alzheimer's association®

Financial Planning for Dementia Care

By Brad Tisdale, MS, CES, CLTC

Caring for people with Alzheimer's disease continues to be a reality for many American families. Unpaid family caregivers provide an estimated 18.5 billion hours of care per year valued at nearly $234 billion. Caring for over 5.8 million Americans living with Alzheimer's costs the nation a whopping $290 billion.

Age is the highest risk factor for Alzheimer's. Nearly 50% of people in their 80s develop Alzheimer's or some other form of dementia. Every 65 seconds, another American will develop Alzheimer's. By 2050, the rate will go up to every 33 seconds, and the cost of care will skyrocket to $1.2 trillion.

These large and almost incomprehensible numbers do have consequences. Unless we find a cure or a way of preventing it, Alzheimer's will take an even heavier toll on our health care and financial systems. But the impact will hit the hardest on everyday American homes.

Today, more than 16 million people are already caregiving for a loved one with dementia. One in 3 seniors dies with Alzheimer's or another dementia. The cost of care for seniors with dementia is on average *3 times higher* than for seniors without dementia.

Are you prepared for the financial and physical impact?

When planning for retirement, many envision more time to do the things they love such as traveling, spending time with family, enjoying a favorite sport/hobby or finally getting to the things on their bucket list. Rarely do we consider or plan for needing care in the long-term. Who wants to think about that?

However, the numbers indicate that most families will be affected by dementia in one form or another. Should this be the case for your family, do you have a plan in place to handle it? A long-term care plan should address where care will be provided, who will provide care, who will coordinate all the services, and most importantly, what financial resources are available to pay for care.

Most families have "sticker shock" when it comes to the extra expenses associated with dementia care. Some of the costs to consider include personal care and safety items, home modifications, prescriptions drugs, adult day services, in-home care, custodial care or assisted living and nursing home care. Costs for in-home care may add up to $16,000 per month and according to the MetLife Mature Market Study, assisted living for dementia patients costs nationally an average of $5,000 per month. In our Central and South Coast communities, assisted living averages about $7,500 per month.

Brad Tisdale

Costs related to dementia and other long-term care needs are paid mostly out-of-pocket. Without a strategy in place, these ongoing expenses can adversely affect income, assets, retirement and estate plans. Medicare and health insurance don't pay for custodial care; and Medicaid (MediCal in CA), the state-administered assistance program, is only available to those with low income and limited assets.

Long-term care insurance is a strategy for those who don't want to self-fund their care. A policy pays benefits when someone needs supervision due to a cognitive impairment or when they need help with two or more activities of daily living; this can be a result of normal aging, frailty, and dementia, or because of an accident or illness. Benefits are paid for care provided in the home or in a facility such as assisted living. There are two approaches to long-term care insurance. One is a stand-alone policy that provides a pool of "discounted dollars" to pay for care when needed; the other is an asset-based or "hybrid" policy. Built into a life insurance or annuity contract, hybrid policies pay for care when needed, or they pay a death benefit to the policy beneficiary if care is not needed.

Annuities can be used to pay for long-term care expenses. The Pension Protection Act (PPA) of 2006 allows funds to be withdrawn income tax free from certain non-qualified annuities when used to pay for qualified long-term care expenses. There are different ways to fund a long-term care annuity. For example, someone who has an existing annuity with a low basis and a large amount of tax deferred gain could transfer (via 1035 exchange) all or a portion of the cash value in their annuity into a PPA compliant annuity with long-term care benefits. When care is needed, they can take tax-free monthly withdrawals to reimburse their long-term care expenses. Upon their death, any cash value balance goes to their beneficiary. There are options to extend long-term care benefits beyond the value of the annuity. It is easier to health-qualify for a long-term care annuity than a stand-alone policy which also makes this an attractive option for those with more health issues.

An existing life insurance policy could be converted into tax free long-term care benefit to help pay for the care someone is already receiving care. Instead of surrendering a policy for only its cash value or lapsing a policy that has become unaffordable, consider converting the death benefit into a living benefit that can pay for custodial care. For example, an 80-year-old male who owns a $500,000 life insurance policy may get as much as $150,000 for it. That could pay for a year or two of care.

Paying for dementia and other extended care needs is about having enough cash available each month to cover those costs. When monthly income alone is not enough, savings, investments and other assets are used fill in the gap. Over time, this can significantly erode assets and reduce the amount of interest those assets can generate. It can also adversely affect the lifestyle of a spouse or family member who needs those assets to live on. Long-term care is a prudent part of financial and estate planning, and the earlier you address it, the more options you have. ■

Brad Tisdale owns Tisdale Insurance Services. He is an independent insurance agent who works directly with individuals and business owners. Through the strategic use of life, disability, and long-term-care insurance, he helps his clients protect their families and businesses from the financial impact of life's unpleasant realities and preserve wealth for future generations.

BRAD TISDALE, MS, CES, CLTC
Tisdale Insurance Services
Preserving Wealth / Protecting Families
CA Insurance License 0B64696

Santa Barbara, CA
(805) 690-3874
brad@tisdaleins.com www.tisdaleins.com