

# EVADING THE FINANCIAL CATASTROPHE OF LONG-TERM CARE COSTS

Imagine receiving a letter from the bank informing you that your house will be repossessed if you don't pay the balance of your mortgage within two and a half years. What would happen to your finances? Thank goodness this hypothetical is highly unlikely. However, there's a far more realistic scenario you could face that could lead to the same financial stress. The scenario will likely affect 70 percent of Proponent Group members at some point in their lives. And since fewer than 10 percent of Americans have planned for such a predicament, protecting against the massive financial fallout it can produce is one of the most important areas for our clients to consider when developing their financial game plans.

What comes to mind when you hear the phrase Long Term Care? Most picture a frail, half-lucid grandmother parked in front of TV reruns in a lonely hall of a nursing home. While that is certainly an example of a Long-Term Care ("LTC") scenario, it's the exception to the rule. Only 28 percent of LTC recipients live in a nursing home – and

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40 percent of those receiving LTC are under the age of 65. In other words, an LTC need can arise at any time to a healthy person who up until the occurrence of their accident or illness had been enjoying an active life.

So what exactly is Long Term Care?

The universal definition of LTC is a situation in which someone has a cognitive impairment or needs help with two of the six "activities of daily living," such as eating, dressing, or

getting out of bed. A cognitive impairment

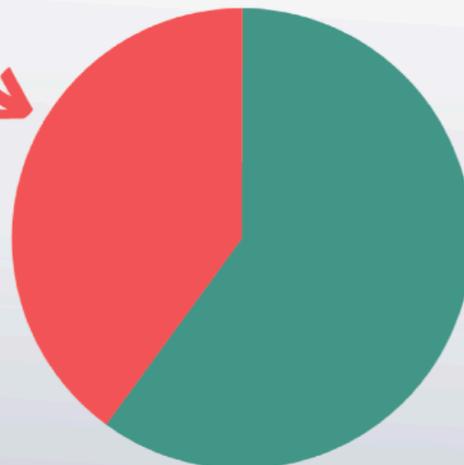
usually results from Alzheimer's, dementia or stroke. The CDC reports that the number of Americans living with cognitive impairment is equal to twice the population of New York City and continues to rise.

At the beginning of this article, you were asked to imagine the distress you'd experience if you had only two years and a half years to repay the balance of your mortgage debt. How and where would you find the hundreds of thousands of dollars required that quickly? And if you were in your later years, how would such an

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## Long-term care is not just for the elderly!

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**18-64**



## How much could Long-Term Care cost?

TYPE	Annual Cost <sup>1</sup>	Duration	Total Cost
Home Health Aide	\$46,332	4.5 years	<b>\$208,494</b>
Adult Day Services	\$17,680	4.5 years	<b>\$79,560</b>
Assisted Living Communities	\$43,539	4.5 years	<b>\$195,925</b>
Nursing Home (semi-private room)	\$82,125	2.5 years	<b>\$205,312</b>
Nursing Home (private room)	\$92,378	2.5 years	<b>\$230,945</b>

Average cost of a home in 2016: **\$208,226<sup>2</sup>**

1. 2016, Genworth Cost of Care Survey, [genworth.com/about-us/industry-expertise/cost-of-care.html](http://genworth.com/about-us/industry-expertise/cost-of-care.html)  
 2. 2016, National Association of Realtors, [nar.realtor/research-and-statistics/housing-statistics](http://nar.realtor/research-and-statistics/housing-statistics)

enormous burden ravage your savings, peace of mind, and quality of life? If you or your loved one needs to utilize a nursing home, the average annual cost is \$92,378 and the average stay is 2.5 years. That's a total cost of around \$230,000. Half of Long Term Care recipients remain in the comfort of their home, which is half the cost of a nursing care facility. But when you factor in that home care averages two years longer than nursing care, the total is \$208,000 – which just so happens to be the cost of the average house in America. As you can see, Long Term Care is a huge threat to your retirement nest egg – one that must to be protected against.

### The Medicare Myth

The real crisis surrounding Long Term Care isn't necessarily the insurmountable cost of care as much as it is the widespread misunderstanding that Long Term Care costs are covered by Medicare. In reality, Medicare only provides limited benefits that apply to very specific situations. You now know that the duration of the average Long Term Care need is over two years. Medicare, however, only covers 100 days of care and only if the care begins immediately after a hospital stay of 3 days. As a result, Medicare only pays around 20 percent of the total amount of Americans' LTC expenses. And for many, it won't pay a dime – leaving many Americans on their own at the rock bottom of a mountain of debt.

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Others hope Medicaid will come to their rescue. Medicaid is a welfare program for the indigent. But to qualify for Medicaid, a family making a claim must be completely broke. While it varies by state, you typically only qualify for Medicaid if you have income at or below the poverty level and have assets of less than \$2,000. As you can guess, that often means selling the house, the furniture, the cars, family valuables, and depleting savings. We don't think any family should be subject to plundering their life just to receive the care they need.

So, if there's a 70 percent chance of needing Long Term Care, the average of which exceeds \$200,000 – and government programs don't cover you unless you're totally broke – why have less than 10 percent of Americans protected themselves from such a threat?

Answer: because while there's a 70 percent chance that you will need it, there's a 30 percent chance that you won't. It may sound like a foolish game of financial Russian roulette, but keep in mind, when people calculate spending tens of thousands over

the lifetime of a traditional Long Term Care policy they can't help but wonder, "what if I never need it and if I'm just throwing this money away?"

Or more likely, "what if I receive benefits but they're only for a fraction of what I paid in?" The outcome of this dilemma – this

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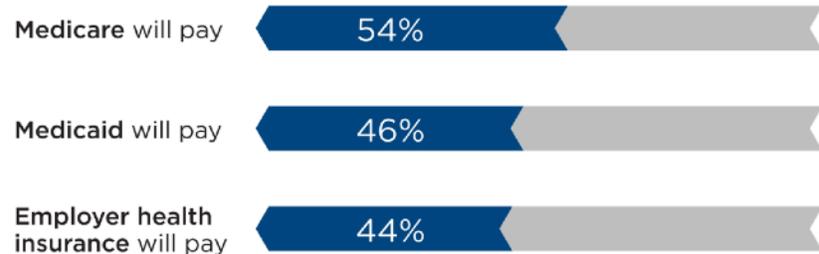
notion of “use it or lose it” – paralyzes people in making a decision and they end up foregoing LTC protection. Such a decision could expose a person to the full cost of care – which often requires the ransacking of retirement accounts and inheritance funds. Heartbreaking, yes, but the worst-case scenario can be even more devastating. It ends with a sufferer bereft of all assets and a ward of the state via the Medicaid program.

### The Solution

At WealthWave, we teach our clients to make shrewd decisions about their future and take advantage of products and strategies that allow them to properly plan for Long Term Care. The industry has developed intriguing new products that can protect against Long Term Care threats without the use of traditional Long Term Care insurance (which, in addition to the “use it or lose it” feature, also has other drawbacks). These new, alternate solutions provide true insurance protection against the threat of LTC but can also guarantee that your premium payments doesn't go to waste. In most cases, our clients are assured that their premium dollars will grow into a larger benefit which can be used as a Long Term Care solution or as a death benefit to their families (or a combination of the two). Other strategies allow clients to leverage their money in case they need LTC without the risk of losing money if they never need LTC.

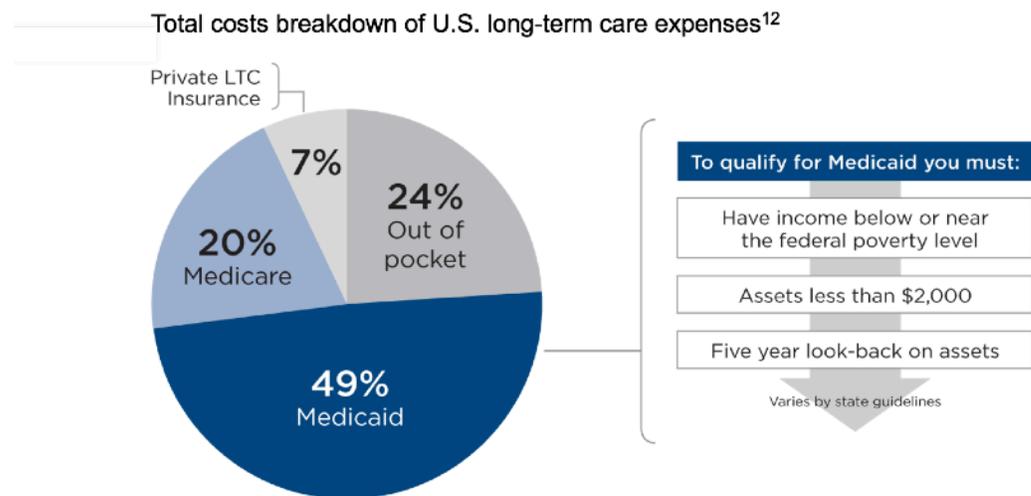
## How will you pay for long-term care? The MYTH

Percent of Americans who believe private and government insurance programs pay for long-term care expenses:



Source: AAHSA, American Association of Homes and Services for the Aging

## How LTC cost are paid for – The REALITY



<sup>12</sup> National Clearinghouse for Long-term Care Information.

### Special Considerations for Proponent Members

While everyone needs to properly plan for the threat of Long Term Care, Proponent members should pay special attention to this subject. Injuries play an increasing role in new LTC claims, evidenced by the fact that 40 percent of people receiving LTC are under the age of 65. In 2015, 19 percent of LTC claims resulted from injuries. So not only could LTC put a major dent in your retirement income, it could also lead to a significant disruption of your business income. We can help you protect your family and your business. **PG**