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## **Avoiding a Long-Term Care Crisis**

*Planning is the only cure*

Long-term care may soon overtake Social Security and Medicare as our country's most pressing social challenge. With an enormous and rapidly aging baby boom population and the rising cost of delivering healthcare, long-term care looks like a national crisis in the making. However it need not be a personal crisis. With forethought and careful financial planning, many families can prepare for the expenses of long-term care and maintain choices late in life.

Currently, 55 percent of the population over age 85 is receiving long-term care. About 70 percent of individuals over 65 will require at least some type of long-term care services during their lifetime. More than 40 percent will need care in a nursing home for some period of time.<sup>i</sup> And it is not strictly an elder care issue. According to the U.S. Government Accountability Office, about 40 percent of individuals receiving long-term care are under the age of 65.<sup>ii</sup>

### **The cost of care**

Long-term care is very expensive. According to the MetLife Mature Market Institute, the 2009 average daily rate for a private room in a nursing home was \$219 or \$79,935 annually.<sup>iii</sup> Based on the average length of stay in a nursing home of 2.8 years<sup>iv</sup>, a patient would need \$223,818 for an average stay. Meanwhile the median U.S. household income is \$49,777.<sup>v</sup>

Home healthcare can be even more expensive. The average cost of a home healthcare aide in the U.S. was \$21 an hour in 2009.<sup>vi</sup> At that rate, those requiring 24-hour care would run up a bill of \$183,960 per year.

These costs are very high, and have risen faster than inflation or incomes. Government programs provide only limited support, an estimated 16 percent of the more than \$200 billion spent each year on long-term care.<sup>vii</sup> When government programs are available, they often cover only a portion of costs, sometimes in less than desirable facilities.

### **Lack of planning**

Despite these sobering facts, a 2006 national survey by Public Opinion Strategies found that 65 percent of Americans had made no long-term care plans for themselves or their spouse. Why? It is human nature not to worry about events until they happen. Few want to think about disease and frailty that await us years or decades down the road. In addition, many individuals may expect Medicare and Medicaid will provide more assistance than is actually available.

This lack of planning – resulting in many decisions being made on a crisis basis – can compromise the care received and is likely to have severe consequences for the individual's family. A spouse or children may be forced to provide constant, demanding care or make significant financial sacrifices. Adult children may be forced to make difficult choices – such as college tuition for their children or nursing care for their parents – or jeopardize their own preparations for old age. For those with no immediate family, long-term care can be a burden to extended family members.



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## Get ready

What should you do to develop a long-term care plan for yourself and your spouse? Here are some starting points:

**Start early.** The first step is to start planning early. Do not put it off. The need for long-term care is not limited to the elderly. You need to gain some level of knowledge and understanding of what the issues are. This will help you prevent crisis planning, save money, save valuable time, and expand the options available.

**Understand services.** There are several levels of long-term care, including adult care, home care, retirement housing, assisted living, and nursing homes. Services for these levels of care range from providing help around the house with meals, housekeeping, and shopping to 24-hour nursing care, each with different costs and constraints.

**Get help.** Long-term care services are complicated and expensive. Using professional care advisors is the most cost effective and efficient way to plan for yourself or a loved one. Care advisors include professional care managers, long-term care and financial planning specialists, elder care attorneys, elder mediators, and CPAs.

**Adult children may be forced to make difficult choices – such as college tuition for their children or nursing care for their parents – or jeopardize their own preparations for old age.**

**Use all the financial tools.** Alternatives for paying for long-term care typically include one or more of the following: personal assets, long-term care insurance, Medicare, Medicaid, IRAs, reverse mortgages, and life insurance arrangements. Preparing for expenses may mean changing one's investment asset allocation, reducing spending, or increasing savings. With proper planning many individuals can remain in their homes to receive long-term care and avoid going to an institution or hospital.

**Explore insurance.** Many individuals consider purchasing long-term care insurance policies to fund care. These policies are meant specifically for nursing home or other specialized care. Premiums vary widely based on age at purchase and extent of coverage. Consumers may find fewer options for long-term care insurance in years ahead. Some providers, finding it difficult to make money on the policies, are no longer writing new policies or are raising premiums. For instance, John Hancock has filed for permission to raise premiums for about 80 percent of its customers by an average of 40 percent.<sup>vii</sup>

**Get on the same page.** People planning for long-term care must make their wishes known to family or other involved caregivers, choose a care advocate, provide funding, and have their legal documents drafted and in place. No plan is complete without a formal meeting and a written care agreement that is understood, agreed upon, and retained by



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everyone involved. Clear instructions and checklists should also be provided to follow when the time for care comes.

Planning for long-term care takes time. But the investment may allow you to avoid some of the sleepless nights that many families without a good plan suffer through. Your wealth manager or financial planner can help you understand the financial realities of long-term care and create a proactive plan to prepare for what lies ahead.

*By Stephen High, CPA, JD, PFS, Chief Manager of Kraft Asset Management, LLC, an independent founding member of Bright Sky Group. © 2010 All rights reserved.*

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<sup>i</sup> National Clearinghouse for Long-Term Care Information [www.longtermcare.gov](http://www.longtermcare.gov)

<sup>ii</sup> US General Accounting Office, [www.gao.gov](http://www.gao.gov)

<sup>iii</sup> The 2009 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs, October 2009

<sup>iv</sup> Genworth 2009 Cost of Care Survey, Genworth Financial, April 2009

<sup>v</sup> Income, Poverty, and Health Insurance Coverage in the United States: 2009, page 4, US Census Bureau, [www.census.gov](http://www.census.gov)

<sup>vi</sup> National Clearinghouse for Long-Term Care Information [www.longtermcare.gov](http://www.longtermcare.gov)

<sup>vii</sup> U.S. Department of Health and Human Services, [www.hhs.gov](http://www.hhs.gov)

<sup>viii</sup> “When a Safety Net Is Yanked Away,” by Ron Lieber, *New York Times*, November 12, 2010

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