



New and Unexpected Ways to Fund Long-Term Care Expenses

Too many people think that long-term care planning is just a decision about whether to purchase long-term care insurance. However, long-term care planning is so much more. It is a discussion about how you will fund this expense, where you will receive long-term care, and who will provide the care. Unfortunately, very few people are prepared to deal with this risk as less than [eight percent of people have long-term care insurance](#) and only [ten percent of people in the U.S. have a long-term care plan in place](#). This lack of planning is extremely troubling because long-term care is a very real and expensive risk as nearly 70% of people will need long-term care at some point and the cost of one year in a [semi-private nursing home can exceed over \\$150,000](#). According to a [joint study](#) between New York Life's Long-Term Care Operations and Univita Health, the average annual cost of a private nursing home room in 2014 is roughly \$95,706, representing a twenty percent increase over the past five years. With the cost of long-term care services rising, low long-term care insurance coverage, and few formal plans in existence, consideration of new options for funding long-term care expenses need to be highlighted.

While long-term care insurance is one way to fund long-term care expenses, it is not the only option. Policies can be expensive, unavailable (to those who are not healthy enough to purchase them), and many object to the use-it-or-lose-it nature of long-term care insurance. Long-term care expenses can also be financed through a variety of newly developed "hybrid" or so called [linked-benefit products](#). One such product seeing tremendous growth and adoption is the life insurance policy that offers tax qualified long-term care riders. According to the American Association for Long-Term Care Insurance's 2014 LTCi Sourcebook, the sale of life insurance policies with long-term care riders increased by nearly 24% in 2012. For example, Nationwide Financial saw policy sales grow from 2,377 in 2011 to 4,540 in 2012. These hybrid life insurance and long-term care policies give the policy owner access to the majority of the death benefit if long-term care services are needed. If long-term care services are not needed or all of the death benefit is not used up to pay for long-term care expenditures, the remaining death benefit is paid out to the beneficiaries upon the death of the policy owner.

Life insurance policies can also be used to fund long-term care costs in a variety of other manners. First, if the policy has a cash value, this amount can be accessed through withdrawals and/or policy loans to pay for long-term care expenses. Second, the policy could be sold (referred to as a life settlement option) to help pay for long-term care expenses. In some cases, a life settlement can give the policy owner up to three times the amount of money as the cash value option. A third option is a viatical settlement, which is also selling the policy, but is done when the policy owner is terminally ill. With this approach, proceeds from the sale are generally income tax free. The amount the terminally ill policy owner is entitled to sell the policy for will be determined by their expected life expectancy and policy benefits.

In addition to life insurance and long-term care insurance hybrid policies, annuities have also been linked to long-term care benefits. For example, some annuities now offer tax qualified long-term care benefits. Companies like One America offer fixed annuities with long-term care riders, which enable you to invest the money you might have saved for long-term care into a product that provides a fixed income but also will provide higher payouts if you need long-term care benefits. In some cases, these types of products will double or triple the annuity payment when long-term care is needed. Additionally, these products can be purchased with a single lump sum payment which might be preferable to long-term care insurance which generally requires life-time payment of premiums and the possibility that premiums will rise significantly (which has occurred with some policies over the past few years). Lastly, both life-insurance and annuity hybrid products solve the use-it-or-lose-it problem with long-term care insurance. If the long-term care benefit is not needed, benefits are available for other purposes.

If you own an existing life insurance or annuity product, you might be able to exchange that policy for a hybrid product that offers a long-term care benefit or for a standalone long-term care insurance policy. The Pension Protection Act of 2006 allowed for 1035 exchanges of traditional life insurance and annuity products to hybrid long-term care policies. For example, the life insurance policy could be 1035 exchanged for a long-term care insurance policy without having to pay taxes on the buildup of value inside of the life insurance policy. Ultimately, this 1035 like-kind exchange eliminates the taxable gain inside the annuity or life insurance policy because the qualified long-term care insurance policy allows for tax-free payouts for qualified expenses.

Before purchasing either a life insurance or annuity and long-term care hybrid product it is crucial that you shop around as products and prices vary considerably. Also, make sure you are buying the product that best fits your needs and goals as every product will not work for every person and situation. Additionally, make sure that you can afford the investment before you make the purchase as some products do not offer any return of premiums and the decision will be final. Each person's situation is different and you need to see if any of these solutions fit your situation.



Another potential funding source for long-term care expenditures is a traditional income annuity. Income annuities have the advantage of paying out income whether or not long-term care is needed. Life annuity income can be purchased over time during retirement to build an income source later in retirement when long-term care needs are likely to occur. The advantage of buying annuities over time is that you do not have to lock into the strategy entirely, if health or economic status changes. Another option is the deferred income annuity, in which a specified monthly annuity amount is purchased at a younger age (50's or 60's) with the intention of beginning benefits later in retirement (80-85). This type of annuity can provide significant income at a relatively low cost because of the extended deferral period and the fact that annuities that begin at a later age have a much higher payout rate due to the shorter payout period.

Reverse mortgages can provide another option to pay for long-term care expenses. Reverse mortgages can payout in the form of a lump-sum benefit, monthly payment, or a line of credit. The loan does not have to be repaid until the last homeowner borrower leaves the home. As such, a reverse mortgage does not necessarily help someone who ends up in a nursing home as the home will likely need to be sold to pay off the reverse mortgage. However, if an individual needs long-term care services in the home, a line of credit reverse mortgage might be an appropriate way to pay for this care and remain in the home.

While self-funding, long-term care insurance, Medicaid, and family provided care will continue to be the primary sources of long-term care funding for the foreseeable future, the market is changing and more people are becoming aware of these new and alternative ways in which to pay for long-term care. Whatever avenue you decide to take, having a plan in place is crucial. Furthermore, as new financing opportunities develop and your circumstances change, your long-term care plan will likely need continued monitoring and adjusting.