expenses than their own long-term care. For example, 14% of Boomers are extremely or very confident they will have enough money to cover their parents' long-term care expenses compared with 24% for their own long-term care expenses.



Boomer women have less confidence in their ability to meet the long-term care expenses of their parents than men. Among women, confidence levels vary. Only 12% of Boomer women are extremely or very confident they can meet the long-term care costs of their parents compared with 21% of Gen-X women.

Working with a Financial Advisor

Working with a financial advisor to develop a plan to meet the costs of long-term care can have a significant positive impact on confidence levels. IRI found that 30% of Boomers who worked with a financial advisor were extremely or very confident they would be able to have enough money to pay for their own long-term care costs compared with only 19% of Boomers who did not work with a financial advisor. While the confidence levels were lower when referring to the long-term care costs of parents as opposed to their own long-term care costs, working with a financial advisor still had a positive impact.



Options for Financing the Costs of Long-Term Care

Decisions regarding long-term care can be challenging. An individual who is admitted to a nursing home has most likely been deteriorating in cognitive and physical abilities for some time, a state not conducive to making good financial decisions. Going over options with a financial advisor and developing a plan to meet these costs ahead of time can prevent additional stress, allowing the focus to be on meeting the needs of the care for the recipient.

There are several financial products and government programs available to help meet the costs of long-term care services. The best option for you depends on your age, health status, risk of needing long-term care, family status (do you have children), and your financial situation.

Federal Government Programs – Medicare

Medicare is the health insurance program for individuals age 65 and over and individuals who receive benefits through Social Security's Disability Insurance program. Concerning long-term care costs, it is important to remember that Medicare covers "medically necessary" services and supplies and not long-term care or custodial care. Medicare will cover the costs associated with the stay in a skilled nursing facility after a three-day minimum in-hospital stay and your doctor must certify that you need daily skilled care like intravenous injections or physical therapy. There are no co-payments associated with the first 20 days of the benefit period. A coinsurance payment of $148.00 per day is assessed for days 21 through 100 of the benefit period. After day 100, the patient is responsible for 100% of the costs.

Medicare covers home health services, but again, only those costs that are medically necessary. You must be homebound, which means leaving home is a major effort. There are no co-payments associated with home health care services. For durable medical equipment, there is a 20% co-payment for the Medicare-approved amount.

Federal Government Programs – Medicaid

Elderly persons who enter nursing homes as private-pay clients can become eligible for Medicaid once they have exhausted their savings and depleted their other assets. After qualifying, most of their monthly income would continue to be applied to the cost of their care. Individuals who apply for Medicaid assistance with long-term care services are subject to a "look back" period of five years. Any asset transfers during this time could result in denied eligibility. The intent is to prevent those above the eligibility levels for Medicaid from giving away their resources in order to qualify rather than spending down to Medicaid eligibility. Medicaid coverage is excluded for individuals with home equity in excess of $500,000 (or up to $750,000 at a state's option). Nursing home residents who qualify for Medicaid must apply all their monthly income toward the cost of care, except for a small personal needs allowance. Those with spouses living in the community are allowed to disregard a certain amount of income for the support of the community-residing spouse. Medicaid beneficiaries receiving home and community-based services also are required to apply a portion of their income to the cost of care; states are not required to offer spousal impoverishment protections to community-based participants.

Long-Term Care Insurance

Long-term care insurance coverage can vary widely. Some policies may cover only nursing home care. Others may include coverage for a whole range of services, such as care in an adult day-care center, assisted living, medical equipment, and formal and informal home care. Long-term care insurance premiums vary, depending on your age and health status when you buy the policy and how much coverage you want.

Additionally, you must be in generally good health to pass underwriting when purchasing a policy. For this reason, it may be better to buy long-term care insurance at a younger age, when premiums are lower. If this is done, a periodic review is advised to make sure your policy covers your current and future long-term care needs. You can buy long-term care insurance at any age. The cost of care, especially in nursing homes and assisted living facilities, varies from state to state. Make sure that the long-term care insurance policy you buy will cover the costs of care at the location you plan to use it.

The current market for long-term care insurance has been evolving. Insurers are developing new products to meet long-term care needs in these challenging economic times.

Hybrid Plans

Among the innovations insurance companies have developed are products that combine a long-term-care benefit with life insurance. Most of these policies are single premium policies, which pay out a tax-free death benefit if the long-term care benefit is not used. The long-term-care benefit in these policies is typically for two to three years.

Another form of hybrid plan is a long-term-care deferred annuity. These annuities are purchased with a single premium, usually a minimum of $50,000. The account value will grow with compounded interest like any other annuity. If no withdrawals are made prior to the deferral period, the purchaser will have an annuity to pay for long-term-care services if needed. One of the advantages of using this type of product is that there are few restrictions on what services may be covered.

Long-term care involves a complex set of needs. As a result, there are a variety of programs and products to assist individuals with the costs of these needs. A financial advisor can help match the needs with the appropriate financial product and government program.

Conclusion

Long-term care is composed of many different services and may include help with activities of daily living. As IRI data show, confidence in having enough money to meet the costs of long-term care is the lowest among various measurements of retirement confidence. Ignoring long-term care will not make it go away. It is important to work with an advisor to develop a plan to meet these costs. In fact, IRI data show that working with an advisor has definite positive impacts on confidence levels regarding the ability to meet the costs of long-term care.

Working with an advisor and developing a plan allows time to talk with the doctor about any potential health issues. Because of the nature of long-term care needs, declining cognitive abilities will affect decisions. Therefore, it also is important to involve family members in the conversations about a plan so they are fully informed when the time comes for critical decisions to be made. The best time to talk about long-term care is before services are needed.

Methodology

The Insured Retirement Institute (IRI) commissioned Woelfel Research, Inc., to conduct a survey of Boomers approaching retirement or who have recently retired. The research was conducted by means of telephone interviews with Americans age 50 to 66. Preliminary results based on a sample of 503 individuals are presented. The sample was selected from a list of households in this age group, developed by Accudata, Inc., by compiling data from available sources such as motor vehicle records. Results were weighted by age and gender to the 2010 United States Census. Data were collected during February and March 2012.

IRI commissioned Woelfel Research, Inc., to conduct a survey to determine how retirement is viewed by Generation X individuals in their 30s and 40s. The research was conducted by means of telephone interviews with 802 Americans age 30 to 49. The sample was selected from a list of households in this age group, developed by Accudata, Inc., by compiling data from available sources such as motor vehicle records. Results were weighted by age and gender to the 2010 United States Census. Data were collected from November 10 to November 22, 2011, and analyzed by IRI in December 2011. The margin of error for the sample of 802 was ±3.5%.

Supporting data were derived from publicly available research from financial services companies (GenWorth Financial and MetLife); various government sources (Census Bureau and Centers for Medicare and Medicare Services); other organizations (Family Caregiver Alliance) and an article Kemper, Peter, Harriet L. Komisar, and Lisa Alecxih, "Long-Term

Care Over an Uncertain Future: What Can Current Retirees Expect?" Inquiry 42(Winter 2005/2006): 335-350.