

Who will be your caregiver?

The BMO Wealth Institute provides insights and strategies around wealth planning and financial decisions to better prepare you for a confident financial future.

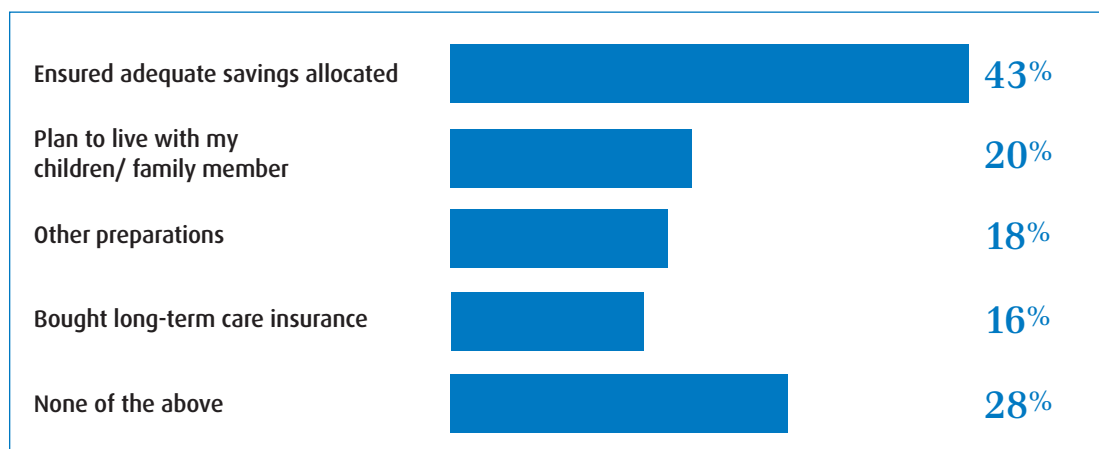
As the population of the United States ages, the demands placed on the health care system and the need for long-term care options continue to rise. The question of whether Americans have adequately prepared for their future health and long-term care needs will be answered in the coming years as a wave of baby boomers retire.

For Americans, one of the greatest fears associated with aging is not being able to afford or have access to health care services and long-term support when these are required. We also worry about not having enough income or the ability to accumulate the assets needed to support our retirement goals. These concerns are supported by research that indicates that over half of all U.S. households will only be able to afford lower levels of consumption in retirement, effectively resulting in a lower standard of living than is currently enjoyed.¹

This expectation of a lower standard of living in retirement is driven by a number of factors highlighted in a survey of Americans aged 45 and older, conducted by the BMO Wealth Institute in July 2015. The survey asked Americans to name their greatest health-care-related retirement concern and found that 36% of those asked most fear losing their ability to live independently, 20% of people worry about having enough money to pay for adequate health care, and 13% are worried about being able to afford to live in their own homes throughout their lifetimes.² Yet, according to the survey, 28% have not made any preparations for the possibility of becoming unable to live independently. The following table shows how those surveyed have prepared for this eventuality.

1 in 3 Americans fear losing their ability to live independently in retirement.

How Americans have prepared for long-term care needs



Meanwhile, **more than 1 in 4 have not made preparations** for the possibility of requiring long-term care.

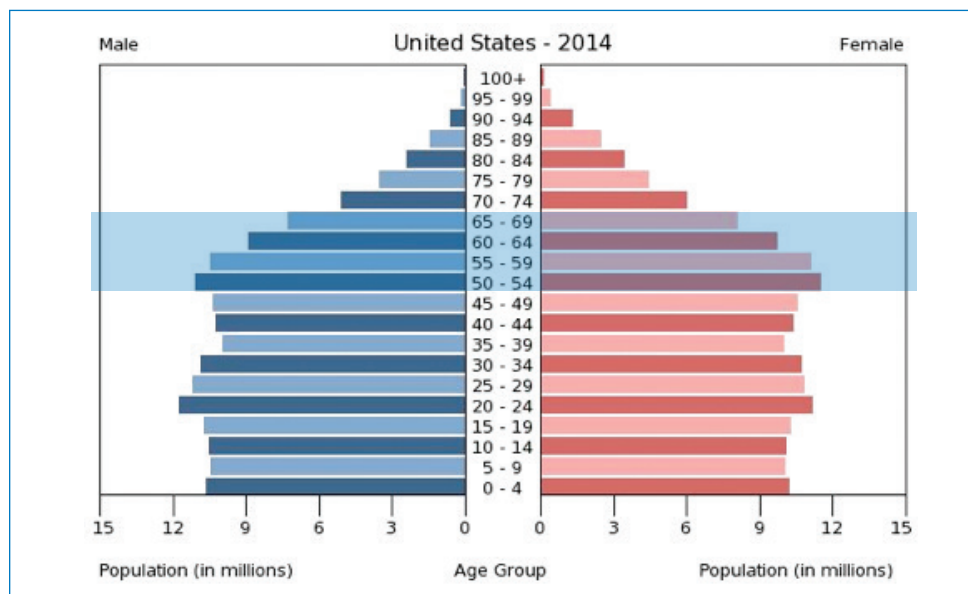
Source: BMO Wealth Institute survey by ValidateIT Technologies Inc., June-July 2015

The ability of private companies and government to fund ever-increasing health care costs is also challenged, in part, by the fact that the first wave of baby boomers (Americans born between 1946 and 1965) has already reached retirement age. Health care spending continues to increase at a rate in excess of inflation and now accounts for approximately 17% of the nation's Gross Domestic Product.³ In the United States, about 34% of all health care expenditures are for people aged 65 and over.⁴ These financial pressures, driven by increasing demand, could make health care and long-term care services harder to obtain in the future.

The population is aging

Today, about 15% of the American population is aged 65 and over. The senior population as a proportion of the overall population will continue to grow – it will be another 15 years before the tail end of the baby boomer generation reaches 65.⁵ The following population pyramid demonstrates that the aging of the baby boom generation (highlighted) will lead to a larger senior population in the years to come.

Age pyramid for the population of the United States



Source: U.S. Census Bureau

As the population ages, the demands placed on the health care system and the need for affordable long-term care options will increase. All of this is happening at a time when health insurance costs are increasing, government budgets are already stretched, and personal resources are needed more than ever to meet retirement goals.

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Caring for our parents

Not only are we aging, but many of us are also members of the sandwich generation. This term is used to describe people who are facing the demands of caring for their aging parents while still raising their own children.⁶ There is no better example of life events coming full circle than the experience of the [sandwich generation](#). Just as our parents once cared for us, we may one day end up caring for them by providing for their long-term care.

Long-term care can be defined as services to assist with the activities of daily living. Consider the story of Mr. Leung. At the age of 72, he has developed dementia and requires continuous supervision and assistance to take his medications, to eat and to dress. While members of his family can care for him mornings, evenings and on weekends, further assistance is required during the work day. The following table shows that the cost of providing supervision and ensuring his safety in the home environment can be significant – in this example costing about \$35,000 per year.

Long-term care can be defined as **services to assist with the activities of daily living.**

Services required for home care	Hours per week	Services paid for by client	Hourly cost	Yearly cost
Companionship/supervision	24	24	\$21.00	\$26,208
Adult day program	12	12	\$11.00	\$6,864
Laundry/housekeeping	2	2	\$19.00	\$1,976
TOTAL				\$35,048

Source of hourly costs: LongTermCare.gov

The cost of providing a parent with long-term care outside of the home environment could be substantial. It is not uncommon for long-term care facilities to charge thousands of dollars per month.⁷ The following table provides details of potential costs for in-home/ community-based care, retirement homes/residences, and nursing homes.



The cost of care in the United States*

State	In-home/community-based care			Retirement homes/ residences		Nursing homes (semi-private room)	
	Non-medical care	Home health aide	Day program	Minimum	Maximum	Minimum	Maximum
	\$ Per hour	\$ Per hour	\$ Daily rate	\$ Yearly cost		\$ Yearly cost	
U.S. overall	8-39	9-39	12-215	9,000	124,944	34,310	292,000
Arizona	14-28	14-28	62-140	13,200	80,400	52,925	107,675
Florida	11-28	13-33	30-120	10,200	95,040	54,020	160,600
Illinois	15-25	15-25	30-100	12,576	78,000	41,975	136,875
Indiana	12-26	14-32	50-140	13,140	98,640	45,260	146,000
Wisconsin	15-32	17-32	36-100	10,932	117,000	60,050	188,340

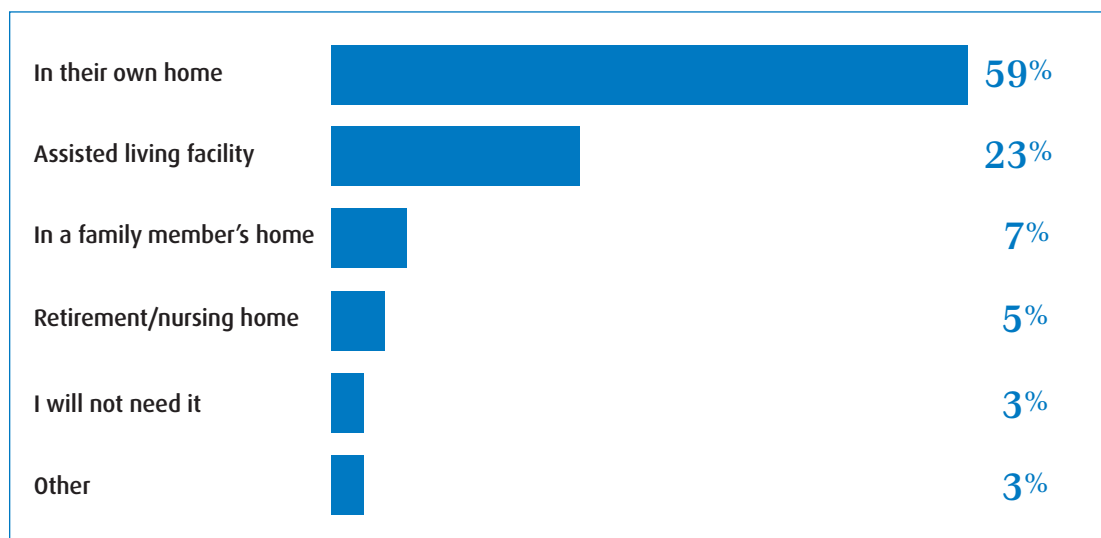
Source: Genworth 2014 Cost of Care Survey

* These numbers are for illustrative use only and should not be used for planning or budgeting.

Most people view long-term care facilities as a last resort, for the time when staying at home is no longer possible. The survey indicated that a majority (59%) of people would prefer to receive care in their own homes. In most cases, this will result in family members or close friends taking on caregiver responsibilities. More than one quarter of all Americans (29%) provide care to a family member or friend who have a long-term care condition, disability, or needs associated with aging.⁸ While the costs of home care are less than those for long-term care facilities, caregivers often have out-of-pocket costs, added stress, and less time for other activities like working and spending time with their family.⁸ The following table shows where Americans would prefer to receive long-term care, if and when they need it.

59%
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Where Americans would prefer to receive long-term care



Source: BMO Wealth Institute survey by ValidateIT Technologies Inc., June-July 2015

Who uses long-term care?

The majority of older Americans live in their own homes or with family members. U.S. census data from 2010 indicated that 96% of Americans aged 65 and over were living in private homes. The percentage of Americans living in institutional settings, such as nursing homes, long-term care facilities and seniors' residences, does however increase with age. Only 1% of Americans aged 65-74 were living in such facilities, but this rose to 13% for seniors aged 85 and over.⁹

Despite all the available evidence, 76% of Americans who responded to the survey were not sure if they would ever need long-term care, stating that this would depend on their future health and other factors. Assuming they did indeed require long-term care, 78% of survey respondents expected it would start sometime between the ages of 75 and 94. This is significantly higher than the findings from the 2010 U.S. census, which indicated that less than half of all seniors were living in retirement or nursing homes.⁹

Alzheimer's disease or dementia is thought to be the most likely reasons for needing long-term care by many survey respondents (64%). This belief is confirmed by research that indicates almost half (49%) of all nursing home patients suffer from Alzheimer's disease or other dementias. Alzheimer's is also prevalent in seniors who use adult day services centers and various home care service options.

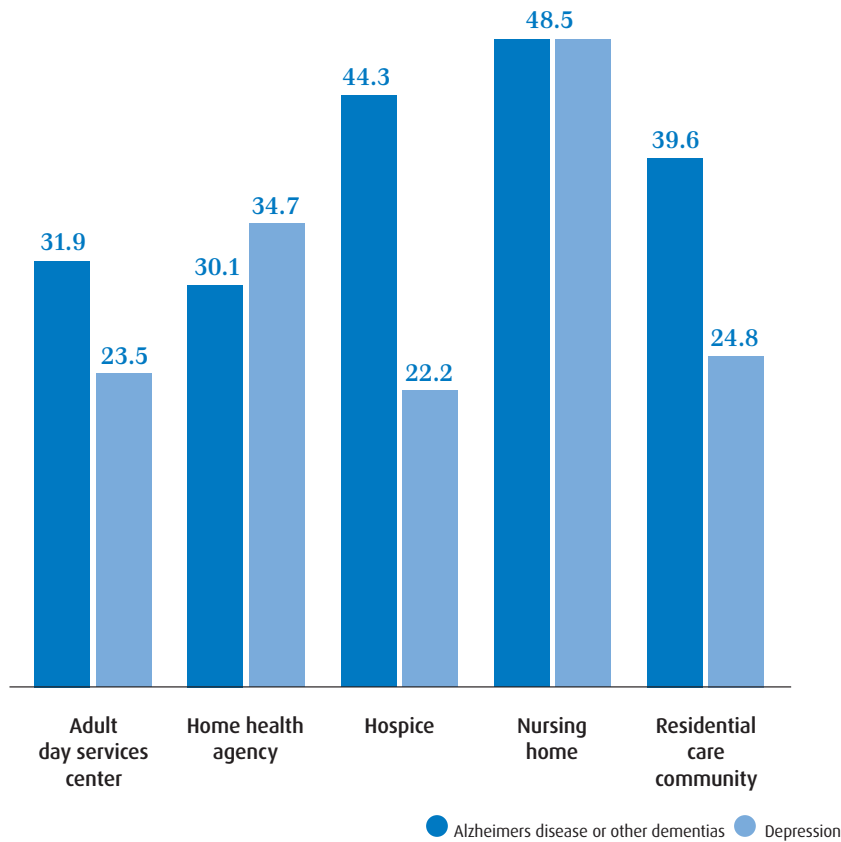
13%

of seniors **aged 85 and over** live in nursing/retirement homes or long-term care facilities.

Almost 3 in 4 Americans are **unsure whether or not they will ever need long-term care** because it will depend on a number of factors.

Percentages of Americans receiving long-term care who have Alzheimer's or other dementias

Percent distribution of users of long-term care services with a diagnosis of Alzheimer's disease or other dementias, and with a diagnosis of depression, by provider type: United States, 2011 and 2012



NOTES: Denominators used to calculate percentages for adult day services centers, nursing homes, and residential care communities were the number of participants enrolled in adult day services centers, the number of residents in nursing homes, and the number of residents in residential care communities on a given day in 2012. Denominators used to calculate percentages for home health agencies and hospices were the number of patients whose episode of care in a home health agency ended at any time in 2011, and the number of patients who received care from Medicare-certified hospices at any time in 2011. See Appendix A and Technical Notes for more information on the data sources used for each provider type. Percentages are based on the unrounded numbers. SOURCES: CDC/NCHS, National Study of Long-Term Care Providers and Table 4 in Appendix B.

Source: Centers for Disease Control, 2011 and 2012.

Long-Term Care Services in the United States: 2013 Overview, Figure 23

Essential Conversations

Given the high probability that most of us will either be caregivers or need long-term care at some time, it is important to make sure that essential conversations¹⁰ about personal care issues take place with loved ones. There are four important steps to having productive conversations about long-term care. [Dr. Amy D'Aprix](#), an expert on life transition and consultant to BMO Financial Group, lists them as follows:



Clearly identify the issue

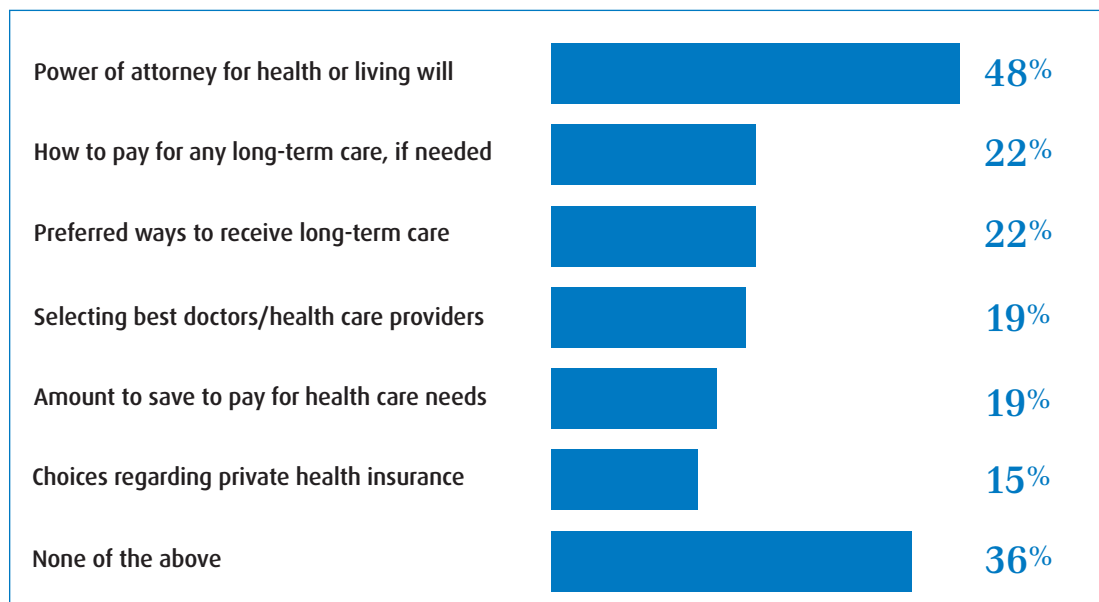
Avoid assumptions and expectations

Hear the point of view of everyone involved

Solve the problems

When asked, many of those surveyed had not had any discussions with their spouse or other loved ones about long-term care. The following table shows the many reasons to have meaningful discussions about this and other future life issues.

Percentage of respondents who have discussed future life issues with partner, spouse, adult-child, or relative



Source: BMO Wealth Institute survey by ValidateIT Technologies Inc., June-July 2015

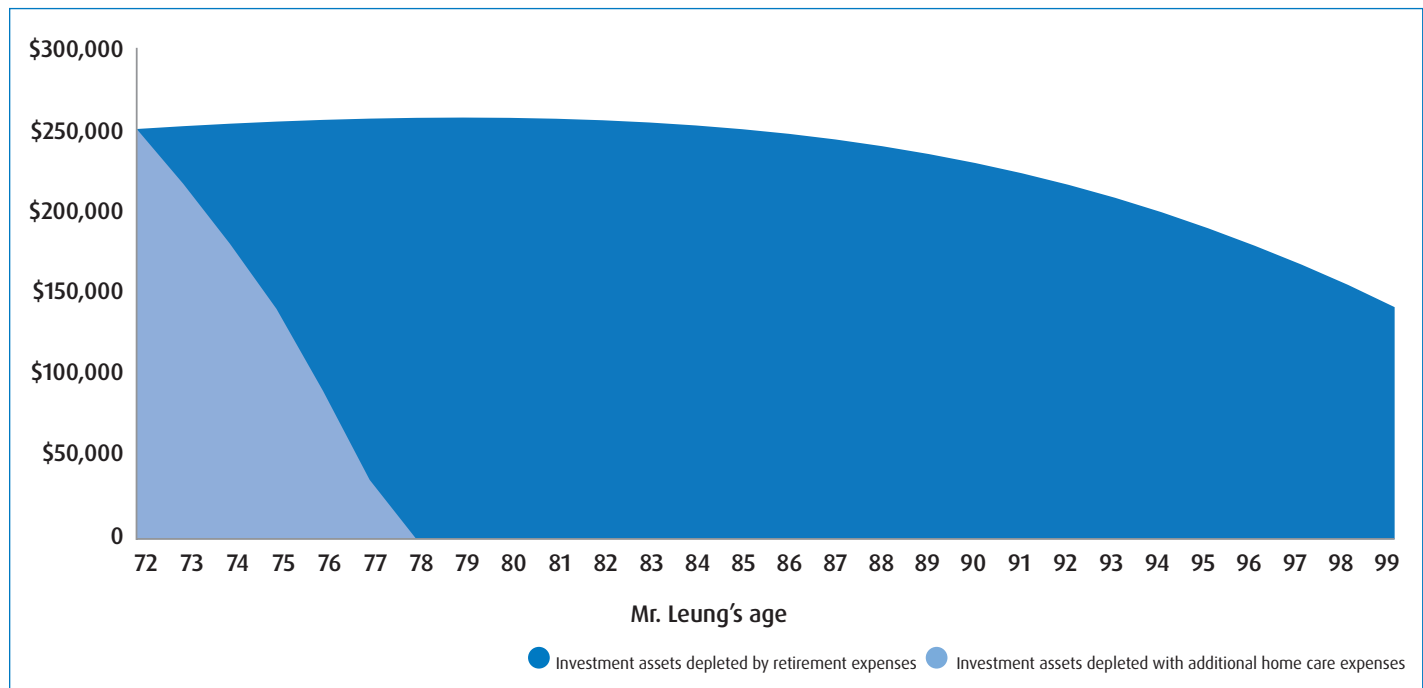
Funding future long-term care costs

There are two main ways to plan for the financial costs that could be associated with long-term care: ensuring that sufficient savings are in place to cover potential costs, and considering a long-term care insurance policy. A third option – reliance on Medicaid – is generally limited to people that are unable to otherwise fully pay for services.¹¹ There are additional limitations associated with Medicaid, as not all nursing homes accept Medicaid payments or have Medicaid beds available.¹²

Are adequate savings in place?

Let's return to our earlier hypothetical example. Prior to the onset of his dementia, Mr. Leung had put aside savings for his retirement needs in a Traditional IRA (\$150,000) and an investment savings account (\$100,000). He had expected his accumulated savings, along with social security, to last for the rest of his life, but unfortunately the high cost of daily home care will deplete these savings in only six years.

Projection of investment assets depleted by retirement and home care expenses



Source: BMO Wealth Institute. Assumptions: Accumulated savings in Traditional IRA and investment savings accounts; 3% inflation rate; 5% rate of return; \$23,000 indexed withdrawal per year. Additional withdrawal of \$35,000 per year for Mr. Leung's home care services as illustrated in the table on page 4.

The above example highlights the potential financial impact that long-term care costs can have on a family's financial situation. Long-term care insurance or putting aside additional savings for future health care needs can help to fund the costs of care, reducing the potential hardship that a family could face.

Should you consider long-term care insurance?

Surprisingly, long-term care insurance is not a very popular form of insurance. In fact, a 2014 study published by LIMRA found that long-term care insurance was owned by only 13% of those surveyed,¹³ and that the number of new policies being put in place each year is falling. This percentage is very low, considering that the U.S. Department of Health and Human Services notes that the likelihood of requiring long-term care during their lifetime to be 70% for people turning age 65.¹⁴

In an effort to deal with the relatively low demand for long-term care insurance, a number of insurance companies are evolving the type of coverage provided. These changes make it easier to find a policy providing the level of coverage required at a cost that fits within your financial plan. One option is to include long-term care coverage as a rider to life insurance or critical illness insurance policies. Other changes involve providing greater coverage for home-based care costs. In addition, there is an option to buy a relatively new product called asset-based LTC. For this coverage you pay an insurance company a lump sum, and then get a factor of LTC insurance as well as a death benefit.

Steven Covey, a best-selling author and leadership authority, famously noted...

“ I am not a product of my circumstances. I am a product of my decisions.”¹⁵

When it comes to your long-term care, making proactive decisions prior to any possible need can leave you with more control over your financial situation, rather than depending on circumstances and having to worry about ongoing costs.

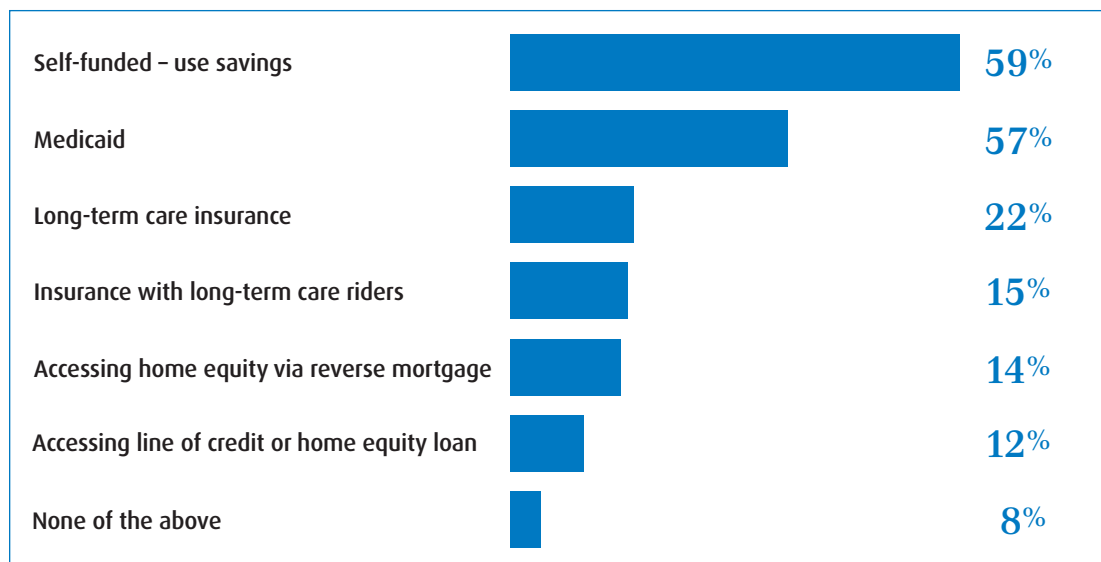
Building your financial plan

The potential costs of long-term care can be built into a financial plan to see if these costs can be sustained, given the available financial resources. Funding for long-term care could come from savings in an investment account or retirement savings accounts such as a Traditional IRA or Roth IRA, short-term use of a personal or home equity line of credit, or from a reverse mortgage. When asked, survey respondents proposed the following resources as primary funding options for future long-term care needs.

For those turning age 65, the probability of requiring long-term care is **70%**

59% of Americans plan to fund their long-term care needs with their savings.

Primary funding options for future long-term care needs



Source: BMO Wealth Institute survey by ValidateIT Technologies Inc., June-July 2015

There are several important reasons for building the potential for long-term care costs into your financial plan, including:

- Avoiding** being a burden to family members and friends
- Protecting** family finances
- Providing liquidity**, especially for business owners that may have a significant portion of their assets tied up in their businesses
- Funding** a higher level of care
- Accounting** for the possibility of changing family situations
- Obtaining** greater peace of mind

The survey asked Americans to identify their primary reasons for purchasing long-term care insurance and found that 57% of those asked didn't want to be a burden on their family, 41% wanted to ensure high quality of care, and 39% wanted to maintain control over decisions about long-term care. If long-term care insurance is determined appropriate to protecting overall financial planning goals, a policy should be put in place early to help reduce premium costs.

Financial plans
**should include
considerations for
long-term care costs.**

Take advantage of tax-saving opportunities

Some of the expenses associated with long-term care can be offset by itemized deductions. These potential tax-saving opportunities include:

Nursing home costs including both lodging and meals

Attendant care costs the cost to hire a person to provide care, either within your own home or in an outside care facility

Certain treatments and rehabilitative services that are prescribed as part of a plan of care by a licensed health care practitioner

Insurance premiums paid (up to specified limits) for a qualified long-term care insurance policy for qualifying long-term care services

Due to the wide range of tax-saving opportunities available, it is advisable to work with a qualified tax professional to ensure that all tax savings appropriate to your circumstances can be obtained.

Moving forward with financial security and peace of mind

It is important to discuss your situation with your financial professional, who will be able to work with you and other professionals to develop a personalized financial plan. By working together with your BMO financial professional it will be possible to move toward greater financial security and peace of mind by planning for the possibility of long-term care costs in the future.

Footnotes

- ¹ **Falling Short: The Coming Retirement Crisis and What to Do About It.** Munnell, A.H. Center for Retirement Research at Boston College, April 2015. www.crr.bc.edu/wp-content/uploads/2015/04/IB_15-7_508.pdf
- ² BMO Wealth Institute survey – survey conducted by ValidateIT Technologies Inc. for the BMO Wealth Institute between June 16 to July 14–18, 2015 with an online sample size of 1000 Americans 45 years of age and older. Overall probability result for a sample of this size would be accurate to within 3.1% 19 times out of 20.
- ³ Historical National Health Expenditure Data. Centers for Medicare and Medicaid Services, 2013. www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/nationalHealthAccountsHistorical.html
- ⁴ Table 1: Total Personal Health Care Spending by Gender and Age Group, Calendar Years 2002, 2004, 2006, 2008, 2010 Level (in millions), Distribution (percent), and Average Annual Growth (percent). Center for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, 2010. www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/2010GenderandAgeTables.pdf
- ⁵ The World Factbook. Central Intelligence Agency. (accessed August 2015) www.cia.gov/library/publications/the-world-factbook/geos/us.html
- ⁶ **Advisors help out when sandwich generation gets squeezed.** O'Brien, S. CNBC website, September 15, 2014. www.cnbc.com/2014/09/14/advisors-help-out-when-sandwich-generation-gets-squeezed.html
- ⁷ Genworth 2014 Cost of Care Survey, 2014. www.genworth.com/dam/Americas/US/PDFs/Consumer/corporate/130568_032514_CostofCare_FINAL_nonsecure.pdf
- ⁸ Selected Caregiver Statistics. Family Caregiver Alliance, December 31, 2012. www.caregiver.org/selected-caregiver-statistics
- ⁹ **A Profile of Older Americans: 2011.** Administration on Aging, U.S. Department of Health and Human Services, 2011. www.aoa.gov/Aging_Statistics/Profile/2011/docs/2011profile.pdf
- ¹⁰ **What are you leaving behind: Family conflict or a memorable legacy?** BMO Wealth Institute, July 2013. www.bmo.com/pdf/mf/prospectus/en/13-1274%20BMO%20Wealth%20Institute_Estate%20Planning_Q3_FINAL.PDF
- ¹¹ Long-term Care Financing in the United States: Sources and Institutions. Frank, R.G. Applied Economic Perspectives and Policy, 2012. Volume 34, number 2, pp. 333-345. www.aepp.oxfordjournals.org/content/34/2/333.full
- ¹² **How can I pay for nursing home care?** Medicare.gov website. (accessed August 2015) www.medicare.gov/what-medicare-covers/part-a/paying-for-nursing-home-care.html
- ¹³ 2014 Insurance Barometer Study. Durham, A. LIMRA, 2014.
- ¹⁴ **Who Needs Care?** U.S. Department of Health and Human Services. (accessed July 2015) www.longtermcare.gov/the-basics/who-needs-care/
- ¹⁵ Stephen Covey: 10 quotes that can change your life. Kruse, K. Forbes, July 16, 2012. www.forbes.com/sites/kevinkruse/2012/07/16/the-7-habits/



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