FINANCIAL JOURNEYS

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Asset-based long-term care insurance: A more flexible option

As we're living longer, asset-based long-term care insurance can help you live your best life well into retirement.

When Social Security was introduced in 1935, the average 65-year-old received benefits for a lifespan of 12 to 15 years. Today, about a quarter of 65-year-olds will live past age 90. This presents wonderful opportunities to lead long, full and productive lives, while also underscoring the importance of planning ahead for potential challenges as we live well into our 80s and 90s.

Studies suggest that nearly 70% of those over age 65 will need some type of long-term care for three years, and 20% will need care for more than five years.[1] As you diligently plan and save for retirement, it's important to understand how simply living a long life can impact your income, health and quality of life. A long-term care insurance policy can cover costs that Medicare and other health insurance policies may not, such as in-home care, assisted living, adult daycare and nursing home care.

HOW ASSET-BASED LONG-TERM CARE WORKS

Long-term care contracts leverage the structure of either life insurance or annuities to provide long-term care benefits as needed, offering adaptability and ancillary benefits in case the policy goes unused.

These policies combine the financial protection you and your family may need in response to a long-term care event, but with the features of a balance-sheet asset that enable flexibility not found with traditional policies.

> Asset-based long-term care insurance can provide flexibility and value while protecting you and your family's financial goals.

Historically, asset-based policies were purchased with single premiums; however, today they provide multiple payment options such as 10 years or paying up to age 65. They provide long-term care benefits for typically four to six years, and the residual death benefit will be paid to your beneficiaries.

FLEXIBILITY FOR YOUR FUTURE

If you need long-term care, asset-based products offer an enhanced and tax-efficient funding account for the related expenses.

Asset-based long-term care insurance: A more flexible option (cont.)

And if you do not end up needing long-term care, the death benefit will be paid tax-free to your beneficiaries upon your passing. Additionally, your plan has cash value that can be accessed should you change your mind and decide to choose a different strategy.

When you consider that people today are living healthier and longer lives, it's easy to see how important creating a long-term care plan can be. Health insurance, whether provided by a private company or through Medicare, does not pay for long-term care. Coverage is limited to acute care associated with a short-term illness or injury, such as recovery or rehabilitation

In 2021, the median annual national cost for care in an assisted living community was $54,000. A private room in a full-time skilled nursing care facility costs an average of over $300 a day – more than $100,000 a year. When you combine the cost of two spouses over multiple years, you can see that housing expenses alone would run quite high.

For those seeking to protect their retirement income, investment assets and family from the risks and costs of a long-term care event, while maintaining control and liquidity, an asset-based long-term care product is worth considering. Exploring an asset-based long-term care policy allows you to make choices while you still can and better enjoy your quality of life throughout retirement, and helps relieve the burden on your loved ones. ■

GUARANTEED BENEFITS ↗

- Tax-efficient funding account for long-term care expenses
- Assets can be transferred tax-free to your beneficiaries upon your death
- Cash value can be accessed if you choose a different strategy

Ensure confidence with an heir preparation packet

Help your loved ones navigate a difficult time with a comprehensive guide when it's needed most

An heir preparation packet can, in the case of your incapacitation or death, offer your loved ones reassurance and clarity in a time of stress and grief by including:

1 **IMPORTANT INFORMATION AND DOCUMENTS.**

List your will, trusts, retirement and insurance plans, their locations along with usernames and passwords for your devices and important accounts.

2 **CRITICAL FINANCIAL INFORMATION.**

Provide contact details for accountants, attorneys, financial and insurance advisors and any investments.

3 **INSURANCE AND BENEFITS.**

Include details for health, life, home, vehicles, boat, jewelry and other insurance policies.

4 **FAMILY HISTORY.**

Provide biographical information about yourself, like your birth location and parents' names, along with other meaningful history.

5 **GUIDANCE ON NEXT STEPS.**

Provide the name of the key advisor or firm that will help ensure your wishes are carried out.

[1]longtermcare.gov, "How Much Care Will You Need?," February 2020; acl.gov/ltc/basic-needs/how-much-care-will-you-need

Supercharge your retirement savings with the "super catch-up" contribution

This significant change could boost your retirement savings as you approach retirement

The SECURE 2.0 Act has brought about major updates to retirement savings regulations in recent years. Starting this year, workers aged 60 to 63 can augment their retirement savings with an expanded "super catch-up" contribution under new rules created by the IRS last year as part of a package of inflation adjustments to retirement account contributions. This applies to 401(k), 403(b), governmental 457(b) and SIMPLE IRA plans that already offer catch-up contributions.

If you meet certain criteria, this is an opportunity to boost your retirement contributions as you near retirement age. Those eligible can add $11,250 per year to their 401(k) accounts (up for the regular catch-up contribution of $7,500), increasing their overall annual contribution limit to $34,750.

A NEW LIMIT WITH HIGHER IMPACT

This change represents one of the biggest shifts in 401(k) contribution rules in 20 years. If you are between the ages of 60 and 63 and are saving for retirement with a 401(k), this allows you to contribute about 14% more than in 2024 (2% of this increase is due to a cost-of-living adjustment – or COLA – that is often applied to contribution limits). The standard 401(k) limit for 2025 is $23,500, with a regular catch-up for those 50 and older of $7,500, meaning the "super catch-up" represents an additional $3,750 for qualifying participants. Once a participant turns 64, they revert to the age 50 and older (or +) catch-up contribution limit in effect for that year.

The higher limit can enable older Americans to bolster their retirement funds, with high earners who have the financial means to maximize their savings able to benefit the most from the adjustment.

"Super catch-up" contributions can be made to either traditional pretax 401(k) accounts or Roth 401(k) accounts, if your employer currently offers the option. Pretax contributions to 401(k) accounts reduce current taxable income, while Roth contributions – which require that taxes be paid upfront – allow funds to be withdrawn tax free. This may change next year, however, as all catch-up contributions will be required to go into Roth accounts for individuals with income above a certain threshold under another provision of SECURE 2.0 Act, unless the delay in implementation is extended further.

There are some hurdles to taking advantage of the new rules. Not all retirement plans can accommodate the new contribution limits, and your company's payroll system needs to be aligned with retirement-plan administration.. It's important to check with your plan administrators to understand how your specific retirement plan handles "super catch-up" contributions and any potential matching.

THINKING AHEAD

If you are interested in taking advantage of the "super catch-up", it's a good idea to plan ahead as much as possible. Those who are turning 60 before the end of a tax year can begin contributing at age 59, as long as they meet the other requirements. Conversely, if you turn 64 within the tax year, you will need to revert to the regular catch-up limits.

To help you navigate the complexities and ensure you are maximizing your benefits while adhering to the new rules, consult your financial advisor. They can provide guidance on how these changes can fit into your overall retirement strategy and align with your long-term financial goals. ■

401(k) plans and Roth 401(k) plans are long-term retirement savings vehicles. Withdrawal of pre-tax contributions and/or earnings from a 401(k) plan will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Contributions to a Roth 401(k) are never tax deductible, but if certain conditions are met, distributions will be completely income tax free. Roth 401(k) participants are subject to required minimum distributions at age 72 (70 ½ if you reached 70 ½ before January 1, 2020).