



## RETIREMENT'S KNOWN UNKNOWNNS

# LONG-TERM CARE

Nobody likes to think about a time when performing simple everyday tasks may be too difficult to do by themselves. Preparing financially for that day can be overwhelming—and expensive. But long-term care should be on everyone's retirement-planning checklist.

### WHAT IS LONG-TERM CARE?

More than two-thirds of Americans aged 65 and older will one day require some type of long-term care service.<sup>1</sup> In 2015, more than \$8.15 billion in long-term care benefits were paid to 260,000 individuals.<sup>2</sup> As we age, the chances of needing these kinds of services increase. Long-term care covers a variety of medical and nonmedical services that may be required to meet your health or personal needs over a long period. Most of these services provide assistance with the basic tasks of everyday life, from personal care such as bathing and dressing to household chores such as housecleaning and grocery shopping.

### A SIGNIFICANT FINANCIAL DRAIN

Long-term care can be crushingly expensive and often costs more than the average person can afford. Hiring someone to do routine personal tasks in the home can run \$45,000 or more a year. Nursing

home care can cost \$80,000 or more annually, depending on where you live.<sup>3</sup> And requiring help after a sudden illness, chronic condition or accident could quickly deplete your hard-earned retirement savings.

### DON'T LEAVE YOUR RETIREMENT TO FATE

People tend to avoid planning for their long-term care needs in retirement, usually because of some mixture of denial and overconfidence about their ability to save enough to cover these costs. Many assume that government health programs will cover these services. They don't. Medicare pays for only medically necessary, skilled nursing home or at-home healthcare and, even then, only under certain conditions. Medicaid is limited to the very poor and to those with large health expenses who have depleted their savings. Most Americans don't qualify for Medicaid.

### COVERING THE TASKS OF EVERYDAY LIFE

An individual who needs assistance with necessary daily tasks, or activities of daily living (ADLs), would qualify for long-term care. ADLs include:

Bathing

Dressing

Use of Toilet/Help with Incontinence

Bed or Chair Transfer

Eating

Taking Medication

Other common long-term care services assist with everyday tasks that support an independent lifestyle, often referred to as instrumental activities of daily living (IADLs), including:

Housework

Meal Preparation and Cleanup

Grocery and Clothes Shopping

Managing Money

Caring for Pets

Emergency Response

<sup>1</sup> US Department of Health & Human Services, 2016

<sup>2</sup> American Association For Long-Term Care Insurance, 2016

<sup>3</sup> Genworth Financial *Cost of Care Survey 2016*

Predicting in advance how much to save for long-term care in retirement is not easy. The types of assistance you'll need, who'll provide them and how much they'll cost are unknowns.

But waiting until you actually require long-term care puts you at a greater risk of not having enough money to pay for the services you need when the time comes—and of having to rely on your family or others to make decisions for you. Indeed, studies show that many elderly people are eventually forced to turn to their children or friends for help in paying their long-term care bills. But family and friends are often facing financial pressures of their own. Even if you have sufficient finances, you'll still need to allocate a significant portion of your retirement savings to cover these contingencies—during the years when that money could be used for other things.

No matter what your financial circumstances, planning ahead allows you to take control of your destiny. It also gives you the time to explore the many financial options available for managing these costs. Finding a solution that eases your worries about this potential financial burden is perhaps the best gift you can give yourself and your loved ones.

### LONG-TERM CARE INSURANCE

Long-term care insurance can help protect your retirement savings from the growing out-of-pocket costs of long-term care over time. Services associated with long-term care include assisted living, nursing homes, adult day-care facilities and at-home care (subject to policy guidelines

and restrictions). The costs and benefits of most long-term care insurance policies are based on a number of factors, including:

- + **Benefit Duration:** the length of time your policy will pay for long-term care services
- + **Benefit Triggers:** the criteria that insurance policies use to determine when your long-term care begins. These benefit triggers are usually defined in terms of ADLs or IADLs
- + **Daily Benefit:** the amount your policy will pay for long-term care services. You would pay the difference if your daily-care expense is greater than the policy's daily-benefit amount
- + **Elimination Period:** the waiting period before your policy begins paying benefits. You would be responsible for covering out-of-pocket expenses until the period ends

Many long-term care policies today are comprehensive, meaning that they cover care and services in a variety of settings, including your home, adult day-care centers, nursing homes and hospices—and also respite care. Within the home, comprehensive policies generally cover other services, including skilled nursing and personal care, as well as occupational, speech, physical and rehabilitation therapy.

Many policies also cover some homemaker services, such as meal preparation or housekeeping, as long as the service is done in conjunction with the personal-care services received.

### LONG-TERM CARE IS MORE COSTLY THAN YOU MAY EXPECT

Types of Long-Term Care	What's Covered	Average US Costs (2016)
Home Health Aide Services	At-home custodial care, including assistance with personal needs or hygiene, provided by someone with no medical training	\$20 per hour or \$880 per week, for a home health aide
Adult Day Care	Supervision in a group setting outside the home for frail, impaired adults	\$68 per day or \$17,680 per year, for services in an adult day-care center
Assisted Living	A living environment for people who cannot function independently but do not need daily nursing care	\$3,628 per month or \$43,539 per year, in a one-bedroom unit
Nursing Homes	Round-the-clock access to many levels of medical care	\$6,844 per month or \$82,125 per year, for a semiprivate room; \$7,698 per month or \$92,378 per year, for a private room
Homemaker Services	Assistance with household tasks, such as cooking and cleaning, for adults who cannot manage alone	\$20 per hour or \$3,813 per month, for homemaker services

Source: Genworth Financial *Cost of Care Survey 2016*

The table below shows the costs and future values of long-term care insurance for individuals and couples of various ages.

### HOW VARIABLE ANNUITIES CAN HELP

Variable annuities<sup>4</sup> are long-term investment vehicles designed for retirement—and for people willing to take more market risk with their money in exchange for greater growth potential. These products may provide the opportunity for market appreciation through an array of investment options. They may offer guarantees of income, principal and downside protection for an added cost, and they're subject to fees and expenses.<sup>5</sup>

Variable annuities can serve as a supplemental solution for covering long-term care expenses in retirement in two ways: 1) by providing guaranteed income, which can be used to cover long-term

care costs or long-term care insurance premiums; or 2) through long-term care riders, which are offered as an option on some variable annuity contracts.

A prudent retirement plan will account for adequate investments and savings to cover long-term care expenses or some of the long-term care premium payments, which currently average \$3,560 a year for a standard long-term care policy for a 60-year-old couple.<sup>6</sup> Provisions in the Pension Protection Act of 2006 allow for tax-free withdrawals from certain variable annuities if the withdrawals are used to pay long-term care insurance premiums. It is important to note that these tax benefits do not apply to qualified annuities, such as IRAs and 401(k)s.

In either scenario, variable annuities can play an important role in providing for retirement income, long-term care coverage or both.

### LONG-TERM CARE INSURANCE POLICY COSTS AND VALUES

Age	Yearly Cost*	Immediate Value†	Value at Age 80‡	Value at Age 85‡
Age 55 (single male), preferred health	\$1,722–\$2,309	\$164,000	\$325,000	\$365,000
Age 55 (single female), preferred health	\$2,275–\$4,416	\$164,000	\$325,000	\$365,000
Age 60 (couple), standard health (with shared-care option)	\$2,985–\$4,190	\$328,000	\$650,000	\$730,000

\*Calculations based on \$150 daily benefit selected at inception of plan, three-year benefit period, 90-day elimination period, 100% home-care benefit and 3% compounded annually for inflation. Includes spousal discount (where applicable) and preferred health discount (when indicated).

†Equals available cash value of benefits that would be paid for claim starting at present age (an almost immediate claim). Policies range from \$162,000 to \$200,000 in initial benefits.

‡Equals available cash value of benefits that would be paid based on 3% annual compound growth of policy benefits. Shared-care options vary from company to company. For illustration purposes, this example assumes access to a combined total pool of funds.

Source: American Association for Long-Term Care Insurance, 2016 and the Long-Term Care Insurance Price Index

<sup>4</sup> Withdrawals of taxable amounts are subject to income tax and, if taken prior to age 59½, a 10% federal tax penalty may apply. Early withdrawal may be subject to withdrawal charges. Partial withdrawals may also reduce benefits available under the contract, as well as the amount available upon a full surrender. Variable annuities offer three main benefits: tax-deferred treatment of earnings, guaranteed death benefit options and guaranteed lifetime payout options. Variable annuity contracts have limitations, will fluctuate in value and are subject to market risk, including the possibility of loss of principal. Variable annuities generally impose withdrawal charges based on a surrender charge schedule. A combination of withdrawals and market declines could reduce a variable annuity's account value to zero, in which case the contract generally would terminate.

<sup>5</sup> Guarantees are based upon the claims-paying ability of the issuing insurance company. Guarantees do not apply to the investment performance or safety of the amounts held in the variable accounts. Such benefits and payments are subject to the financial condition of the insurance company. There are fees and charges associated with variable annuities that include, but are not limited to, mortality and expense risk charges, sales and surrender charges, administrative fees, and charges for optional benefits. As with any investment, investing in variable portfolios involves risk, including possible loss of principal. Past performance is not a guarantee of future results.

<sup>6</sup> American Association for Long-Term Care Insurance, 2016

# PLAN AHEAD, CONTROL YOUR DESTINY

Americans are living longer, and seven out of 10 of us are likely to require some sort of long-term care at some point after reaching age 65. We must all plan for the longer road ahead. Although retirement is different for everyone, maintaining a certain standard of living is at the top of most people's wish lists. Tapping precious resources to pay for long-term care could dramatically alter your vision of a comfortable retirement. Plan accordingly and reduce the risk of eroding your retirement assets.

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