

Looking Ahead with Long-Term Care

As much as you may not want to think about it, you may want to consider long-term care as you age. About 50% of people turning age 65 will require some type of paid long-term care in their lifetimes. Women will need 3.7 years of care, on average, while males will need an average of 2.2 years.¹

Long-term care is often a benefit when you have a serious or sudden health condition such as a stroke or heart attack. Depending on your needs, long-term care can be given by family members at home or in a facility such as a nursing home. There are two ways you can help cover the cost of long-term care: long-term care insurance and an annuity with a long-term care rider. What are the different types of life insurance?

The Cost of Long-Term Care

Long-term care is expensive, and as a result, could deplete your retirement savings. The average cost for a private room in a nursing home increased by 5% between 2022 and 2023 and Home Health Aide costs increased 10% in that same period.²

Below are the estimated annual costs of different types of long-term care service:²

ESTIMATED ANNUAL COSTS	
Types of Services	Price
Private room nursing home	\$116,800
Assisted living facility	\$64,200
Adult Day Health Care	\$24,700
Home Health Aide	\$75,504

What Long-Term Care Insurance Covers

Long-term care insurance includes services that aren't covered by regular health insurance or Medicare, such as bathing, dressing or getting in and out of bed. These are known as activities of daily living (ADLs). Medicare only covers short



What You Need to Know

- Long-term care includes services that aren't covered by regular health insurance or Medicare, such as bathing, dressing or getting in and out of bed.
- The average cost for a private room in a nursing home is about \$116,800 per year.²
- Long-term care insurance or an annuity with a long-term care rider are products which can help cover the cost of long-term care.
- If you make premium payments toward a tax-qualified long-term care insurance policy, some or all of the payments may be tax-deductible.
- If you don't need long-term care, a long-term care annuity may pay the remaining funds to your beneficiaries.³

nursing home stays or limited home health care. Long-term care insurance policies generally would reimburse you for these services in such locations as:

- Your home
- Adult day care center
- Assisted living facility
- Nursing home

Some policies also cover care related to chronic medical conditions such as Alzheimer's disease and other cognitive disorders.



How Much Does Long-Term Care Cost

The cost of long-term care insurance depends on a variety of factors:

- **Age and health:** The older you are, the more you'll pay for a policy due to the increased risk of health problems.
- **Gender:** Women usually pay more than men because they tend to live longer and have a greater chance of making long-term care insurance claims.
- **Marital status:** Premiums are lower for married people than for single people.
- **Amount of coverage:** More comprehensive coverage, such as higher limits on the daily and lifetime benefits, cost-of-living adjustments to protect against inflation, and fewer restrictions on the types of care covered, will be more expensive.

The chart below outlines the annual premiums for a policy with a 3% annual growth for a 55-year-old.⁴

ANNUAL PREMIUM ESTIMATES		
Status	Age	Premium
Single male	55	\$2,100
Single female	55	\$3,600
Couple	55	\$5,025

How Does Long-Term Care Insurance Work

When you apply for long-term care insurance, the insurer may ask you health questions and/or request your medical records. Once the insurer approves your policy, you will start paying premiums every year. These premiums can increase each year.

Long-term care usually goes into effect when you can no longer perform a set number of "activities of daily living (ADLs)." When it's time to use your policy, the insurance company will request your medical records for review and may send a nurse to perform an evaluation before approving a payout. Once approved, you will be reimbursed for paid services, up to the cap on your policy.

Tax-Advantages of Insurance

If you make premium payments toward a tax-qualified long-term care insurance policy, some or all of the payments may be tax-deductible if you spend more than 7.5% of your adjusted gross income on medical expenses that year.

How to Buy Long-Term Care Insurance

You can purchase long-term care insurance from an insurance company or through a licensed insurance agent.

Before you shop around, be sure to check with your employer. Some employers offer employees policies at a group rate. It might be easier to qualify for a group long-term care policy than if you buy it on your own. As with any major purchase, you'll want to get at least three quotes from insurance companies even if your employer offers it. You want to make sure that you get the best rate and a policy that meets your long-term care needs.

Annuities with a Long-Term Care Rider

In addition to long-term care insurance, you have the option to purchase an annuity with a long-term care rider. Annuities are insurance contracts that convert a premium into a steady stream of income. You can add riders to annuities, which are provisions to optimize the contract so it meets your financial needs.

Deferred long-term care annuities are available to individuals up to age 85. You can purchase an annuity from an insurance company with a single premium payment in exchange for regular monthly income for a specific period of time. The annuity creates a fund specifically for long-term care expenses and a separate cash fund for income. If you don't use the long-term funds, your beneficiary will receive the remaining money.

How Do These Annuities Work

The long-term care portion can be accessed immediately, but you must wait until the date noted in your contract to access the cash portion. Your contract will include the amount you can access each month for long-term care and the amount you can access each year from the cash fund.

Similar to long-term care insurance, in order to get reimbursed for long-term care, you must need help with activities of daily living. It doesn't matter if the health condition is permanent or temporary.

For the long-term fund, the monthly payout will usually be a multiple of your normal monthly income stream from the annuity, and sometimes, these riders can double or even triple your monthly payout for a certain period of time. For example, a \$100,000 annuity may pay out \$200,000 or \$300,000 worth of long-term care benefits for up to five years.

Comparing Your Options⁵

Long-term care insurance and an annuity with a long-term care rider are similar in that they help you with long-term care costs. The chart below will show the major differences between the two products:

INSURANCE VS. ANNUITIES	
Long-term care insurance	Long-term care annuities
No income if you don't need long-term care	Generates income even if you don't need long-term care
More expensive	Less expensive
Greater level of reimbursement for expenses	Lower level of reimbursement for expenses
Stricter medical underwriting	Less stringent medical underwriting

Hopefully, you will never need long-term care but it's something to consider as you prepare for your future needs. Not only might it be tax-deductible in certain cases, but it can also protect your retirement savings. Whether you choose long-term care insurance or an annuity with a long-term care rider, be sure to research providers and choose the product that fits your financial needs.



Sources:

- 1 Benz, Christine. (2023, March 29) 100 Must-Know Statistics about Long-Term Care: 2023 Edition. Morningstar. <https://www.morningstar.com/personal-finance/100-must-know-statistics-about-long-term-care-2023-edition>
- 2 Genworth. Cost of Care Survey, 2023. <https://www.genworth.com/aging-and-you/finances/cost-of-care>
- 3 Annuities are a contract you purchase from an insurance company. Please keep in mind that annuities have limitations and are not intended to replace emergency funds, to be used as income for day-to-day expenses, or to fund short-term savings goals. Read all disclosure and understand the contract.
- 4 American Association for Long-Term Care Insurance, 2023. <https://www.aaltci.org/long-term-care-insurance/learning-center/lcfacts-2023.php>
- 5 These points are general and all contracts require thorough review and understanding the risk since they are an investment option. Some contracts have more risk than others.

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