HOW TO USE YOUR ANNUITY FOR LONG-TERM CARE

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It's difficult these days to have a conversation about how to pay for rising health care costs and not have the topic of long-term care enter into the discussion at some point. When planning for the potential cost of long-term care, you may have considered purchasing long-term care insurance.

But long-term care insurance policy premiums can be expensive—and there may be a chance you'll never have to use it. If that's the case, you may be asking yourself, "Do I really need long-term care coverage?" The answer is "yes"—and here's why.

WHO NEEDS LONG-TERM CARE COVERAGE?

The world's population is aging at a faster rate than ever before and people are living longer. According to a Genworth Cost of Care survey, "every day until 2030, ten thousand (10,000) Baby Boomers will turn 65 and 7 out of 10 individuals will require long-term care in their lifetime."[1]

WHO FOOTS THE BILL FOR LONG-TERM CARE EXPENSES?

Depending on the amount and type of care you need—and where you get it—long-term care can be expensive. In 2020, the national average cost of nursing home care was $93,072 a year for a semi-private room and $105,852 a year for a private room. These costs do not include items such as therapies and medications, which could make the numbers much higher.[1]

The responsibility for paying for long-term care services falls on your shoulders—Medicare, Medicare supplemental insurance, and regular health insurance (medical insurance) typically will not pay for long-term care assistance or facilities. However, there is some assistance from Medicaid for those who qualify.[2]

For individuals who don't have a long-term care insurance policy or a long-term care insurance alternative, typically expenses are paid out-of-pocket with funds from savings accounts, retirement plans, or investments. Unfortunately, some individuals who have incurred extremely high expenses end up selling their homes to pay for long-term care needs.

YOU HAVE OTHER CHOICES.

If you're looking for alternatives to traditional long-term care insurance, you might want to consider annuities that are built specifically for long-term care or critical illness needs.

You may choose to enter into an annuity contract with an insurance company to help pay for long-term care services. In exchange for a single lump-sum payment or series of payments, the insurance company will send you an annuity, which is a series of regular payments over a specified and defined period of time. After investing in the annuity, you may not have to make any more premium payments as you would with a stand-alone long-term care insurance policy. Some long-term care annuities provide an option to double or triple your initial single premium payment to generate a tax-free long-term care insurance benefit.[2]

The U.S. Department of Health and Human Services recommends several types of long-term care annuities you may want to consider for your long-term care needs: an immediate annuity or a deferred long-term care annuity. The agency's website provides the following general overview of each type available.[2]

AN IMMEDIATE ANNUITY. With this type of annuity, the insurance company will send you a specified monthly income in return for a single premium payment, regardless of your current health status. If you don't qualify for long-term care insurance because of age or poor health, or if you're already receiving long-term care, you can still purchase an annuity.

So how does it work? The insurance company converts your single premium payment into a guaranteed monthly income stream for a specified period of time or for the rest of your life. The amount of money you receive in income each month depends on your initial premium, your age, and gender. Keep in mind women tend to live longer than men so they generally receive a smaller monthly payment over a longer period than do men of the same age.

The U.S. Department of Health and Human Services recommends you consider three key things before you purchase an immediate annuity:

- The annuity amount you receive may not be enough to pay for your long-term care expenses.
- Inflation may reduce the value of the monthly income you receive from the annuity.
- The effect annuities can have on your taxes is complicated. Consult your insurance, legal, and tax professionals before purchasing any type of annuity.

DEFERRED LONG-TERM CARE ANNUITY. One of the advantages of deferred long-term care annuities is they are available to people up to age 85. However, to qualify for this type of annuity you must satisfy certain health criteria.

Similar to other annuities, in exchange for a single premium payment, you receive a stream of monthly income for a specified period of time. This particular type of annuity creates two funds for you: One fund is for long-term care expenses and the other is a cash fund that can be used however you want.

You can access the long-term care fund immediately. The terms of the annuity define how much you can access on a monthly basis from the long-term care fund and how much you can access on an annual basis from the cash fund. However, you must wait until a specified date in the future to access the separate cash fund.

As with an immediate annuity, a deferred long-term care annuity may not be enough to pay for your long-term care expenses and its effect on your taxes is complicated. Again, be sure to consult your insurance, legal, and tax professionals before purchasing one. Here are a few more considerations from the U.S. Department of Health and Human Services pertaining to deferred long-term care annuities to consider:

- If you don't use the long-term care fund, you can pass it on to your heirs.
- The long-term care portion of the annuity may satisfy the requirements for a tax-qualified long-term care policy.
- An annuity can affect your eligibility for Medicaid, and whether Medicaid will pay for your long-term care services.

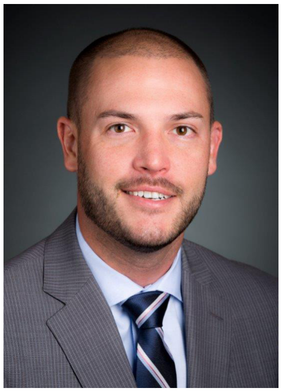
CAREFULLY CONSIDER THESE—AND ALL—YOUR COVERAGE OPTIONS.

Remember, purchasing a long-term care annuity as an alternative to long-term care insurance is a big decision that should be made carefully and in the context of your total financial life. Our team of professionals can help you determine if an annuity is your best option for this important coverage and work with you to put the proper plan in place. Contact us today—we will listen to your concerns and discuss how these and other considerations fit into your plan.

[1] Genworth Cost of Care Survey https://www.genworth.com/aging-and-you/finances/cost-of-care.html

[2] U.S. Department of Health and Human Services, "Annuities and Long-Term Care Information," LongTermCare.gov, https://longtermcare.acl.gov/costs-how-to-pay/paying-privately/annuities.html; last modified 10/10/2017

ABOUT THE AUTHOR



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Chris is a financial advisor with Commerce Brokerage Services, Inc. He joined Commerce in 2010 to help clients define their financial goals, develop a strategy to make them a reality, and measure their progress along the way. Chris has 10 years' experience helping clients take a holistic approach to their financial life. He educates his clients about life insurance, annuities, and long-term care, and he specializes in financial planning and risk management. Previously, Chris worked at John Hancock, where he assisted clients with investment management, income planning, and insurance strategies. He holds a Bachelor of Science in psychology from Saint Louis University.