
While no one can predict who might experience dementia in their later years, it's prudent to include the possibility as you're building your long-term financial plan.

MONEY AND MEMORY

Financial planning strategies for dementia-related long-term care

Overview

We've all had them: Moments when we've walked into a room and forgotten what we came in for. Or saw someone out and about and couldn't remember their name. Or know we just had the cell phone — but now have no idea where it's gone.

We laughingly call these brief bouts of forgetfulness “senior moments,” but in some cases, these can be early signs of age-related cognitive decline. In its mildest forms, we may just notice an increased inability to recall information as quickly. Other cases may be the first indicators of dementia — a disease that takes a physical, mental and financial toll on both the individual and those they love.

Alzheimer's disease is the most common form of dementia, representing 60-70% of all cases.¹ While people with Alzheimer's live three to 11 years after diagnosis on average, many individuals can live up to 20 years.²

Consider, then, that the average coverage of a long-term care policy is one to five years — which can leave some individuals with Alzheimer's or dementia without care benefits for several years.³ Given these statistics, it's prudent for people approaching retirement age to include the possibility of cognitive decline and dementia in their financial plans.

Stage Planning

Dementia is a progressive disease, but it generally follows three stages: mild, moderate and severe. Financial skills generally begin to deteriorate in the early stages and may become evident as the individual starts to have trouble paying bills or managing bank statements. During this time, it's a good idea to set up bank services such as direct deposit for all income and automatic bill pay for outgoing payments.

This is also the time to establish a legal authority as power of attorney to take over financial management on the individual's behalf when necessary. It's critical to take this action now, while the individual is still capable of understanding and agreeing to the decision.



During the moderate decline stage, the individual may lose the ability to manage daily finances altogether. This may cause anger, frustration, and irrational thoughts and behaviors — which is why it's important to transfer money management to another person before the moderate stage occurs. Depending on the individual's living situation, it may be necessary to hire a caregiver to shop, cook and help out with other basics of daily living.

In the severe decline stage, patients tend to lose short-term memory, including the ability to hold conversations and make decisions. The individual will likely need additional support and care and may no longer recognize loved ones or even understand words.

Financial Options

Once a family receives a diagnosis of progressive cognitive impairment, they'll likely see a change in where and how their money is spent. They may need to adjust assets to pay for prescription drugs, personal care supplies, medical care, or even full-time in-home or residential care services.

The following are some things to know as you develop a plan for yourself or a loved one facing dementia and related expenses.

Medicare and Medicaid

- Medicare will pay for up to 100 days of skilled nursing home care in some circumstances. However, Medicare benefits do not include long-term nursing home care.⁴
- To qualify for Medicaid long-term care coverage, beneficiaries must spend down assets that could be used to fund their care.
- Not all nursing homes accept Medicaid. Those that do may have limited beds available.

Veterans Benefits

- Certain government benefits, including health and long-term care, may be available for people who served in the military. Veterans and their families can determine benefit eligibility by visiting the Veterans Affairs website at choose.va.gov.

Long-Term Care (LTC) Insurance

- An LTC policy needs to be purchased before the individual receives a dementia or Alzheimer's diagnosis.
- When reviewing potential policies, pay attention to the amount of the daily benefit and if it is adjusted annually for inflation.
- Understand how long benefits will be paid and if there is a maximum lifetime payout. You may reach this payout limit if care is extended over multiple years.
- Check what type of care is covered (e.g., skilled nursing home, assisted living, licensed home care, etc.).
- Check if there is an elimination period before coverage begins.



This is the amount of time that passes after a “trigger” occurs but before payments begin. In some cases, this elimination period may be the first 100 days during which Medicare will cover the cost.⁵

Life Insurance

- Life insurance should be discussed prior to any hint of dementia or Alzheimer’s. Companies will decline coverage if an individual receives a diagnosis or experiences symptoms prior to applying.
- Policy owners may be able to borrow or withdraw from the cash value account of certain types of life insurance contracts.
- Many policies offer accelerated death benefits for a predetermined percentage of the policy’s face value. These benefits are paid out if the insured is not expected to live beyond the next 12 months due to a terminal illness.
- Some policies also offer a rider that waives premium payments if the owner becomes disabled.

Long-Term Care Annuity

- Long-term care annuity policies are typically fully funded by the initial premium. Coverage is typically valued at 200-300% of the initial premium amount (the higher the initial premium paid, the more coverage the individual receives).
- If and when long-term care is required, a specific monthly amount is paid from the annuity until the value is depleted.
- The policy owner may be able to access cash value from the account, even if they never require care.
- Once the annuity contract matures, the remaining cash value (if any) may be passed on to named beneficiaries.

Asset-Based Long-Term Care Insurance

- This option offers coverage for long-term care expenses as well as a death benefit.
- If the policy owner depletes the LTC coverage, the death benefit may be used to continue paying for expenses.

Please work with a qualified financial professional and attorney before making any purchasing decisions to ensure you fully understand all the benefits, features and limitations of the above-referenced programs and financial products.



Financial Planning Checklist

- Identify all assets (bank accounts, investment accounts, property, household items, real estate).
- What is their estimated value?
- How is the main residence titled?
- Review all insurance policies, including what is covered (e.g., cognitive conditions, long-term care), benefits payable and named beneficiaries.
- Review all income sources, including Social Security, disability payments, pensions and required minimum distributions (RMDs) from retirement accounts.
- Research if penalty-free distributions are allowed from qualified retirement accounts.
- Consider government resources, such as Medicare, Medicaid, Social Security and veterans benefits.
- Consider what tax deductions and/or credits the individual or caregiver may be able to claim.
- Seek out free or low-cost community resources for meals, transportation, respite and adult daycare.
- Consider how personal property and work-related benefits can be utilized, such as a flexible spending account, family and Medicaid unpaid leave or paid time off.
- Select a trusted person to manage the individual's money, tax returns and health care decisions when the time comes.
- Consult with experienced financial and legal advisors.

Final Thoughts

Retirement planning is difficult enough without adding the possibility of dementia or advanced cognitive impairment to the mix. And it doesn't just affect the person diagnosed with the disease. Some caregivers will spend their own money or retire early to provide assistance to their loved ones, which can negatively impact their own financial future. We recommend working with a trusted financial advisor and attorney to develop a comprehensive plan to help protect your own financial future as well as those who may provide future care.



¹ World Health Organization. March 15, 2023. "Dementia." <https://www.who.int/news-room/fact-sheets/detail/dementia>. Accessed March 9, 2024.

² Mayo Clinic. June 7, 2023. "Alzheimer's stages: How the disease progresses." <https://www.mayoclinic.org/diseases-conditions/alzheimers-disease/in-depth/alzheimers-stages/art-20048448>. Accessed March 9, 2024.

³ Alison Tobin. Money. Dec. 26, 2023. "Long-Term Care Insurance Costs." <https://money.com/long-term-care-insurance-costs/>. Accessed March 9, 2024.

⁴ Alzheimer's Association. "Medicare." <https://www.alz.org/help-support/caregiving/financial-legal-planning/medicare>. Accessed March 9, 2024.

⁵ Cindy Wong. Experience.care. Aug. 18, 2022. "4 Tips for Understanding Long Term Care Elimination Periods." <https://experience.care/blog/understand-long-term-care-elimination-periods/>. Accessed March 9, 2024.

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