

## Retirement Insights

### Planning for the cost of long term care

When considering the likelihood of a financially successful retirement one factor that should be considered is the risk of needing long term care and the potential cost of that care. If care and support is needed during working years, wealth accumulation and retirement planning will likely be negatively impacted. While this is possible, the emphasis of this article will be on the need for long term care arising later in life and the financial cost of that care. As longevity improves, the probability of physical or cognitive decline requiring the need for daily assistance increases. The cost of that care today and into the future must be considered on the negative impact long term financial security.

### **Long Term Care Cost: Current and projected**

There are various ways to research the cost of nursing care and support services. For a general idea in a given region, one of the best resources is the Genworth cost of care website. An internet search will lead to a very comprehensive site detailing the costs throughout the country for various types of care. The interactive map allows for a localized summary of cost and the projection tool calculates the cost in the future at a 3% growth rate. Genworth has done this extensive annual survey since 2004 in an effort to identify the trends in costs. In the 2019 survey they used data from 15,178 returned surveys from a host of care providers across the country.

When evaluating / researching the cost of care, nothing can replace personally visiting the care facilities. This is an excellent way to learn the extent of a facilities services and to meet the staff. With an increase in competition in the marketplace, the businesses in this field are adopting a sales and marketing culture and are increasingly transparent about how they operate and what they charge. Recently I have had some visits for parents in need of care and will reference our experience as a comparison to the broader industry data on the Genworth site.

### **2019 Chicago Area Cost - Genworth**

**In home care: \$25/hour**

This is homemaker type services including cooking, cleaning and shopping. Some “hands on” support (transferring) may be necessary but no medical care is provided in this category.

#### *Trend*

The cost of home care has been accelerating at a higher rate than other forms of care. In the last 5 years it has annually increased over 3% (national) but since last year it has gone up over 7%. This is likely due to increased demand for these services and a tighter labor market. My father in law is currently receiving home care in Wheaton. The in home service providers I have personally talked to and we are currently utilizing have all reported a

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labor shortage of caregivers. Care providers are competing for staff. This leads to increased wages that are passed on to patients.

Genworth projection (3%)      20 years: \$45/hour      30 years: \$60/hour

#### *Personal experience*

We have found the survey hourly cost to be in line with what we are currently paying - \$25 per hour. He requires 60-70 hours per week for care making the bill approximately \$1500. Individual needs can vary quite a bit which would account for the discrepancy of the monthly and annual survey costs compared to our expenses. Genworth survey has an annual cost just over \$57,000 while we are on a pace to spend about \$72,000.

**Assisted Living: \$4,740/month**

Residential care at an intermediate level. Assisted living can involve some medical assistance and typically a one person transfer assist. Memory care facilities fit in this category.

#### *Trend*

In the last 5 years these costs have increased annually just under 3% (national). This category has labor issues as well but the costs may be accelerating at a slower pace due to the increased number of facilities opening in the last few years. The locations I have toured have all acknowledged tight competition and are very mindful of what they charge compared to their local competitors.

Genworth projection (3%)      20 years: \$8,561/month      30 years: \$11,505/month

#### *Personal experience*

Two years ago my mother was in memory care in St. Charles at a monthly cost of \$6,200. The assisted living facilities we have toured lately (father in law's next move) are all in that price range as well. The base price is around \$5,000 (room and board) and the additional cost based on care needs is an extra \$1,000 - \$2,000.

**Nursing Home: \$8,213/month (semi-private) \$9,277/month (private)**

Nursing home care provides a high level of support and medically necessary nursing care in these facilities provided around the clock. Medication management, physical and occupational therapy and rehabilitation are among the services provided in what typically feels like a hospital setting.

#### *Trend*

In the last 5 years these cost have increased annually just over 3% (national). The semi-private cost in this area over the last year has jumped a dramatic 12%.

Genworth projection (3%)      Semi-private— 20 years: \$14,834/month      30 years: \$19,935/month

#### *Personal experience*

Our experience in this area is significantly different than the survey. For 3 months earlier this year my father in law was in a private room in a nursing home in Wheaton. The monthly room and board alone was \$15,960. With all of the services added (therapy, labs, pharmacy) the total bill each month was just under \$30,000. Needless to say there can be a dramatic difference in the quality of care for one nursing home to another. I would say this particular facility was probably in the middle of the spectrum. Not a luxury setting (Lake Forest Place) but there were no concerns or issues with the quality of care. What may account for the discrepancy in cost is that his bill was paid by Medicare and the facility may have a different billing practice for a patient that is private pay vs. someone covered under Medicare.

#### **Care recipient risk**

A major aspect of planning for this risk is addressing the likelihood of needing care and the total potential financial exposure. Unfortunately, there is no way to accurately predict if or when someone may need care. There are simply too many factors to consider. Longevity, family history, health and lifestyle all would be considered contributing factors. Family history alone is often the primary reason for denial of the risk. But just because "mom died in her sleep", does not mean the children will follow the same path. Based on the current costs illustrated above and considering inflation, it is prudent to factor in a long term care event in a financial plan.

The planning approach we would encourage is to plan for the assumption that care will be needed. If the assets and resources are in place to cover potential costs of care, then other planning goals like retirement and wealth transfer

could have a higher likelihood of success. If the required care ends up being minimal or even nonexistent, that does not mean those assets are lost. Those assets are available to enhance those same planning objectives. An example is the evolution in policy design of long term care insurance. In the past the policies were a “use it or lose it” model. If no care is needed, no benefits were paid out. The new policy design provides a lump sum benefit at policy issue and those dollars are available to either cover LTC expenses or be passed to a beneficiary.

## **LTC Planning**

There are several ways we assist clients with this planning objective.

### *Financial planning*

Through our retirement planning / modeling it may be a prudent idea to factor the potential cost of care into your model. The length of care and the cost can be added into the scenario to see the impact on retirement success. This of course is not an exact calculation since as discussed, we do not know if or when care will be needed. This is a flexible input that can be adjusted to a scenario that is reasonable and realistic. If there is a shortfall and the chance of success is not acceptable, modifications to the plan can be done to improve that success rate.

### *Insurance*

If insurance is presently owned, it is typically a prudent idea to have our team conduct a policy review. We can assist with an assessment of the amount and competitiveness of the policy. If new or additional coverage is desired, our team assists in the acquiring of that protection from the list of companies we have available.

In conclusion, our goal in long term care planning can be summarized as such:

Proactively plan in the event nursing care and support services are ever needed. The goal of the plan is to have the resources to receive the highest level of care possible while retaining the freedom to choice of where that care is delivered.

David Veatch, November 2019.



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