

What you should know about long-term care

Much has been written about the steadily increasing life expectancy of Americans over the past several decades. A woman who is turning age 65 in 2023 can now expect to live on average to age 87, while a man who is turning age 65 in 2023 can expect to live to age 84.¹ But it's important to understand that living longer doesn't necessarily mean living better. Like many things, longevity can be a double-edged sword. With advancing age also comes an increased likelihood of a costly healthcare event — one that could rapidly deplete a lifetime's worth of savings without proper planning.

The case for long-term care planning

Approximately 70% of Americans who are currently age 65 or older will require some type of long-term care during their lifetime.² Given this strong likelihood that you will need care, there are a number of important long-term care related questions that you should address and plan for:

- Who will be your primary caregiver?
- In what setting do you want to receive care?
- How will you pay for your care?
- And how will your care impact your family and finances?

Given the option, a majority of individuals would opt to receive care in their own home, rather than in a nursing home or community care facility.

What is long-term care insurance?

Long-term care consists of those services needed to assist you with the activities of daily living, such as walking, getting out of a chair or bed, eating, toileting or bathing — either in an institutional setting or at home. It also includes care related to the supervision of individuals suffering from cognitive impairments such as Alzheimer's and other forms of dementia that render the individual unable to adequately care for themselves.

Long-term care insurance helps ensure that you'll have access to high-quality care should you ever need it, without having to spend down your life's savings in order to pay for it. And when it comes to coverages and payments, you have a growing number of options available to fit your individual needs and preferences.

Most of us will need care as we age

70%
of Americans
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long-term care²

Type of care	Average number of years people use this type of care	Percentage of people who use this type of care
Any care at home	2 years	65%
Nursing facilities	1 year	35%
Assisted living	Less than 1 year	13%

How long-term care benefits are triggered

Typically, long-term care policies begin paying benefits when the covered individual is unable to perform two or more of the following activities of daily living (ADLs):

- Bathing
- Continence
- Dressing
- Eating
- Toileting
- Transference (e.g., moving from bed to chair)

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What types of long-term care policies are available?

Initially, many people consider “self-insuring” their own long-term care with the thought that they will set aside sufficient assets to fund the costs. Considering, however, that the average annual cost for a nursing home stay is \$108,405 (but may be higher in some states),³ and that the average cost for a home health aide is \$61,776 a year,³ the concept of self-funding often quickly becomes less attractive.

If you're not comfortable taking that kind of risk, you may want to consider transferring some of the risk to an insurance company by purchasing a policy with long-term care benefits. Depending on the policy options you select, insurance can help you pay for the care you need, whether you're living at home, in an assisted living facility or in a nursing home. There are three main types of insurance policies with long-term care benefits you'll want to consider:

- **Traditional long-term care insurance:** Typically provides the most comprehensive coverage for the cost. Depending on the policy, may cover home care, assisted living, adult daycare, nursing home care, hospice care and Alzheimer's facilities. But annual premiums may increase, pre-existing conditions may make obtaining coverage difficult, and unused benefits can be lost.
- **Hybrid life insurance with a long-term care benefits rider:** These are permanent life insurance policies with optional LTC benefit riders that combine long-term care benefits with a death benefit, so that any unused benefits are paid out to beneficiaries as a death benefit. Benefits are usually less generous than traditional long-term care insurance, but underwriting requirements are often more lenient.
- **Permanent life insurance with a long-term care or chronic illness benefits rider:** Typically provides access up to a specified percentage of the policy's death benefit to pay for long-term care. Beneficiaries receive any remaining unused death benefit.

Insurance policies with long-term care benefits

	Traditional long-term care insurance*	Hybrid life insurance with a long-term care benefits rider	Permanent life insurance with a long-term care or chronic illness benefits rider
How it works	<ul style="list-style-type: none"> • A policy dedicated to providing benefits if you should need long-term care. • Premiums are paid over time and are based on the benefits you select when you purchase the policy. • Some policies may provide a return of premium (up to the out-of-pocket premium paid) upon surrender or death. • Requires full underwriting. 	<ul style="list-style-type: none"> • A life insurance policy that provides long-term care benefits if you need them. • If you don't, an income-tax-free death benefit is paid to your heirs. • Initial long-term care benefits are set when you purchase the policy and are based on a multiple of the death benefit. • Premiums will not increase and may be paid over time or all at once in a single premium payment at the beginning. • A money-back guarantee may also be available through a return-of-premium rider. • May be available with streamlined underwriting. 	<ul style="list-style-type: none"> • A life insurance policy that provides a death benefit, but also has a rider which provides access to the death benefit early if you need it to cover long-term care and/or chronic illness expenses. • All life insurance riders offering these benefits do so in accordance with IRC Section 101(g), which typically allows the benefits to be paid as a tax-free acceleration of the death benefit.⁴ Long-term care riders are also typically intended to qualify as a qualified long-term care insurance contract under IRC Section 7702B. Chronic illness riders do not qualify as long-term care insurance under IRC Section 7702B. • Costs and benefits are based on how much life insurance you purchase and a variety of premium payment options are available. • Unlike traditional long-term care insurance, this type of policy has cash value. • Requires full underwriting.
Why it might work for you	A good choice if you think you'll likely need long-term care (based on your personal or family health history).	A good choice if you want to plan for long-term care in case you need it, but also want the flexibility to use the funds set aside for your heirs if you don't need long-term care.	A good choice if your primary goal is to get life insurance protection with a death benefit for your heirs — and you're concerned about paying for long-term care benefits you may not use.
Things to consider	Your annual premiums may increase and if at any time you stop paying premiums, your policy will be dropped and you will not get your money back. You may forfeit your money if you don't use the benefits; however some policies have flex credits and/or provisions that may provide returns (up to the out-of-pocket premium paid) upon death.	Since the initial long-term care benefits are based on a multiple of the death benefit, they may be less than a traditional long-term care insurance policy.	Since long-term care or chronic illness benefits are limited to a percentage of the death benefit, they may be less than a traditional long-term care insurance policy. There is also no money-back guarantee.

* Many insurance companies have exited the traditional long-term care insurance market over the last 5-10 years. As a result, there may be times when traditional long-term care insurance is not available through Merrill. However, it does continue to be available in the general market. The information above is intended to help you understand the key features of this product.

How much does long-term care insurance cost?

The cost of long-term care policies is predicated on your age, your overall health and the extent of coverage you're seeking. There are several factors that will impact your decision as to what type of policy is right for you and how much it will cost. These include:

- **Total coverage amount:** The maximum total lifetime benefit amount covered by the policy.
- **Daily/monthly benefit:** The maximum daily or monthly amount your policy will provide towards the cost of long-term care.
- **Elimination period:** The required waiting period before benefits begin (e.g., 90 days).
- **Inflation protection:** A provision that helps your long-term care benefit keep pace with the rising cost of care.
- **Shared benefits:** A rider that allows both members of a couple to pool their long-term care benefits for use as needed.

Most policies also offer a 30-day "free look" period during which you may cancel at any time and receive a complete refund of your principal.

When should you buy long-term care insurance?

As is the case with life insurance policies, age is a significant factor in determining the cost of a long-term care policy. Typically, first-time buyers of long-term care policies are individuals who are age 55 to 64 and able to qualify for good health discounts.

Potential legacy and tax planning benefits

Not only can a long-term care policy help protect your assets and enable you to leave a more meaningful legacy for your heirs, but depending on your income and age, long-term care premiums may qualify as medical expenses and be 100% tax-deductible. In addition, long-term care insurance premiums may be paid with funds from a Health Savings Account (HSA) that you may have funded with pre-tax dollars. And any benefits paid on your behalf for long-term care services are not taxable as income.

When do most people apply for long-term care insurance?⁵

Under 55	31%
Ages 55-64	50%
Age 65+	19%

When do most applicants get rejected for unacceptable health?⁵

Ages 50-59	23.1%
Ages 60-64	28.9%
Ages 65-69	36.9%
Ages 70-74	45.1%
75 or older	19.8%

Complete your entire financial strategy

You've worked hard over the years to build your wealth for a more secure future. As you approach retirement, protecting that wealth becomes even more important than building it. A financial strategy that fails to address healthcare costs — both those you expect and those that are less predictable such as a need for long-term care — leaves you far more vulnerable to depleting your savings and wiping out any potential to leave a meaningful legacy.

Getting started

For more information about long-term care insurance and for help in reviewing the options available to fit your needs, please talk to your Merrill advisor.

¹ Social Security Administration. "Benefits Planner, Life Expectancy", ssa.gov/planners/lifeexpectancy.html. Accessed July 21, 2023.

² Administration for Community Living, U.S. Department of Health and Human Services, "How Much Care Will You Need?" <https://acl.gov/ltc/basic-needs/how-much-care-will-you-need>. Accessed July 21, 2023.

³ Genworth Cost of Care Survey. <https://www.genworth.com/aging-and-you/finances/cost-of-care.html>. Accessed July 21, 2023.

⁴ Receipt of benefits under an accelerated death benefit rider may be taxable, especially if the insured does not have a prescribed plan of care. You should consult your personal tax or legal advisors before applying for this type of benefit. It may also affect your eligibility for public assistance programs.

⁵ Claude Thau, Nicole Gaspar, and Chris Giese. "2023 Milliman Long Term Care Insurance Survey." Broker World, July 1, 2023, <https://brokerworldmag.com/2023-milliman-long-term-care-insurance-survey/>. Accessed July 21, 2023.

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