Long-Term Care and Financial Planning

June, 2021

Foreword

by Ron Mastrogiovanni, CEO of HealthView Services

Since our founding, HealthView Services has steadfastly focused on one objective: to help Americans understand that saving for health care expenses is the foundation of a stable retirement plan. While many of our previous white papers have addressed health care costs in retirement, including Medicare premiums, supplemental insurance, and prescription drugs, the following analysis specifically focuses on expenses related to long-term care (LTC) and the impact of COVID-19 on LTC delivery.

The implications of the pandemic - which has taken hundreds of thousands of American lives - will become clearer over time. What we do know is skilled nursing facilities (nursing homes) are very much in the spotlight, as more than 130,000 resident deaths have created a paradigm shift in nursing home confidence. A recent New York Times piece summarizes the challenges facing families: “The deaths of so many elderly residents, [in nursing homes] has deepened levels of anxiety and guilt among many families planning the next phase of care for an aging relative.”

Home health care, typically the preferred option (even pre-pandemic), is the most expensive form of long-term care on an hourly basis. While costs for 44 hours of weekly care (an industry standard) may be manageable, as needs increase to 12 hours per day or more, expenses grow quickly. In fact, if 24/7 care is required, home care is more than double the cost of a nursing home. (Note: cost projections do not factor potential expenses related to maintaining one’s residence while receiving home health care.)

Regardless of choice, without proper planning, long-term care may become a significant burden on family members in terms of time, cost, and emotion, as many still mistakenly believe that Medicare fully covers LTC expenses.

The following analysis reveals that a significant portion of Americans - regardless of age, gender, or health - will require some level of LTC in their lifetimes. According to the latest projections, a healthy 65-year-old couple has a 75% probability that at least one spouse will need some form of care. Costs are significant, but as with most savings challenges related to retirement, financial planning using reliable, personalized data can make a difference.

One certainty that has emerged from this pandemic is that individuals – and their advisors - must incorporate long-term care costs into comprehensive retirement savings plans. Using cost-projection data can enhance the planning process and offer peace of mind to millions of aging Americans. Working with a financial professional to plan for LTC is an important way to reduce the stress of not being able to afford quality care and ensure that hard-earned assets - and not financial or emotional burdens - will be passed on to family members and loved ones.

Some data and insights in the Foreword are derived from ***The Centers for Disease Control***, ***Medicaid***, and ***The New York Times.***

Executive Summary & Key Highlights

Expenses related to nursing homes, assisted living facilities, and home health care have steadily climbed over the past several years. Many Americans incorrectly assume these costs will be fully covered by Medicare; however, LTC is essentially an out-of-pocket expense that few are prepared to face. With the increased focus on LTC during the COVID-19 pandemic, taking the time to engage in planning conversations has never been more important.

Drawing on actuarial analysis, this paper projects LTC costs by analyzing past and current data trends that highlight probability and cost of care based on age, gender, health conditions, and other factors. The goal is to provide individuals the information they need to make educated financial decisions to afford future end-of-life medical services and protect legacy assets. Those who ignore LTC may not only find themselves without the resources to afford quality medical services, but may also pass the financial burden of their care onto loved ones and family members.

HealthView's actuarial analysis reveals the following:

- In 2020, national home health care spending rose by 6.0%, while nursing home expenditures decreased by 7.8%, likely as a reaction to resident deaths during the COVID-19 pandemic. For those who would prefer home health care, expenses can be significant: current annual costs exceed $50,000 per year for 44 hours of weekly care (industry standard), but spending will vary significantly based on the amount of care required.

- A healthy 65-year-old male/female couple has a 44% and 56% chance (respectively) of needing some level of LTC if they each live to their actuarial life expectancies. Combined, there is a 75% chance that at least one spouse will require end-of-life LTC. If both need one year of LTC (about a 25% probability), their projected combined (national average, future value) costs are substantial: $398,000 ($193,000 for the husband, $205,000 for the wife) for a nursing home, or $223,000 ($108,000 for the husband, $115,000 for the wife) for 44 hours of weekly home health care.

- The Case Study detailed later in this paper highlights the impact of LTC cost inflation: a 50-year-old couple (each with one co-morbidity, assuming both require care) will need approximately four years of combined home health care and can expect to pay $665,000 in future national average costs ($230,000 in net present value). That figure jumps to $855,000 if they live in a high-expense area ($295,000 in net present value).

- Americans have multiple options available to address future LTC costs. These include LTC insurance, life insurance with a chronic illness rider, insurance products with an LTC rider, or self-insuring, which would require a significant initial investment. An advisor can assist the couple mentioned above in selecting the best suited option(s) to cover over $600,000 in expected future LTC expenses. Since a catastrophic health event leading to required LTC could occur at any time, insurance options provide a key benefit to the insured.

- Long-term care costs vary based on factors like geographic location, care setting, and length of stay, and are based on an individual's age, gender, health status, and other variables.

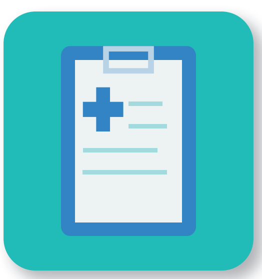
Long-Term Care Data, Assumptions & Definitions

Unless otherwise noted, HealthView Services provides all data and projections used throughout this report.

HealthView Services utilizes proprietary algorithms that blend information from multiple resources to create personalized LTC projections for a nursing home, assisted living, home health care, or a blended average of these options. Present-day expenses can vary – sometimes significantly – based on geographic location, while future expenses inflate at different annual rates based on geographic location and type of LTC service. Calculations assume actuarial longevity for different health conditions, genders, and ages. Long-term care cost projections do not include other retirement medical expenses, such as Medicare, Medicare Advantage, prescription drug coverage, or supplemental insurance premiums. Projections for lengths of stay and likelihood of care are also included (based on gender, current age, and health condition). Costs are shown as national averages, unless otherwise stated.

Long-term care refers to assistance with daily living activities – including bathing, eating, dressing – over a prolonged period (usually over 90 days). Some long-term care is not medically related but provides daily assistance with basic personal tasks called Activities of Daily Living (ADLs). Other long-term care services support clients with daily responsibilities. These are referred to as Instrumental Activities of Daily Living (IADLs) and consist of performing housework, keeping track of medication, managing money, and shopping for groceries. Throughout this paper, “blended average” cost projections are used to show the blended average expense of the following three care types. This methodology reflects a scenario that many may experience. Individuals tend to transition from one care setting to another over time, as their health care needs develop, thus, someone may not spend their entire LTC stay at one location. The blended average projections may be suitable for those who choose to plan for this possibility.

Skilled Nursing Facility (Nursing Home) is a medically necessary residential stay at a facility. It is important to understand that Medicare covers required services such as physical therapy or post-surgery nursing, but does not pay for custodial care. Individuals with significant, consistent health needs may live at a facility that provides constant or near-constant monitoring, as well assistance with ADLs, on a regular basis.



Assisted Living Facility (Assisted Living) may or may not require inpatient treatment, but some tiered levels of care are necessary, such as cooking meals, managing medications, or redressing bandages. In these settings, residents can receive personalized daily services to maintain some level of independence. According to the most recent data, one million individuals live in the 28,890 state-regulated assisted-living facilities across the U.S.[1] While long-term care insurance may cover some or all of the costs of these facilities (depending on the policy), Medicare does not.

Home Health Care provides services and treatments at the patient's home with a medical professional and may be cheaper than a nursing home depending on the amount of care involved. Individuals may only require a few hours of service per day - or 24/7 supervision - and costs reflect the level of care delivered. (Unless otherwise noted, home health care data in this report assumes 44 hours of weekly care.) Typically, home care is more desired than a nursing home, and this sentiment may rise substantially in the future due to the COVID-19 pandemic. In 2020, national nursing home expenditures decreased by 7.8%, while home health care spending rose by 6.0%.[2]

Long-Term Care and the Financial Services Industry

Financial professionals assist clients with their retirement goals, including addressing expenses related to housing, travel, leisure activities, and health care costs. Fortunately, they are well positioned to help pre-retirees prepare for LTC expenses - a decisive step to a truly holistic financial plan and secure retirement.

The first step to LTC planning is generating personalized answers to the following questions:

- At what age may LTC services be needed?
- What LTC coverage options are available?
- What will be the desired choice of LTC delivery?
- How long are services typically needed?
- How do existing health conditions impact when/how long someone will need care?
- How much will services cost when care is required, including inflation?
- In which state and metro area will services be required?

Long-Term Care Probability & Cost Factors

HealthView's analysis reveals that an average, healthy 65-year-old male/female couple has a 75% chance of at least one spouse requiring some form of long-term care if each live to their actuarial life expectancies. Several factors, including (but not limited to) age, gender, and health conditions impact LTC probability, length of stay, and total costs.

> An average, healthy 65-year-old male/female couple has a **75% chance** of at least one spouse requiring some form of long-term care if each live to their actuarial life expectancies.

Attained Age

With each passing year, individuals with chronic conditions are more likely to require some level of LTC. Table A shows that a healthy 65-year-old female has only a 27.2% chance of requiring LTC from now through her 80th year of life, but that figure rises to 58.3% by age 90.

Table A: Healthy 65-Year-Old Woman's Probability of Requiring LTC in Five-Year Attained Age Increments

Attained Age*	LTC Probability
Age 70	5.6%
Age 75	13.9%
Age 80	27.2%
Age 85	43.9%
Age 90	58.3%

**Attained Ages reflect a scenario in which the person lives to the age listed.*

Gender

While living a long life is certainly desirable, it does come with some financial drawbacks, especially for women. Females are currently projected to live 2-4 years longer than males. For married heterosexual couples, this statistic - along with data indicating husbands are (on average) 2.3 years older than their wives[4] - means that most women will outlive their partners and be responsible for their own LTC. This also may occur after the male's end-of life care consumes a substantial portion of the couple's savings.

Building upon these longevity trends – since age directly impacts LTC needs, and women are projected to live longer – women are more likely to require LTC services than men. This compounds the need for married couples to collaborate with professionals to create plans that offer both spouses lifetime financial stability. Women also face greater projected lifetime LTC expenditures as a result of longer residential stays (assuming similar health status). A woman with no chronic conditions has a 992-day projected length of stay, but a healthy man's projection is just 660 days - a difference of around 11 months. This may result in tens or hundreds of thousands of dollars in additional LTC costs for the woman. It is important to note that these projections include the three care settings highlighted in this paper (nursing home, assisted living, and home health care). Many Americans may transition from one care setting to another as their health needs change, which is why blended average costs are also offered throughout this paper, as highlighted in the following section.

Type of Long-Term Care

Regardless of the type of care required, those who fail to plan for LTC may face substantial medical bills with few means to pay other than by liquidating assets. Table B displays the current costs of all three options, as well as the blended average of the three care types. Using blended averages may be the most practical approach as individuals may spend time in multiple care settings as needs change over time.

Table B: Cost of LTC Services in 2021, National Average*

Type of Care	Cost in 2021
Nursing Home	$100,913
Assisted Living	$55,708
Home Health Care	$56,408
Blended Average	$69,508

** 44 hours per week of home health care, consistent with industry standard; blended average based on care probabilities for 85-year-old male.*

Forty-four hours of weekly home health care is a less expensive option than nursing homes and comparative to an assisted living facility. However, aging individuals may need more or less than this baseline, due to a combination of medical needs and the availability of a non-skilled caregiver (spouse, other family member or loved one) to provide care. For example, 84 hours per week (an average of 12 hours per day) would cost $107,688 – more than the cost of a nursing home. For those who do not want to burden their children or any other non-skilled caregivers, one year of 24/7 care (168 hours per week) is $215,376.

> 84 hours of weekly home health care (12 hours per day) would total **$107,688** – more than the cost of a nursing home.

Geographic Location

As we will see in the Case Study section of this paper, LTC expenditures can vary substantially between states/territories and even metro areas within state lines.

Table C: Difference in Costs Between States/Territories, One Year of LTC in 2021*

Care Setting	Low Cost State/Territory	High Cost State/Territory	Difference
Nursing Home	Oklahoma: $61,090	Connecticut: $166,242	172%
Assisted Living	Missouri: $40,773	District of Columbia: $136,716	235%
Home Health Care	Louisiana: $39,841	District of Columbia: $82,455	107%
Blended Average	Louisiana: $50,661	District of Columbia: $106,999	111%

**Data shown above excludes nursing home expenses in Alaska, which are typically the highest in the country.*

Table C reveals that within the United States, costs can vary significantly across all care types. Like many goods and services, LTC prices often reflect the demographics of the location, with higher-cost areas such as Connecticut and the District of Columbia often topping the list of most expensive states and territories.

Notably, 44 hours of home health care expenses in the District of Columbia are nearly double that of Louisiana, an annual difference of over $42,000.

Narrowing cost comparisons within state lines shows a similar pattern: higher-cost metro regions often come with greater LTC expenses. Someone in Washington state may spend over 50% more for home care based on their chosen residence, which compounds the need to include geographic location in the planning process.

Health Condition

The most recent CDC report reveals that six-in-ten adult Americans suffer from one chronic illness, such as diabetes or cardiovascular disease, and four-in-ten have multiple conditions.[5] Personal health - along with gender and current age - directly impacts life expectancy. How long someone may live also affects the likelihood that they may require LTC services. Table D displays the effect of chronic conditions on LTC probabilities and life expectancy.

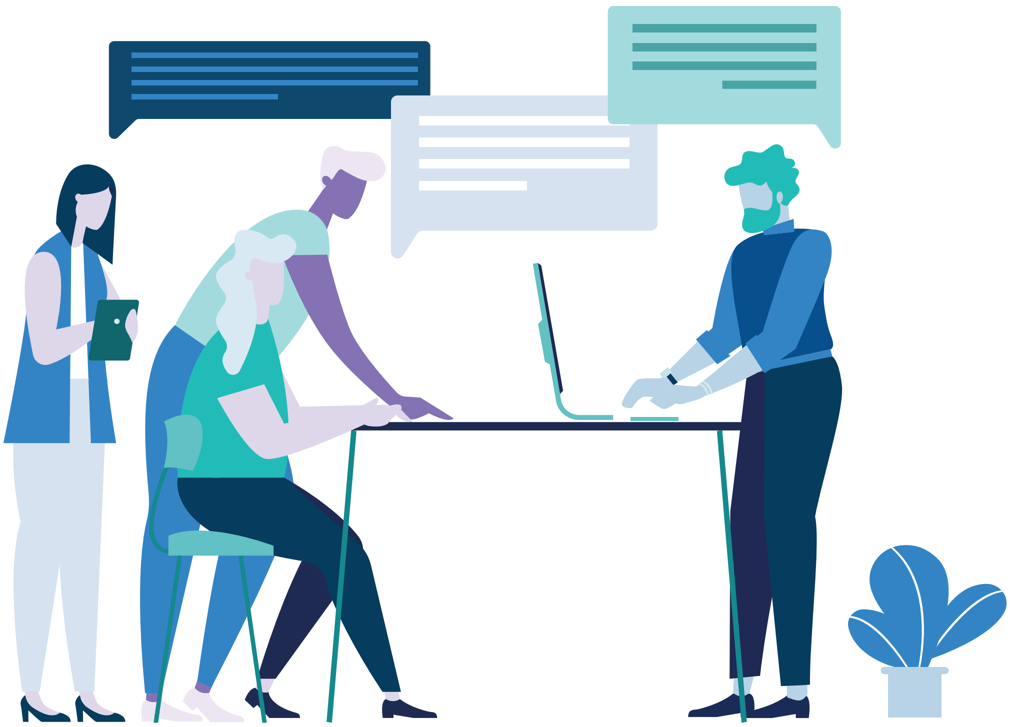
Table D: LTC Probability at Life Expectancy, By Gender and Health

	65-Year-Old Female			65-Year-Old Male		
	LTC Probability	Length of Care Required	Life Expectancy	LTC Probability	Length of Care Required	Life Expectancy
Cardiovascular Disease	61.2%	946 days	88	45.1%	630 days	85
No Conditions	56.0%	992 days	89	44.3%	660 days	87
High Cholesterol	48.4%	1,000 days	87	37.1%	663 days	85
Tobacco Use	34.9%	1,053 days	84	25.5%	690 days	82
Type 2 Diabetes	32.7%	1,072 days	81	20.1%	700 days	78

A female tobacco user's LTC probability would increase from **34.9% to 46.2%** if she were to live to age 90, not 84.

At first glance, that only 20% of diabetic males are expected to require care appears to be good news; however, the lower likelihood of care simply reflects a shorter life span.

The impact of life expectancy cannot be overstated. While the table assumes actuarial averages, living beyond the projections shown will influence the likelihood of requiring care. For example, a female tobacco user's LTC probability would increase from 34.9% to 46.2% if she were to live to age 90 instead of 84.



Case Study: Personalizing Long-Term Care Costs for Clients (and Their Spouses)

Alex and Ann are both 50 years old and living in San Francisco, California. Their two children have graduated from college, and their house will be paid off in eight years. The couple believes they are in decent shape for retirement but are concerned that they have not fully prepared for all potential issues. They also have little grasp of how much money they will need to save for future medical expenses.

They sit down with Jim, a financial advisor with experience in health care and LTC planning. After reviewing the savings they will need to cover basic household needs, car payments, annual vacations, other miscellaneous expenses, and health care costs, Jim broaches the topic of LTC. He explains that if they want to afford services and leave some type of legacy to their children (and potential grandchildren), they will need to plan for the possibility of future LTC expenses.

Table E-1: One Year of Blended Average LTC at Actuarial Life Expectancy

Client Name	Life Expectancy	Year Requiring Care	Net Present Value Cost	Future Value Cost
Alex	86	2057	$69,448	$201,281
Ann	87	2058	$68,600	$204,786
			$138,048	**$406,067**

By their late 80s, if both Alex and Ann require care, they will need to have saved over $400,000 to cover one year of blended average LTC. Initially, the couple is shocked by the numbers. Jim assures they still have plenty of time to prepare, but he must get more specific to obtain an accurate snapshot.

Jim reminds the couple that health status is critically important in these calculations, so they factor that Alex has high blood pressure and Ann has high cholesterol, but each are otherwise in good health and neither use tobacco products. Their actuarial life expectancies are in the mid-to-late 80s - good news in many respects - but more years of inflation will increase their projected LTC costs.

Since the couple's goal is to remain at home when care is required, Jim provides estimates for 44 hours of home health care, rather than a blended average of all LTC types. Additionally, their average length of care is expected to be longer than just one year: about 1.8 years for Alex and 2.3 years for Ann. Integrating these variables results in significantly higher costs.

Table E-2: Home Health Care Based on Projected Length of Care

Client Name	Life Expectancy	Projected Length of Care	Net Present Value Cost	Future Value Cost
Alex	86	1.8 Years	$100,143	$286,551
Ann	87	2.3 Years	$129,352	$378,407
			$229,495	**$664,958**

Lastly, Jim urges Alex and Ann to further customize these estimates by narrowing where they plan to retire. The couple lives in one of the more expensive LTC regions in the country, but they love San Francisco and do not expect to leave. Jim runs projections for the California state average, as well as San Francisco.

Table E-3: Home Health Care Based on Projected Length of Care, By Location

	National Average		California State Average		San Francisco, California	
Client Name	Net Present Value Cost	Future Value Cost	Net Present Value Cost	Future Value Cost	Net Present Value Cost	Future Value Cost
Alex	$100,143	$286,551	$118,351	$338,652	$128,755	$368,421
Ann	$129,352	$378,407	$152,871	$447,208	$166,309	$486,520
	$229,495	**$664,958**	**$271,222**	**$785,860**	**$295,064**	**$854,941**

Alex and Ann are understandably concerned as they watch their projected costs climb higher and higher after each variable is introduced. Facing $855,000 in future costs (about $295,000 in net present value) can be overwhelming. Fortunately, the couple has time on their side and they may choose from several different investment options, many of which are detailed in the following section. As previously mentioned, the couple may choose between long-term care insurance, life insurance with a chronic illness rider, insurance products with an LTC rider, and a self-insurance option, which would require a $74,935 initial investment (assuming a 7% annual rate of return). Since wide cost disparities exist among various regions, the couple may also choose to investigate different metro areas that offer more cost-effective LTC services.

With almost three decades to prepare and an experienced financial professional guiding their decisions, Alex and Ann can address these future expenses through self-funding and/or insurance product solutions.

How to Financially Prepare for Long-Term Care

The scenario of Alex and Ann is one example that represents millions of people who need to assess their potential LTC needs, but as with all Americans, planning should begin as soon as possible. Does that mean 25-year-old newlyweds should put money aside for LTC instead of a house? Probably not, but individuals or married couples approaching 50, such as Alex and Ann, who have accrued some wealth and want to protect their assets, should start the process. It is critical that both spouses are included in the conversations because, as stated earlier, women tend to live longer and are statistically more likely to require some level of care (often after their partner has passed away). The decumulation of assets can be rapid, and months or years of long-term care bills will significantly reduce savings.

HealthView's analysis undeniably shows that LTC costs are substantial, but a range of solutions are available that can help clients prepare for LTC while still leaving a legacy to children and other loved ones. Some savings options may include, but are not limited to, LTC insurance, a life insurance policy, an LTC rider on an insurance product, self-insuring, or a combination of these strategies.

Long-Term Care Insurance Policy: Premiums are based on a host of variables, including age, health, length and type of coverage, and inflation. It is wiser (and typically less expensive) to purchase long-term care insurance at a young age; unfortunately, because working adults often attend to more pressing household budgeting issues, LTC insurance is rarely a high-priority investment. Generally, length and level of coverage may be selected under the assumption that individuals will presumably require LTC services two years before their projected life expectancy (based on current age, gender, and health conditions). A key benefit of an LTC insurance policy is that it can address costs at any point during one's lifetime.

Life Insurance Policy: This product is primarily designed to provide beneficiaries with a specified cash payment after the death of the insured person. Today, life insurance policies can offer more flexible choices, including a chronic illness rider, which provides the insured with payments based on approved medical conditions, such as Alzheimer's disease, which may require years of LTC.

Long-Term Care Rider on Insurance Product: Annuities or life insurance policies may feature the option to include a long-term care rider, which would allow the policy holder to access a portion of the policy's death benefit to pay for their required LTC expenses.

Self-Insurance: With the help of a financial professional, individuals can fully self-insure for potential LTC expenses at a specific point in time. If Alex and Ann were in a growth portfolio earning 7% annually, they would need $74,935 today to cover nearly $855,000 in future expenses. Another strategy that can help fund LTC expenses is to utilize a health savings account (HSA), a savings option where investors are not required to spend down savings annually, and withdrawals remain tax-free (even in retirement) if utilized for approved health-related expenditures, including long-term care. However, to be eligible for an HSA, an investor must be enrolled in a high-deductible health insurance policy. Self-insurance may be used in combination with insurance products to create a comprehensive plan that fits the clients' unique needs.

Government Programs: When delving into long-term care, it is essential to understand the role that government agencies play and what services they cover (or don't). Individuals must also understand the difference in benefits and eligibility between Medicare and Medicaid.

Medicare is an entitlement that almost all Americans can receive at age 65 and covers hospitalization, doctor visits, and tests. Some Americans still mistakenly believe that Medicare covers long-term care. A visit to Medicare.gov prominently displays the following statement: "You pay 100% for non-covered services, including most long-term care." There is one instance in which Medicare recipients may be eligible for some nursing home coverage: individuals whose injuries or conditions require an admission to a three-day inpatient hospital stay may receive up to 20 days of free care and another 80 days of subsidized ($185.50 coinsurance per day). After this period, the patient assumes all nursing home costs.

Not to be confused with Medicare, Medicaid is a government-sponsored health insurance program covering doctor visits, hospital expenses, home health care, and nursing home care. Sounds promising, but recipients qualify based on a low level of income, which is different in every state. In Massachusetts, for example, individuals are eligible for Medicaid if their annual pre-tax earnings are below $16,971, and they have less than $2,000 in total assets ($3,000 for couples), including property. This means that anyone who owns a home or has even a modest savings or investment account would probably not qualify.

Conclusion

Long-term care has often remained in the background of most health care conversations, as The Affordable Care Act, Medicare, and more recently, COVID-19 have taken center stage, but paying for LTC will become a very real problem for many aging Americans over the next several decades. As stated earlier, a healthy 65-year-old male/female couple has a 44% and 56% chance (respectively) of needing some level of long-term care in their lifetimes. Combined, there is a 75% chance that at least one will require care.

Given the expected inflation rate of LTC services, increasing longevity tables, and the likelihood that a high percentage of Baby Boomers and Gen-Xers will require some level of LTC over the next 20 to 30 years, Americans need to start paying attention to how they are going to afford this expense. To put this into perspective, a 65-year-old woman living to 89 (average longevity for a healthy female) will need more than $373,000 in savings to cover long-term care services. If she were married, this financial burden may arrive after her husband has paid over $237,000 for his own LTC.

Those who start early have time to prepare. As highlighted throughout the paper, experienced financial professionals who draw upon actuarial data to calculate LTC expenses can help. By using accurate cost projections based on probability of care, individuals, couples, and especially women can begin to implement a comprehensive lifetime savings strategy to afford quality end-of-life care and protect the legacies they have worked so hard to build.

About HealthView Services

Founded by a team of financial professionals, health care industry executives, and physicians, HealthView Services is a leading provider of health care cost projection software, products, and services. Its portfolio of retirement health care and long-term care planning applications generates comprehensive and reliable cost projections for over 40 million users annually, including advisors, financial institutions, employees and consumers. The firm also provides training, education, and marketing content for leaders in the financial service industry to address retirement health care with their advisors, clients, and plan participants.

Drawing on actuarial and government data, as well as medical claims, these applications rely on patented algorithms that utilize simple inputs (age, gender, health conditions, income, and state) to create personalized estimates of retirement health care and/or long-term care costs.

With more than a decade of use across the financial services industry, HealthView's software platform has proven to be a powerful driver for retirement planning. The firm has several software applications that include health care cost projections, long-term care costs, Medicare premiums and surcharges, Social Security optimization, and more. These tools offer financial-service clients and retirement-plan participants individualized savings strategies that fund future medical expenses.

End Notes

1 https://www.ahcancal.org/Assisted-Living/Facts-and-Figures/Pages/default.aspx

2 https://altarum.org/sites/default/files/uploaded-publication-files/SHSS-Spending-Brief_February_2021.pdf

3 https://www.medicare.gov/coverage/hospice-care

4 https://www.census.gov/content/dam/Census/library/visualizations/time-series/demo/families-and-households/ms-2.pdf

5 https://www.cdc.gov/chronicdisease/resources/infographic/chronic-diseases.htm