



Planning to Fund Long-Term Care Expenses

Courtesy of Craig Cunningham, Managing Director, Wealth Management, Senior Portfolio Management Director, Financial Advisor – The Chicagoland Group at Morgan Stanley

Longer lifespans and rising health care costs are driving investors to control their financial exposure to uncovered bouts of care—particularly in retirement.

According to the [U.S. Centers for Medicare and Medicaid Services](#), the U.S. spent approximately \$4.1 trillion on health care in 2020, or nearly \$12,530 per person. Overall spending rose 9.7% in 2020,¹ faster than the pace of inflation or wage growth. As spending rises, patients are also shouldering a larger share of treatment costs—driving up out-of-pocket expenses. The elderly, who require the most care, often bear the brunt of the costs.

As the above statistics show, it is important to take steps to minimize your financial exposure to uncovered medical costs, which could potentially include long-term care expenses. However, unlike retirement planning where you are saving to afford a desired lifestyle for after your working years, planning for the less palatable aspects of aging can be more challenging.

Planning for Long-Term Care Costs

A report from the U.S. Department of Health and Human Services estimates that 70% of people turning 65 will need some type of long-term care services in their remaining years.²

One year in a private room in a nursing home costs approximately \$109,026 today and is projected to reach \$195,791 in 20 years.³ Even with a robust portfolio, you may have trouble handling such large costs with savings on hand.

Many adults are concerned about what rising health care costs could mean for their financial future. 55% of adults age 25+ are either unsure or unable to estimate their annual retirement health care costs.⁴

Should a retiree encounter medical issues, the costs can sometimes be high. Some people, for example, may not be aware of the uninsured costs they'd face if they were to experience a health event such as a stroke, which may cause paralysis, warranting expensive 24-hour assistance.

Medicare Part A covers nursing facility care for a limited time, but only after a qualified hospitalization. However, Medicare will not pay for nursing homes when custodial care is the only care needed; nor will it pay for care for conditions such as Alzheimer's disease. Patients suffering from Alzheimer's or other cognitive ailments often require hands-on assistance for many years.

Help Protect your Retirement Savings

By the time people reach their 30s, they tend to have a pretty good idea of the lifestyle they want to pursue, even in retirement. There are a number of ways to save for retirement with your future health care needs in mind.

Investors in their 30s or early 40s may weight their retirement-funding strategies toward a portfolio of mutual funds or a managed-account solution, to provide upside exposure to the market. Given lower premiums for younger policyholders, long-term care insurance should also be a consideration.

Today, only a handful of insurers offer long-term care insurance, so another option may be life insurance with a long-term care rider, which allows families to tap into the benefits they would have received upon the insured's death, while he or she is still alive and in need of care.

Another option for funding long-term care expenses is to withdraw or borrow money from life insurance policies, or generate income from annuities. Note that either of these options would probably fall short of covering costs if someone needs care for many years.

Help Protect Your Finances

As health care costs continue to rise, it's important to understand the options you have to help control your financial exposure to uncovered care costs. Your Morgan Stanley Financial Advisor has access to multiple long-term-care products from a wide variety of respected insurers and can help you choose the one that offers the optimal combination of cost and benefits.

¹Source: U.S. healthcare spending to climb 5.3% in 2018 Agency: <https://www.reuters.com/article/us-usa-healthcare-spending/us-healthcare-spending-to-climb-53-percent-in-2018-agency-idUSKCN1FY2ZD>

² LongTermCare.gov, "How Much Care Will You Need?" October 2020, <https://longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html>

³ Genworth 2017 Cost of Care Survey, conducted by CareScout®, October 2021
Cost estimate based on 365 days of care. Estimates how much care might cost in future years based on 3% annual inflation. <https://www.genworth.com/aging-and-you/finances/cost-of-care.html>

⁴ Source: The Nationwide Retirement Institute: 2021 Health Care Costs in Retirement Consumer Survey
<https://www.nationwide.com/lc/resources/investing-and-retirement/articles/health-care-survey-results>

Disclosures

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