

Preparing for the unexpected

Planning for long-term care expenses

Paul Simmons, CFA, CFP® • Senior Analyst, Client Needs Research



Health care is one of the biggest expenses in retirement. Medicare may cover a large part of traditional medical expenses, but it generally doesn't cover expenses related to long-term care, which can be substantial. That's why it is important to plan for long-term care costs *before* you'll need them.

As a starting point, we recommend the following:

Start planning for long-term care needs between the ages of 50 and 60.

As you approach retirement, begin discussing care preferences with your family.

Start with assuming a total potential need of \$150,000.

- Adjust (to as low as \$50,000 and as high as \$300,000) based on access to unpaid/informal care, your health, longevity expectations, location and family history of chronic disease.

Project future costs at 4.0% inflation, particularly the younger you are.

Assume care begins at age 80.

- Based on family longevity, you could adjust up or down as needed.

When to plan for a potential long-term care need

It's earlier than you may think! While long-term care services are typically needed later in life, it's beneficial to start planning between the ages of 50 and 60. This is especially important if you decide insurance is an appropriate solution, because:

- Your health may be better, increasing the likelihood that coverage can be obtained and that premiums are lower.
- Being younger gives you more time to spread out the premiums, which also makes them lower.
- You may still be working and better able to afford the premiums.

Planning early also gives you more time to discuss your care and aging preferences with your loved ones. The more proactive you are, the more options you may have and the more confident you can be that your wishes will be met.



Planning tip

While it's never too late, ideally start planning for long-term care expenses between ages 50 and 60.

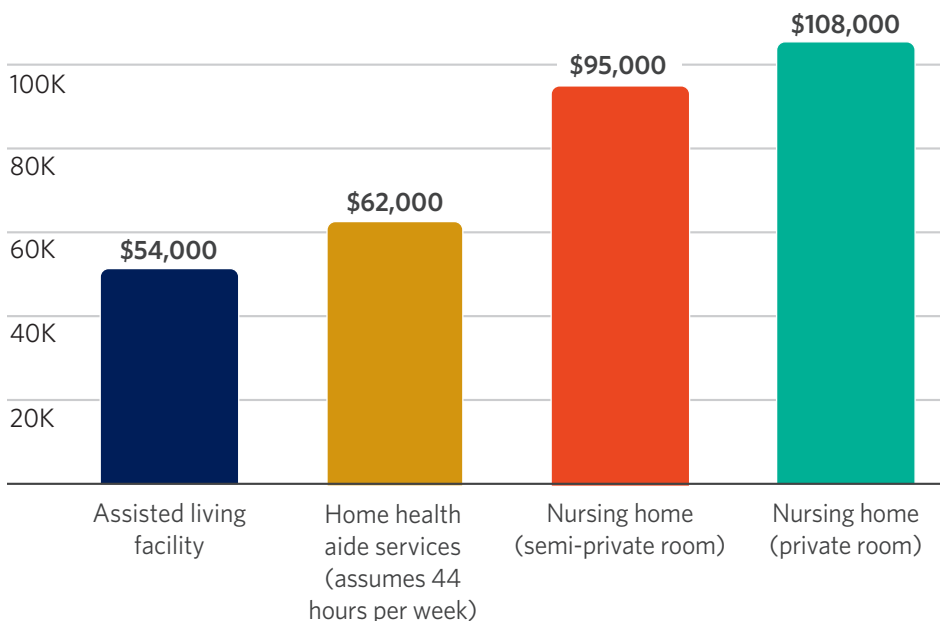


What to consider for your care preferences

Long-term care services are broad, ranging from help with day-to-day tasks such as cleaning to more substantial supervision required for one's health and safety. When thinking about how you'd prefer to receive care, consider what you may want and need with respect to the:

- **Place of care.** The majority of care starts in one's own home — whether out of preference or necessity (aaltci.org). It may also take place in facilities like rehabilitation centers, adult day cares, assisted living facilities and nursing homes. Costs vary substantially based on where care is received, as shown in the chart below.
- **Providers of care.** The majority of care is provided by informal caregivers — family and friends (SCAN Foundation). While this may be sufficient for a period of time, informal caregiving can carry significant trade-offs both for the caregiver and the individual needing care. Paid caregivers range from personal care and home health aides to nurses and other skilled care providers.

Annual cost of long-term care options - 2021



Source: Genworth 2021 Cost of Care Survey. Median values, rounded to the nearest thousand.



Planning tip

Spend some time reflecting on how you'd prefer to receive care should you ever need it. If you have a partner/spouse, have a conversation about each of your preferences and how they may align or differ. Once you've identified your preferences, regular conversations about your care wishes can be beneficial not only for you but also your loved ones who may be responsible for carrying out your wishes.

But will I really need long-term care?

You very well might. There are three main components of long-term care risk to understand (soa.org and Edward Jones calculations):

1. Likelihood — We estimate an almost 50% chance of needing some long-term care support over your lifetime. And the longer you live, the more likely you'll have a long-term care need.
2. Duration — We estimate the following:

Duration of care	Chances
Greater than 3 months	40%
Greater than 1 year	25%
Greater than 3 years	15%

3. Severity (how much support could be required) — Some diagnoses, such as a stroke, may require substantial costs immediately. But the level of care for many long-term care events tends to progress — particularly those that last for a significant period of time. For example, the first year of care may be part-time care in your home, followed by full-time home care and then finally a nursing home.

How much should I plan for?

We recommend planning for \$150,000 (in current dollars) of care as a starting point and then adjusting based on your particular situation. \$150,000 represents our estimate of what three years of long-term expenses would cost, assuming you start with part-time in-home care and progress to a nursing home. From this starting point, we generally recommend that any adjusted amount be between \$50,000 (our estimate for a year of care) and \$300,000 (our estimate for the average cost Alzheimer's care).



Planning tip

The risk of a long-term care event is fairly likely, and the need can be significant, so we recommend everyone put a plan in place in case they need care.

If you:	Adjust LTC need	Why
Expect access to unpaid/informal care	↓	Married individuals and those with family and friends nearby can expect to spend less on long-term care (carefully considering any potential loss of income if the caregiver is working).
Are in good health	↓	Good health can lower your risk of having an LTC event.
Expect higher longevity	↑	Women and those who have a history of family longevity can expect to spend more on long-term care.
Live in an urban setting	↑	Higher-demand areas tend to have more costly care.
Have a family history of chronic disease	↑	Certain conditions that can run in your family (e.g. dementia, arthritis, diabetes) can increase your potential need. If you have a family history of Alzheimer's, we recommend planning for \$300,000.

While nearly 10% of events occur before age 70, the majority occur after age 80. Because you're likely to receive care in the future, it's important to incorporate increasing costs. In recent years, we've seen the costs for facility-based care increase at a slightly slower pace than home health care. Much of this is due to individual preferences for staying in one's home — accelerated by the COVID-19 pandemic and recent wage inflation. As a result, we recommend assuming 3.0% growth for facility care and 4.5% growth for home health care, which can help you better tailor your potential need. If you don't know, or don't have preferences yet, we recommend a 4.0% overall inflation rate as a reasonable starting point, as this assumes a slight preference for home health.

Source: bls.gov, Genworth.com and Edward Jones calculations.

Next steps

Once you have a sense of how you'd want to receive long-term care and how much it may cost, you'll want to discuss the options for covering those costs. That could include self-insurance, purchasing insurance or a combination of those two solutions. Our report "Preparing for the unexpected: Long-term care solutions" covers the variety of options, and your financial advisor can help you determine which is most appropriate for you.



Planning tip

When planning for long-term care costs, it's important to consider where you may be living in retirement and build in reasonable inflation expectations for what care might cost when you need it. Knowing where you may be living can also help you build awareness of the services in the area before you need them.