

# Long-Term Care Planning: It's All About Family

By Jamie Hopkins – Investopedia

One in five Americans is a caregiver, according to a 2020 report by AARP, which illustrates how many retirees require help in their home, and according to the U.S. Department of Health and Human Services, over 70% of seniors will need long-term care at some point.

Despite the fact that so many retirees need some long-term care services in retirement, very few have a plan in place. This lack of planning impacts one's finances but can put family caregivers in a tricky position. Most long-term care services are provided informally and in an unpaid setting. Without proper retirement planning, long-term care is often shifted onto family members.

- Long-term care for older adults is often shifted onto family members when there isn't a long-term care plan in place.
- Financial duress can impact long-term care, which can be expensive.
- One in five Americans is a caregiver to an older relative, yet over half of all Americans do not have a long-term care plan.

## The Complexities of Long Term Care

Setting up a long-term care plan isn't just about budgeting for expenses or funding the risk through a product like long-term care insurance. To properly plan for long-term care, savers need to decide how they want to get care, the type of care they want to receive, who will provide that care, grant permission for family members to provide care, and develop a way to finance the costs.

Far too many people think that all there is to a long-term care plan is traditional long-term care insurance. As a result, many people who decide that traditional insurance products are a poor fit disregard further planning and miss out on many other planning options and benefits.

## Impacts on Caregivers

The impact on caregivers reaches beyond finances, according to a 2020 Executive Summary by AARP, two out of 10 caregivers say there is an emotional burden due to their roles.

A lack of planning thrusts an often-unprepared family member into the role of caregiver. According to the AARP, making plans about future eldercare like financial needs, living arrangements, and decisions about healthcare isn't prevalent in American households. Just 44% of Americans report their recipient has these plans in place, and only 45% of caregivers have their own future care plans in place.

Ensuring you or your loved one has access to good long-term care requires strong financial planning.

## **Quantifying the Costs of Long-Term Care**

The cost of long-term care varies by geographic area. Annual studies, like Genworth's cost of care study and the AARP Executive Summary, can help provide a baseline idea of what care might cost in an institutional or professional setting.

In most instances, however, responsibility for providing care still falls to spouses and children. As you develop a long-term care plan, make sure you consider the negative financial impacts this might have on them. Consider: Will your family caregiver have to leave the workforce? Will they have to pay for certain expenses out-of-pocket? Your plan may include setting aside funds to offset lost wages or out-of-pocket costs for your family caregiver to help relieve their financial strain.

## **Funding for Long-Term Care**

There are a variety of ways to fund the cost of long-term care. The most obvious choice is to self-fund. This means you set aside the projected costs in investments and savings, likely as part of your retirement planning.

Second, you can opt to use traditional long-term care insurance, which can be extremely beneficial when used for covering the high costs of a full-time nursing home because long-term care insurance can be tailored to specifically cover these types of costs, while other funding sources might fall short. However, be aware that ongoing premium payments can rise over time, making it hard for some individuals to afford the coverage throughout retirement.

Finally, newer products called asset-based or hybrid policies combine features of traditional long-term care insurance and life insurance into one policy. Hybrid policies can be more affordable and are guaranteed to provide either a life insurance benefit if you don't need long-term care or provide coverage if you need long-term care services.

## **Medicaid and Long-Term Planning**

One additional option is to rely on the benefits provided by Medicaid. However, in order to qualify for Medicaid, the individual needs to substantially spend down their assets. Medicaid also typically leaves the individual with less control over the type of care they receive because Medicaid only covers limited services and not all facilities accept Medicaid.

For example, Medicaid is not required to cover costs in an assisted living facility, and legally cannot cover the Medicaid recipient's room and board in an assisted living facility but could cover some care costs.

## The Bottom Line

Taking the time to set up a plan for long-term care gives your family members and caregivers permission to make decisions and spend money to get you the care you need. Without setting up a plan ahead of time, family caregivers must make decisions about how to fund care and how to provide care.

Transferring some portion of the financial risk to an insurance company provides peace of mind, instant liquidity, financial leverage, tax advantages, and may include care coordination services. However, a properly set up plan is not all about the specific product or funding mechanism you utilize, but instead about your quality of life and the family caregivers you are protecting.

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