Preparing for the unexpected:

Long-term care

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Once you've determined how long-term care (LTC) expenses may impact your financial goals, it's important to understand what potential solutions may be available to you. There are three main approaches to address the risk of significant LTC expenses:

- **Accepting** the risk by planning to self-pay for any LTC costs (self-insuring)
- **Transferring** the risk by purchasing an insurance policy
- **Sharing** the risk by combining self-insuring with an insurance policy

So, how do you know what option may be right for you? First, it's important to understand whether you can afford the premiums — today and in the future — of insurance. Typical long-term care insurance premiums can be $3,000 or more per year depending on the type of policy, level of benefits, age and gender. If you can't afford any insurance, you will need to be prepared to self-insure potential LTC costs.

If insurance is an option, below are some factors to help guide your decision:

Factor	Self-fund — Insure	Why
Estimated LTC need	Lower — Higher	Protecting against lengthy events, such as dementia, may require insurance to meet your need
Tolerance for uncertainty	More — Less	Insurance can provide a known resource for covering long-term expenses and reduce the impact on your other financial goals
Asset flexibility	More — Less	The ability to use assets, such as selling a vacation home, may allow you to self-fund more LTC expenses
Expense flexibility	More — Less	A higher level of discretionary spending in retirement, such as travel, may afford you the ability to self-fund, as this spending can be redirected for potential LTC expenses

Spousal/partner planning

You'll want to consider whether to insure one partner or both, and how much coverage for each. It may be helpful to have your financial advisor run multiple scenarios with different coverage options to understand which options make the most financial sense.

Below are key considerations as you think through which solution, or combination of solutions, is best for you.

LTC options

		Insurance		
	Self-insure	Traditional LTC insurance	Hybrid/linked benefit insurance	Life insurance with chronic illness riders
Description	• Using your own income or assets to cover costs associated with LTC events	• Insurance policy that pays for LTC expenses	• Life insurance that uses the death benefit *plus an additional amount* to pay for LTC expenses	• Life insurance that uses *only* the death benefit to pay for LTC expenses
Benefits	• Flexibility to use income/assets for any LTC expense or non-LTC expenses if desired • Potential for asset growth if LTC expenses are not realized	• Generally offers the highest benefit amount for a given premium • Provides most flexibility to tailor LTC benefits (for example, inflation coverage, spousal benefits, waiting periods, etc.)	• Premiums are generally guaranteed not to increase • Provides a benefit if LTC benefits are not needed	• Offers more flexibility to pay premiums over a longer period compared to hybrid/linked benefit insurance • Provides a benefit if LTC benefits are not needed
Trade-offs	• Potential reduction in quality of life if LTC expenses exceed your income/assets • May impact your ability to leave a legacy for your heirs	• You receive no monetary benefit if you don't have a qualifying LTC need • Premiums may increase in the future	• Premiums may be higher, given that there are both life insurance and LTC benefits • Generally have a shorter period over which to pay premiums	• Amount of LTC coverage is limited by death benefit (which may not be enough) • Limited ability to tailor LTC benefits

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Accept the risk

There are some nice benefits but also some substantial risks if you choose (or need) to accept the risk of covering long-term care expenses yourself. You will be able to decide when and how to start receiving care, and you won't have to worry about meeting the qualifications necessary for an insurance policy to pay benefits. But you're also bearing the entire cost yourself. If you have significant care needs without enough income or savings to cover the costs, this can impact the quality of care you receive (as you may be limited by what you can afford), as well as have negative financial implications for you and your family.

To ensure you understand the impacts, work with your financial advisor to run scenarios to see how a long-term care event would affect your retirement (and legacy, if that's important to you). For example:

- **Can your retirement strategy cover two to three years (or more) of potential long-term care expenses without derailing your retirement goals?** When running these scenarios, you may find that some expenses, such as travel and other discretionary expenses, could cover some of the potential long-term care costs. It's important to have a budget to be aware of what expenses could be repurposed for a potential long-term care need.
- **How might these potential costs affect your spouse and family in the long term?** Your financial advisor can show the financial implications and help you reflect on the emotional impacts as well.
- **How might other financial goals be affected by your decision to self-insure?** If you have specific legacy goals that are unmet, self-insuring may significantly impact your plans. However, if you have legacy goals that are fully met, for instance with life insurance and/or other designated assets, you may have the flexibility to self-insure.

Transfer the risk

Transferring the risk to an insurance company can mitigate some of the planning uncertainty. When considering an insurance policy, be sure you understand what criteria will need to be met for the policy to pay benefits, including what counts as chronic illness. Additionally, keep in mind that most policies have a waiting period (known as the elimination period) before benefits begin. You'll want to make sure you have enough savings to cover your expenses during this period (typically 90 days).

What is a chronic illness?

A chronic illness for traditional qualified long-term care means an individual has been certified by a physician as either:

1. Being unable to perform, without substantial assistance from another individual, at least two activities of daily living (eating, bathing, dressing, continence, transferring and toileting) for at least 90 days
2. Requiring substantial supervision because of severe cognitive impairment that threatens the individual's health and safety

When considering insurance, there are three primary types:

- Traditional long-term care insurance
- Hybrid or linked-benefit insurance
- Life insurance with chronic illness riders

Traditional long-term care insurance provides the highest amount of coverage per dollar of premium. This is because other insurance solutions typically serve multiple purposes. But premiums that can increase, combined with the risk of paying for insurance you may not use, have resulted in many preferring other insurance options. (Note: Edward Jones does not currently offer traditional long-term care insurance.)

Hybrid or linked-benefit insurance allows you to access the death benefit early while also providing for long-term care needs over and above the value of the death benefit. For example, if you purchased a policy with a $100,000 death benefit and $200,000 LTC benefit and ultimately used $50,000 in LTC benefits, your heirs would still receive $50,000 (the $100,000 death benefit less the $50,000 in LTC benefits the policy paid out).

If you needed $150,000 in LTC benefits, the policy would pay that (as it's under the $200,000 LTC benefit amount), although your heirs wouldn't receive any death benefit. (Note: if the entire death benefit is paid as LTC benefits, some policies may still provide what is known as a residual death benefit — typically 10% of the initial death benefit — to beneficiaries, which could provide for funeral expenses.)

Life insurance with chronic illness riders also allows you to access the death benefit early but only pays an amount up to the death benefit. Not all chronic illness riders are the same, and some policies require that your chronic illness be deemed permanent (or that you are not expected to recover) before you can use it for a long-term care need. Importantly, **we do not view chronic illness riders requiring permanent chronic illness as long-term care insurance, which is we why don't offer them at Edward Jones.**

HSAs

Did you know that qualified long-term care expenses can be paid for tax-free from your Health Savings Account? In addition, qualified long-term care insurance premiums (which can include some hybrid and life insurance policies with an accelerated death benefit rider) can also be paid for tax-free from your HSA, up to certain limits. If you have a large HSA balance, you may consider using HSAs for long-term care expenses and premiums, since HSAs have less favorable estate tax treatment.

Share the risk

Another option is to share the risk. For example, you could plan to self-insure the expected costs of one year's worth of long-term care expenses and buy insurance for additional expenses. Many diagnoses have a more gradual impact over time, and self-insuring home health care costs may be manageable. Purchasing insurance could then help supplement for diagnoses that require care that lasts longer than you want to cover yourself.

Government benefits for LTC costs

It's important to note that you may be eligible for some government benefits that may provide some supplemental coverage for long-term care expenses. Primarily, those include:

- **Medicare** — Covers skilled nursing care for a limited time after a qualifying inpatient hospital stay (must be admitted at least three days, which doesn't count the day of discharge). Because Medicare coverage is extremely limited, we don't recommend solely relying on it for covering LTC costs.
- **Veterans Affairs** — Provides benefits to previously active members of the U.S. military. Benefits from the VA are provided on a priority basis depending on how the diagnosis is connected to service and certain income levels.
- **Federal Long-Term Care Insurance Program** — Provides benefits to federal employees and certain relatives. The benefits are similar to what can be found in other individual long-term care insurance policies.
- **Medicaid** — A government program intended to help lower-income individuals and families. Eligibility for Medicaid typically restricts income and assets. The choices you have in terms of the location and what type of care are generally limited.

Overall, understanding the impact a potential long-term care event could have on you, your family and your financial goals is an essential part of retirement planning. Identifying the potential risk, educating yourself on the solutions and working with your financial advisor can give you the confidence to implement a plan that meets your needs.

