SUMMER 2024

FINANCIALJOURNEYS

FINANCIAL & RETIREMENT PLANNING FOR LIFE

Preparing for your future with long-term care insurance

How to plan for long-term care needs health insurance doesn't cover

No one wants to imagine a time when they might need help performing basic tasks, but nearly 70% of people 65 and over will require long-term care at some point. Twenty percent will need it for five years or more.

In 1935 – the year Social Security was introduced – the average 65-year-old was expected to live another 12 to 15 years. Today, one in four 65-year-olds live past age 90.

As baby boomers and subsequent generations plan for their retirement years, it's important to understand how living a long life can affect their financial outlook.

THE COSTS OF LONG-TERM CARE

Health insurance – whether it's through a private company or Medicare – does not cover long-term care. It only covers acute care associated with short-term illnesses and injuries.

Long-term care refers to the services and support that aren't covered by health insurance. These include activities of daily living (ADLs) such as bathing, dressing, eating, getting in and out of chairs or bed and toileting. They can take place at home, in a residential facility, or out in the community.

The cost of long-term care can quickly cut into your retirement savings, especially if you and your spouse both require it. In 2023,

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Preparing for your future with long-term care insurance (cont.)

the average annual cost for care in an assisted living community was $64,200 while a private room in a full-time skilled nursing care facility can cost more than $115,000 per year.

Medicaid does help with long-term care costs, but only people of extremely low means are eligible. That's why it's important to have a plan in place for funding this type of assistance should you need it. Long-term care insurance can help you cover the costs so you can preserve your assets and ensure you receive a high standard of care.

WHAT IS LONG-TERM CARE INSURANCE AND WHEN DO YOU NEED IT?

Long-term care (LTC) insurance covers – in whole or in part – a wide range of services, from cooking and light housecleaning to 24/7 nursing care. Just like with home or auto insurance, you pay monthly premiums, and in the event you need long-term care, you can draw from that policy. But unlike home or auto insurance, long-term care policies pay a per-day benefit.

The earlier you purchase a long-term care insurance policy, the longer you are likely to pay premiums before you need to use it. However, it's important to note that rates significantly increase as you get older, as does the likelihood of being turned down. Your mid-50s are considered the "sweet spot" for buying long-term care insurance at a lower rate.

Three more factors can affect the cost of your policy: the daily benefit amount, the benefit period and the waiting (or elimination) period.

To select a benefit period, you could estimate how long you'll require long-term care. As an alternative, you could buy a policy with a lifetime benefit period to eliminate the possibility of coverage running out (though they are considerably more expensive). And policies with a shorter waiting (or elimination) period will cost less than those with a longer elimination period.

While LTC premiums can be high, it's important to understand the costs of care can extend beyond monetary demands and can put significant strain on you, your caregiver(s) and your extended family.

HOW TO PURCHASE LONG-TERM CARE INSURANCE

One potential drawback of long-term care insurance is that if you stop paying premiums before you need it, you may lose the coverage. In effect, the insurance company retains and invests your money to pay for other people's claims and earn profits. There are alternatives, however.

For example, you could purchase a universal life insurance policy with a long-term care rider. This way, if you need long-term care, the policy will help cover the cost with part of the life-insurance amount (but note that this will reduce the death benefit your beneficiaries receive). If you never make a long-term care claim, the entire amount will go to your beneficiaries tax-free.

Another option is an asset-based long-term care contract, which uses the structure of either life insurance or annuities and provides additional benefits beyond long-term care coverage.

Asset-based long-term care life insurance includes a cash value component that can grow over time. If you require long-term care, the cash value can help you pay for it. If you don't, it can supplement retirement income or serve as a tax-free inheritance to your loved ones. With this type of policy, you may also receive a surrender value if you decide you no longer want it.

Asset-based long-term care annuities allow the initial premium to grow tax-deferred until you need the benefit. Withdrawals made for long-term care purposes come out tax-free.

Historically, asset-based long-term policies were purchased with single premiums, but today there are multiple payment options.

One more feature to consider is an inflation rider. Nearly half of all people living in nursing homes are 85 or older. If you buy your policy at 65, by the time you're 85, the cost of care may have risen considerably. An inflation rider increases your coverage over time, so your daily benefit amount keeps up with rising costs.

You might also inquire about a nonforfeiture rider, which will continue to provide coverage – although with reduced benefits – even if you stop paying premiums. ■

START THE CONVERSATION

While these conversations can be uncomfortable, it's essential to start a dialogue with your loved ones about your health, plans and goals. Long-term care doesn't just affect the person receiving it, but the entire family – both financially and emotionally.

Reach out to your advisor to discuss whether long-term care insurance is right for you.

Sources: Longtermcare.gov, ssa.gov, HealthinAging.org

Is a niche retirement community right for you?

Things to consider before joining a community of like-minded retirees

Not long ago, most planned retirement communities revolved around a golf course, a few tennis courts and a swimming pool. But today's retirees have an abundance of choices, including all kinds of niche communities designed to cater to narrowly cast affinity groups – from yoga practitioners to Jimmy Buffet fans.

Niche retirement communities are growing in popularity thanks to baby boomers, who are pursuing their passions rather than settling for "traditional" retirement living.

AN ARRAY OF OPTIONS

You'll find communities geared toward a variety of groups, including environmentalists, LGBTQ+ seniors, and even retired letter carriers. A few notable examples:

The Burbank Senior Artists Colony in California welcomes actors, artists, musicians and other creative types with a 40-seat performance theater, artist studios and classrooms, a library and galleries.

Desert Gardens is an RV resort co-op with full hook-ups for water, sewer and electric service in Arizona's Sonoran Desert, designed to promote a natural and active lifestyle.

Perhaps the fastest-growing niche is the university-based retirement community (UBRC), geared toward lifelong learners, such as Mirabella at Arizona State University in Tempe, Arizona and Kendal at Oberlin College, just outside Cleveland, Ohio. Residents have access to classes and often campus fitness centers and athletic events.

And, of course, there's the community of Jimmy Buffett fans, Latitude Margaritaville in Daytona Beach, Florida, with its private beach club, tiki huts, bandshell and no-worries vibe.

FINDING THE RIGHT COMMUNITY

Niche retirement communities aren't right for everyone, as many people still prefer to age at home. But if the idea appeals to you, there are a few things you'll want to consider.

Start with an honest assessment of what you want – and need – out of your retirement. What kind of medical support will you require? Are you someone who enjoys a lot of exercise, or more cerebral activities? How far are you willing to move?

Next, it's time to think about a budget. Will you rent or buy? Some niche communities may require a hefty entrance fee and subsequent monthly fees to cover maintenance, taxes, meals and other services. To create your budget, set up time with your advisor, who can help guide you through this process.

DO YOUR RESEARCH

Choosing a niche retirement community should be as fun as it sounds. First and foremost, visit the community – more than once. Go multiple times, on different days and at different times.

Be sure to talk to the residents and staff. Ask how the community is managed to make sure the property is economically viable. What kind of reserves do they have? Who are the owners?

Planning where to live in retirement can be overwhelming, but there are lots of resources to help. For example, seniorliving.org is a veritable goldmine of information for retirees, offering tools to help you evaluate and understand the many types of senior living opportunities available. ■

Sources: Kiplinger.com, USNews.com

More retirees crossing state lines – here's where they're going

Florida drew more retirees than any other state

More than 338,000 Americans relocated for retirement last year – a 44% increase from 2022 – and about a quarter of those retirees moved to a different state.

According to the online moving-services marketplace Hire A Helper's latest annual report, Florida is the number one destination for retirees, claiming 11% of movers across state lines. South Carolina comes in at a close second and New Jersey third, with Texas and Washington rounding out the top five. Let's explore what's drawing retirees to these destinations.

TAX BENEFITS A KEY CONSIDERATION

Three of the five states – Florida, Texas and Washington – don't tax residents' income, which is an obvious draw for people whose earnings will decrease significantly in retirement. While many states don't tax Social Security benefits, these three also won't tax investment income or 401(k) distributions.

But what about New Jersey, with its notoriously high income and property tax rates? It's also the sixth-most likely state for older adults to leave. California and New York are the top two, originating almost 30% of interstate retirement moves between them.

With a cost-of-living index of 114, New Jersey is a more affordable destination for retirees leaving New York, with its index of 125. Cost of living indexes are pulled from a variety of factors, including housing, groceries, transportation and health care. A score over 100 means the state has a higher cost of living than the national average. But even for people moving from other locales, the Garden State has its benefits.

Not only does New Jersey not tax Social Security distributions, it also boasts generous pension exclusions that enable retirees to shield up to $100,000 from state income taxes, as well as property-tax relief programs for seniors and people with disabilities.

CLIMATE AND TOPOGRAPHY ALSO FACTOR IN

Washington also has a relatively high cost of living (index 115.10), but boasts some of the country's leading healthcare systems, as well as a strong economy, scenic diversity and a variety of recreational activities.

While Florida was long known for its affordability, its cost-of-living index has steadily increased to 102.3 as more people flock to its warm climate and white-sand beaches – including younger people who, thanks to remote working, can live in the climate of their choosing.

South Carolina and Texas both offer miles of beachfront and mild temperatures, but with a significantly lower cost of living (94.3 and 92.5, respectively).

FINANCES ARE LESS OF A CONCERN

Financial worries were less of a factor for retiree moves in 2023 than the year before. Just 6% of retirees reported moving to find more affordable housing, down from 12% in 2022. It make sense, considering the median household income of retirees who relocated last year was $88,347 – 35% higher than 2022 and 17% higher than the typical U.S. household.

If you're considering moving for retirement, talk to your advisor about which factors are most important for you and developing a plan.

Sources: HireAHelper.com, Worldpopulationreview.com, AARP.com