# Facing the Cost of Extended Care

Over the course of our lives, most of us have confronted a single or ongoing expense that seemed daunting. It may have happened once, or many times. Thinking back, images of a first car payment, a mortgage, childcare or college costs may come to mind. It's likely the magnitude of that commitment was influenced by your financial circumstances as well as your ability to plan for that expense and the availability of options.

The ability to cover the costs associated with the need for extended care will be no different – it will be directly tied to your financial circumstances and the options established through advanced planning. Given the cost for this type of care, it is very likely it will far outstrip any previous financial commitment encountered by you, and more importantly, loved ones trying to provide care. Here's why.

**The national average costs for extended care in the United States (in 2021).[1]**

- $1,296 per month for a home health aide[2]
- $560 per month for services in an adult day health care center[3]
- $4,500 per month for care in an assisted living facility (for a one-bedroom unit)
- $7,800 per month for a semi-private room in a nursing home
- $8,910 per month for a private room in a nursing home

[1] Cost of Care Trends and Insights, Genworth, 2022.
[2] Assumes $27.00 per hour, four hours per day, 3 days per week
[3] Assumes $78 per day, five days a week

# The Viability of Using Personal Assets to Pay for Extended Care

There should be no doubt that the cost of extended care can be very high. The burden of that cost will likely fall to the care recipient's family as they try to relieve the personal and emotional burden of trying to provide care themselves.

Odds are, paying for care will likely disrupt every plan that was put in place to secure future financial viability.

Clients may think their assets are sufficient to cover extended care, but a realistic discussion should reveal that portfolios are really "capital" in nature; that is, their purpose is not to be used to pay for care—or any other expense in life—but to generate predictable streams of income that will keep up with a rising cost of living that cannot be outlived.

Using capital to pay for care can create unintended issues with,

- Unnecessary taxes
- Market timing
- Liquidity issues
- Leaving a legacy

And perhaps most importantly, every dollar used to pay for care is one dollar less available to generate income to keep future commitments.

In reality, a reallocation of income and assets will likely result in a severe reduction in lifestyle.

# The Pros and Cons of Relying on Public Programs

Many wonder what kind of financial assistance can be provided through government programs for extended care. There is a common mis-conception that federal programs like Medicare or the VA will help pay for care. But the fact is, these programs primarily cover medical procedures or rehabilitative care, not extended care.

Medicare was, and still is designed to cover health care costs, not long-term care costs.

**Medicare** will only cover the first 100 days of skilled care in a nursing home if,

- The skilled care immediately followed at least a three-day hospital stay, and
- The care recipient entered the nursing home within 30 days of leaving the hospital.

Medicare may also cover skilled care in the home for services like occupational therapy, speech therapy, physical therapy, etc. However, provision of these services is dependent on the expectation the care recipient will get well. As outlined in our first eBook, extended care, by definition, is a chronic impairment that most often requires ongoing custodial care. Extended care is not associated with an acute medical impairment where the individual is expected to recover.


As for **Veterans Affairs**, most long-term care services are available only to veterans who either have severe service-connected disabilities or pass strict means tests on their and their spouses' income. Given this, unless you are a disabled veteran who meets stringent standards, funding will not be available for extended care.

**Medicaid** is a state-managed program that will pay for custodial care in a nursing home – the place most people want to avoid. Medicaid's long term care benefits are the most commonly utilized and misunderstood. Medicaid is not synonymous with long-term care insurance, and many who plan to rely on it are unaware of this. As a result, they find themselves without the care they really need or desired.

Relying on personal assets or long-term care insurance, or a combination of the two, are the most realistic options for covering the cost of extended care.

# Extended Care Solutions

Long-term care insurance (LTCI) has been evolving for the past several years and as a result, there are many more product types available today. Regardless of their design, all have the same purpose, which is to fund a plan to protect loved ones trying to provide care. In our final eBook, "*Options for Transferring Risk*", we'll provide far more detail about each type of coverage. In the meantime, below is a quick summary of each.

**"Traditional" LTC insurance policies**

- These types of plans are intended to cover just one person (though some offer a sharing provision and other couple's benefits if both spouses/partners apply). There are no premium guarantees or money back if the insured does not access benefits.

**Linked-benefit policies (also called hybrid, combo, or asset-based)**

- As the name implies, these linked-benefit policies are annuity or life insurance plans with LTC included. The insured has the proceeds of the life policy's death benefit or annuity cash value for beneficiaries if all of the long-term care benefits are not used.

**Life insurance with an Accelerated Benefit (ABR) rider**

- The advantage here is that these riders cost very little and allow dual use of the death benefit.