The Wealth Report

AGE-INDUCED DISABILITY: FINANCIAL, RETIREMENT & ESTATE PLANNING

We're living longer these days, and with a longer life, many of us will need some type of caregiving assistance, whether it's from a home health aide or a family member, or in a nursing home. The challenge retirees face is how to pay for that care, no matter who provides it.

Overview

The odds are strong that you'll live long enough to need caregiving assistance. The U.S. Administration on Aging reports the following statistics for a 65-year-old couple:[1]

- 72% chance that one spouse will live to age 85
- 45% chance that one spouse will live to age 90
- 18% chance that one spouse will live to age 95

Have you considered how the cost of paid caregiving services will impact your retirement savings? The older we live, the more our minds and bodies can wear down, so many people in their 80s and 90s need at least some help with things like driving/accompanying to medical appointments, monitoring medications, cleaning house, preparing meals, paying bills and making financial decisions, dressing, bathing and incontinence issues.

When it comes time to consider long-term care expenses, some people are surprised to learn that Medicare doesn't cover this type of assistance. Medicaid offers coverage, but only after the beneficiary has spent down assets to less than $2,000, and regular income such as Social Security is below their state threshold. And even when retirees do meet the financial criteria, be aware that the waitlist time for Medicaid home care assistance is an average of three years. Given staffing shortages and burnout rates related to COVID-19, that timeline isn't likely to improve anytime soon.[2]

Long-Term Care Fund

Research shows that retirees who need long-term care typically require about $100,000 per year for two to three years. And for those with longevity genes in the family, caregiving could go on for even longer than three years. For many people saving for retirement, that's a serious chunk of their net worth.

One strategy is to establish a long-term care fund separate from retirement savings accounts. This could be a dedicated Roth IRA or a health savings account (HSA). The purpose of this account is to invest it for continued growth, untapped, even as you spend down your retirement assets. Because it is designated to be used only in the latter stages of life, this gives an investor a longer timeframe in which she can be more aggressive in her investment strategy.

Consider regularly contributing to this LTC-designated account with funds you might otherwise use to pay for long-term care or life insurance. A strategic asset allocation — much like a target date fund — could be designed to generate potentially higher returns than a life policy's combined cash value and face value of the death benefit. That way, you can freely tap your own tax-free (if using a Roth or an HSA) assets if you need them for caregiving expenses. If you end up not needing the money, this account could be designated as an inheritance for children or grandchildren.[3]

- Inherited Health Savings Account — Bear in mind that the HSA is not advantageous for non-spouse heirs. The remaining value in the account is both paid out in full and taxable to the beneficiary in the year of the original owner's death. If you designate an HSA to fund your caregiving expenses, use up the assets in this account first.[4]

- Inherited Roth IRA — When you leave a Roth to heirs, beneficiaries enjoy the same tax-advantaged treatment as long as you own the account for at least five years before you pass away. Beneficiaries also avoid required minimum distributions (RMDs) but must take full distribution of the account within 10 years.[5]

Long-Term Care Insurance

The problem many consumers have with long-term care insurance (LTCi) is that they could pay high premiums for years — and then pass away suddenly — never actually getting to use the policy. Another issue is that the covered retiree is not likely to receive full reimbursement for their caregiving expenses. LTCi policies typically pay out a fixed amount, such as $100 per day, for nursing home, assisted living facility or home health aide fees. A policy may require a waiting period before coverage kicks in, such as 90 days, and there may even be a limit to how long coverage lasts.

However, in addition to LTCi, the insurance industry has developed different types of hybrid life insurance policies and asset-based long-term care insurance. These contracts are designed to provide flexibility to meet multiple objectives, combining the benefits of retirement income, a death benefit for heirs and the ability to instead use the coverage as a living benefit to pay for long-term care assistance if needed. That way, you don't pay for coverage you don't need, but it's there if you do.

These types of policies include long-term care coverage options through a variety of plan models, such as a:

- Long-term care rider — Added to a whole or universal life insurance policy for an additional fee
- Terminal illness benefit — Pays out a portion of the policy's death benefit if the policy owner is diagnosed with a terminal illness or cognitive impairment

- Accelerated benefit — Pays out a portion of the policy's death benefit for long-term caregiving expenses

Be aware that an accelerated benefit rider sold with a life insurance policy typically raises premiums by 5% to 10%. Some insurers, however, have begun to include LTC benefits as a standard feature in response to the number of retirees seeking a long-term solution.[6]

Annuity Income

An annuity is an insurance contract that provides income that can be used to help pay the costs of long-term care during retirement. Some annuities offer a long-term care rider as an optional benefit (for an additional fee) that allows for withdrawals to cover long-term care expenses.

In 2006, the Pension Protection Act enabled the development of a long-term care qualified annuity (LTCQA) — a deferred fixed annuity designed to help pay for nursing home, assisted living, home health care, chronic illness and terminal illness expenses later in life.

Specifically, the LTCQA:[7]

- Credits a certain amount of interest each year; usually around 1%
- Generally provides about three times the amount of the premium for LTC payouts
- Typically limits the monthly payout
- Typically limits the number of months benefits will be paid (e.g., 60 months)
- Pays out initial distributions from the policy owner's account value
- Pays out enhanced LTC coverage once the account value is depleted
- Typically imposes a surrender charge on withdrawals during the first seven to 10 years

"Aging parents' lack of a retirement nest egg can seriously affect adult children's own preparations, increasing the likelihood they'll have to rely on their own children someday."[8]

Family Caregiving

According to recent research, 16.8% of the population currently provides care for an adult over age 50. It is important to recognize that although family caregiving is taken for granted as free, there is a significant financial toll — only it is paid by the caregiver.

Among America's unpaid family caregivers:[9]

- 28% have stopped saving

- 23% have taken on more debt
- 22% have used up their personal short-term savings
- 11% report being unable to cover basic needs, including food
- 40% provide that care within their own homes

Caregiving costs should be factored in by anyone planning for their own retirement who still has living elderly parents. The data shows that more than 50% of people ages 55 to 64 spend time caring for an older family member.[10]

When it comes to paying for your own care as a senior, you could consider buying your way into an adult child's good graces. With early planning — including ground rules and boundaries — you could invest in your offspring's goodwill. For example, use your assets to help buy him a house that includes an in-law suite, or build a small Accessory Dwelling Unit (ADU) to suit your needs as you age in place in his backyard.

In 2021, the IRS allows you to gift up to $15,000 per person to an unlimited number of recipients each year, excluded from the lifetime limit for gift taxes ($11.7 million). This means a married couple can give as much as $30,000 a year to each child and all the grandchildren, every year, without running into a gift tax situation.[11] By basically paying your children to care for you in old age, instead of paying for long-term care, you can keep the wealth in the family.

If a family caregiver is willing to move in with you, consider changing the deed for your home to share legal ownership with your child. This will allow the property to pass directly to your heir, without probate, when you pass away.[12]

Final Thoughts

We tend to spend most of our retirement planning efforts focused on income for a comfortable retirement lifestyle, with a cushion for rewarding experiences such as travel, country club fees and pursuing hobbies. However, retirement plans can fall short if you neglect to plan for what happens in the latter stages of life, like when your health fails or you need long-term care assistance or an alternative housing arrangement — particularly after one spouse dies.

It is difficult to plan for the unknown, but it is exactly what is required for a successful retirement plan that will meet your needs right to the end. But you don't have to go it alone. Discuss your situation with an experienced financial professional who helps retirees face these challenges every day. Together, you can develop a financial, retirement and estate plan for age-induced disability.

[1] Sandra D. Adams. The Street. Sept. 13, 2021. "Make Aging Planning Part of Your Retirement Planning Process." https://www.thestreet.com/retirement-daily/planning-living-retirement/make-aging-planning-part-of-your-retirement-planning-process. Accessed Sept. 13, 2021.
[2] Anne Helen Petersen. Vox. Aug. 26, 2021. "The staggering, exhausting, invisible costs of caring for America's elderly." https://www.vox.com/the-goods/22639674/elder-care-family-costs-nursing-home-health-care. Accessed Sept. 13, 2021.
[3] Christine Benz and Susan Dziubinski. Morningstar. Aug. 31, 2021. "Crafting a Plan for Long-Term Care." https://www.morningstar.com/articles/1056296/crafting-a-plan-for-long-term-care. Accessed Sept. 13, 2021.
[4] Dan Moisand. MarketWatch. Sept. 25, 2020. "What are the rules for inheriting an HSA?" https://www.marketwatch.com/story/what-are-the-rules-for-inheriting-an-hsa-2020-09-25. Accessed Sept. 13, 2021.
[5] Robin Hartill. The Motley Fool. July 23, 2021. "Inherited a Roth IRA? Here's What to Do Now." https://www.fool.com/retirement/plans/roth-ira/inherited/. Accessed Sept. 13, 2021.
[6] David Faulkner. Kiplinger. Sept. 11, 2021. "Is Your Retirement Plan Missing an Essential Piece?" https://www.kiplinger.com/retirement/long-term-care/603422/is-your-retirement-plan-missing-an-essential-piece. Accessed Sept. 13, 2021.
[7] Scott Stolz. Investment News. April 30, 2020. "You probably haven't heard of this annuity." https://www.investmentnews.com/you-probably-havent-heard-this-annuity-192140. Accessed Sept. 13, 2021.
[8] Claire Samuels. A Place For Mom. July 7, 2020. "What is the Sandwich Generation? Unique Stress and Responsibilities for Caregivers Between Generations." https://www.aplaceformom.com/caregiver-resources/articles/what-is-the-sandwich-generation. Accessed Sept. 13, 2021.
[9] Anne Helen Petersen. Vox. Aug. 26, 2021. "The staggering, exhausting, invisible costs of caring for America's elderly." https://www.vox.com/the-goods/22639674/elder-care-family-costs-nursing-home-health-care. Accessed Sept. 13, 2021.
[10] Sandra D. Adams. The Street. Sept. 13, 2021. "Make Aging Planning Part of Your Retirement Planning Process." https://www.thestreet.com/retirement-daily/planning-living-retirement/make-aging-planning-part-of-your-retirement-planning-process. Accessed Sept. 13, 2021.
[11] Sidney Kess. New York Law Journal. Sept. 7, 2021. "Transfers Without Consideration: Income and Gift Tax Implications." https://www.law.com/newyorklawjournal/2021/09/07/transfers-without-consideration-income-and-gift-tax-implications/?slreturn=20210814091003. Accessed Sept. 14, 2021.
[12] Erica Gellerman. Rocket Mortgage. April 8, 2021. "Life Estate: What Does It Mean And How Does It Work?" https://www.rocketmortgage.com/learn/life-estate. Accessed Sept. 13, 2021.