Planning for the long term

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TRANSCRIPT

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Ally Donnelly: Hi, I'm Ally Donnelly with Fidelity Investments. Welcome to our Wealth Management "Ask Me Anything" webinar. I'm joined by David Peterson, the Head of Wealth Planning here at Fidelity. Hi, David.

David Peterson: Hi, Ally. It's great to see you, and welcome to everyone joining the webinar today.

ALLY: Indeed. All right, so David, we're here to talk about planning for the long term, how we want to live, work, age. We're living longer, healthcare costs, as we can all feel, are going up. It can feel overwhelming as we're looking down that road.

DAVID: Without a doubt, absolutely. But having a roadmap can make it easier. And when you think about the other things on investors' plates, like inflation and interest rates, market volatility, the war in Ukraine, when we have a lot of factors to consider, it's more important than ever to plan for the long term, and get it down on paper.

ALLY: All right, well this is an "Ask Me Anything," so I want to get the questions out of the gate. These two get to the heart of it, in my opinion: what steps can we do, besides sit and wait for the dust to clear, and how much should I be setting aside each month? One more—and how do I plan for healthcare costs, including healthcare premiums, out-of-pocket expenses, and long-term care insurance? And you know, I think that word "plan" there, David, is key. In a lot of my conversations with friends who've been confronted with a crisis either with themselves or someone they love, I hear a lot of, I wish I had known, or I wish we had thought of. How can we be less reactionary?

DAVID: It's so true. Since, for the most part, for most of us, it's also a faraway event. It's also an easy thing to procrastinate. And at the same time, no one likes to talk about their own mortality, or their future frailty. They're not fun topics. And add to that the fact that COVID has put these topics front and center, right in our faces over the past two years. It's leading some perhaps to fatigue with some individuals. To me, the challenge is not to be fatigued about it, maybe use COVID as a motivation to get your plan in place. Don't forget: Developing a plan and preparing for the aging process will ultimately make it easier.

ALLY: Yeah, all right, so great. Next viewer question: when should we start?

DAVID: Well, I would say it's never too early, or too late for that matter, to start planning. In many ways, thinking ahead may make the process easier, as I said. And, if nothing else, it lets you get comfortable with decisions you make while also providing an opportunity to change those plans. Trying to make decisions during periods of emotional crisis, is usually not the best time. It's likely to lead to incremental stress, and let's face it, who needs that? And decisions made under pressure may not be the ones we would have made if we had more time to think them through.

ALLY: Yeah, I mean I know you've been through this yourself with your experience with your grandmother.

DAVID: Yeah, yeah. She had been in the hospital, thankfully recovered. But it was clear that, you know, she couldn't live independently anymore. She had limited financial means, and the family hadn't really thought through what that meant. Almost by default, the family chose a nursing home with costs covered by Medicaid coverage. But to be honest, it wasn't a good fit. She was unhappy, to be honest, she was practically nonverbal. She just wasn't herself, and naturally, no one in the family liked to see her that way. She was thrust into an unfamiliar place, sharing a room with a stranger, no friends, relationships, and so on. You know, if the family had planned much earlier, it maybe could have been a better experience, and not so shocking of a transition, or we could have been prepared for what we ultimately did, which was to have her live with us and avoid the experience altogether. You know, I think about these decisions multidimensionally, influenced by stage of life. If we're still working and saving for retirement, we can focus on financial decisions to help set us up for success.

ALLY: Yeah, I mean, you talk about setting yourself up for success. So I want to dig in to what you mean. Maybe it's helpful to give us the broad strokes, and then we'll drill down.

DAVID: Sure, sure. Well, obviously there are a lot of things to consider, which we're going to dig into today. But I think about this along three dimensions: It's financial, it's lifestyle, and it's family. First, if you're younger and still working, you want to make sure you're thinking about saving and protection. And in this area, I'm thinking about things like maximizing health savings accounts, and exploring insurance like long-term care insurance and life insurance. On lifestyle, I'm thinking things like living a healthy lifestyle, eating right, getting exercise, maybe as we get older with more of a focus on stretching and flexibility while you can. But also your physical surroundings. What's the setup of your home? We can get into more later, but maybe start exploring potential residential options. And then in terms of family, you want to think about the conversations you should be having with them. Share your wishes and goals with family so everyone's on the same page. Thinking about maybe who can help you when you need it, or certainly if you need long-term care. And if you're already in retirement, don't worry, it's not too late to make the decisions.

ALLY: You know, I hear you, and I really tend to look at this through two lenses. One, I think of my husband and I, which (laughs) honestly, before joining Fidelity recently, I hadn't really thought much beyond where we wanted to retire, what lake we were going to be on. But now, I'm trying to take care of my mom who's 81 and starting to have memory issues, so we're in it. And I worry that my brothers and sisters and I kicked the can down the road for too long, because we didn't want to confront my mom aging.

DAVID: Yeah, and look, this happens a lot. It's actually what informs a lot of my personal views seeing how my family members have navigated the aging process, and seeing their various experiences. And look, all our families are different, and the experiences will be different. Ultimately, this is a very personal sort of experience. But in my family alone, there were aunts and uncles without children, some with children in other states, some with children nearby, but with different levels of commitment and capabilities. I had relatives who passed quickly, some who had cancers, one who had Alzheimer's, and many who lived long lives and passed in the most ordinary of ways. Some lived independently in their homes, some had care brought in. Some lived in senior communities, and some spent time in skilled nursing facilities. You know, many people planned for themselves after a crisis with their parents, or another loved one. And as a result, they think, well, hmm. I don't want to be stressed that way, or I don't want to put a burden on the family, or they decide they want different outcomes, or quite possibly a combination of all these things. My advice is to start by asking yourself, what do you want, and what do you see for yourself? What are the ideal outcomes? I would also think about, who else might be impacted? Be careful of unintended consequences for loved ones. If you're thinking the kids will take care of me, run that play out. What does it mean, with a degree of specificity. What are they doing for you? Which of your children? As I said, are they all even nearby? Many of us retire to places aware from where our children live. The warm deserts of Arizona, or the sunny beaches of Florida. Does it all fall to one child? Do they alternate? I mentioned my grandmother earlier. She lived with my aunt and uncle for a while, and then she lived with us for a while. Are the children all equally capable? How does that impact them and their lives? Look, all these, and other questions need to be evaluated, and then you can start to explore the potential options. And I don't want to oversimplify or minimize these decisions. It is difficult, and part of its difficulty lies in that there's so many unknowns. We don't know what our physical and mental health might be in the future. There may be a light lift, like maybe we need someone to go get our groceries for us, or at least drive us there once a week to get them. Or it could be a heavier lift where we need someone to get us in and out of the shower, or more. And we tend to focus a lot on the physical, as we're talking about here, but we also can't forget about the mental. Do we have the ability to manage our finances anymore? It's one thing to manage daily flows and bank accounts, but for more sophisticated topics, you may need assistance. And the insurance landscape is confusing too—who pays for what, and for how long?

ALLY: Yeah, I mean, there's a lot. You say you start with a vision. One viewer's asking, so what goes into that? How do I think about that?

DAVID: Well, I like to think first, we need to seriously start with an honest assessment of what we might need. And it is difficult, because like I said, we don't know with any certainty. But you know, you might want to look to family health history. While it won't give you specifics, I think most understand there might be some correlation. Consider your own historical and current health and lifestyle, whether that may indicate a need to expect a certain level of care in the future. Talk to your doctors who, you know, while not likely to give you anything predictive, they can perhaps give you directional guidance.

ALLY: Yeah, I mean, it's a lot to unpack. So we've done that, we've thought of what we want, even knowing that there are a lot of unknowns, and we have to start thinking about our options. So help us run through what some of those are, and we're going to dig into costs and things like that in just a bit. But give us the options.

DAVID: Yeah, yeah, let's dig into that. Because, let's face it, many of those watching today are probably like you and me. We're hoping to age in place, and in fact, the AARP found that 90% of seniors want to stay in their homes as they age. However, there's probably more to consider than you thought. Aging in place probably wasn't what you had in mind when you bought your home. Is your home set up for you to age in? Is it multi-level? Is storage high up, or in inconvenient places? What are the bathrooms and kitchens like? If you need to renovate or modify, what are the costs of doing so? You might want to consider making changes now to save time, money, and hassle later. Look, some close friends of mine built their forever home in southwestern Michigan. They plan on retiring there. It's a multi-level home. But, they were thinking ahead. They put in an elevator so it's not a problem later when they can't navigate stairs. Now obviously, that's one extreme on the expense side, but no matter what you decide, you'll eventually need to age-proof your home. There's no walking on countertops to reach the high-cabinet shelves, which I've actually had relatives do. Falls can be really serious for seniors, even fatal, so we need to prevent them where we can.

ALLY: Yeah, I love that forward-thinking on renovating your home when you're in your fifties, so that you can live in it comfortably when you're in your eighties. But as I'm navigating this process with my mom who also wants to stay at home, and we hope to keep her at home, I'm discovering a lot of other costs to consider.

DAVID: Yeah, and it's not just your physical home. You may need outside help to come in, like I said earlier. It can be for more basic needs like housecleaning and maintenance, food and meal services, transportation services, or it could be for nonmedical assistance, like maybe you need someone to help you with personal care and hygiene. Or it can be for more significant medical care workers, like nurses. And all along these dimensions, you may need just a little bit, which probably won't damage your budget too much, or more intensive help, obviously, which is going to cost you more.

ALLY: Yeah, here's a viewer question: What if I don't want to, or aren't able to stay in my home, what should I be thinking about?

DAVID: Yeah, well the good news is that there are a range of options to choose from, depending on the type of care you might need or want. And they run the gamut from, you know, independent living or senior communities with limited services, or some low level of medical or personal care, to skilled nursing facilities with long-term care or rehab facilities. There are facilities that focus on just one of these areas, and others that offer the full spectrum of care depending on your situation. And these latter ones tend to offer a continuum of care, they graduate through as you need more assistance. Naturally, there's a range in quality and price, but the good news is that there are specialists in the marketplace who can help you evaluate the different options.

ALLY: Yeah, so none of these decisions get made without a lot of emotions involved, as I can speak to, you could speak to, probably lots of other people too. But folks are looking for the conversations we should be having. So, I mean, they're not easy, so you know, tell us about when and how to get started.

DAVID: Yeah, without a doubt, without a doubt, these are difficult topics. But, no one should really be surprised by it. We all age and become more frail. And to be honest, it's nothing to be ashamed about. The fact is that eventually, as much as we like the independence it provides, we won't be able to drive a car; it's just factual. My suggestion, start conversations early to get either yourself or your loved ones used to them. The more the topic is normalized, the more likely that at least over time it won't be so emotional. It's also important to note that the conversations are not one-and-done, they're ongoing, because things change. So it's likely not a set-it-and-forget-it type of situation. Loss of independence and role reversal, which happen over time, are tough things to come to terms with.

ALLY: Yeah, it's interesting, you know, as I'm having these conversations with my mom, and in a crisis obviously it's more painful, I said to my kids, I'm going to write my 80-year-old self a letter now (laughs) while I'm in my fifties. But we're getting a lot of questions about strategies, because it's hard, and if you haven't had any of these conversations, you know, what do you do?

DAVID: Yeah, well, by the way I love what you're doing, or what you plan on doing. But I think you know, if you've thought about your own plan, maybe talking to your parents about what you've done might be a way to open the door with them. So share your plan with your parents, then maybe ask what they've done, ask their advice, based on what they've done, what they've experienced. Is there anything you think I might be missing in my own plan? Again, just opening the door to the conversation. With my own dad, you know, once I was visiting him in Chicago, and I told him that I had recently updated my will, and I rather slyly asked him, have you recently updated yours? At a minimum, we recommend that folks look at their documents every three to five years, or with a life change. And to be honest, I thought he had one when my mom passed many years earlier. At this point, he had remarried, he had two more children. It was actually then, I found out he didn't actually have one. So that was the beginning of a journey that ultimately ended in a good spot, but let's face it, you know, we were lucky, because he was mentally sharp his entire life. If he hadn't been, we would have missed the opportunity to do some really effective planning ahead of time. You know, for yourself, if you don't get a handle on it, you're basically leaving it to someone else to decide for you. And for parents, not having a road map of their intentions just has the potential to make the whole thing a mess. So, I might run through some risks of delaying and highlight the benefits of a plan, start small, work up to the bigger topics. I might also suggest using the experience of others as illustrations, so maybe your parents had family members or friends whose situation you can lean on. Totally fictitious, but remember Grandpa Joe, we were all surprised how organized he was and how easy it was on grandma and all of you. Or, oh, remember your friend Judy when Frank got sick, she was panicked and stressed, trying to figure everything out. You know, these types of stories can be powerful motivators for people.

ALLY: Yeah, and David, I hope you don't take offense with this, but I'm kind of heartened that you didn't necessarily have everything completely buttoned up with your own family, it makes me feel better, and I'm sure other people. But you know, as you say—

DAVID: The cobbler with no shoes, right?

ALLY: Yeah. (laughs) One of those big conversations, as we know, is going to be about finances. So, you know, we've got two questions here, which I think are interesting from either end of the spectrum. So, I'm uncomfortable, they say, talking to my parents about their money. That's one. And then second is, obviously kind of a first person, how do I appoint someone to manage my financial affairs while I'm still alive? I like hearing those two perspectives.

DAVID: Yeah, they're kind of opposite side of the same coin, really. And yeah, many of us keep our finances close to the vest. And that is changing a little bit generationally, I'm seeing. But let's face it, many parents struggle with revealing their finances to their kids. And people have different approaches. With my dad, eventually he gave me authority over all his accounts. And people can do the same by assigning someone as a financial power of attorney. You can even vest this authority in multiple people, so that everyone has a clear picture of what's going on, because I know that can cause some problems, if it's just one of many siblings that has that authority. But either way is fine. The way that I think about it is, you know, I don't necessarily need to know how much is in the accounts. It's more important for me to know the types of accounts and how many there are, how they're titled, that if appropriate, they have beneficiary designations, or transfer-on-death instructions, that they match up with other documents like wills and trusts, and I need to know where they are—which banks, brokerage firms, insurance companies, et cetera. How do I access them? Who are the key contacts? In other words, is there an executor or a trustee assigned? And finally, if there are documents, it would be good to know that, one, they're regularly updated, unlike my dad (laughs), and two, where they are, how do I get to them when the time comes that I need to do something, and I guess three, that they're secure. In times of crisis, it'll be really important to know about healthcare proxies, who's responsible for making decisions, who has the right to receive confidential medical information from doctors to make informed decisions, and living wills or end-of-life instructions. What do you want to actually have happen? Because if you're the one responsible for making those decisions when your parents can't, not having these documents in hand may limit how you can help, or at the very least, delay and add stress to the situation. Sometimes you have to make quick decisions, and having these documents at hand will be really helpful.

ALLY: Yeah, you know, we talk about thorny issues, and you know, some folks are asking about not just the parent-child relationship, but family, you know. Help us to figure out kind of the best approaches for family dynamics, brothers and sisters are here asking.

DAVID: Yeah, it's probably one of the main reasons parents don't talk to their children about financing and aging desires. It's also, in my view, one of the best reasons to have open and frank conversations. You know, from my perspective, the last thing I want for my legacy is to be one of hurt feelings. So I think you need a good analysis of who's capable of what. Many times, parents will assign the responsibility to the oldest sibling. It's not bad, it's simple, it may have made sense when the children were younger. You know, the oldest has the most life experiences, is the most mature, perhaps. But as time goes on, it may be that the oldest is not the best choice. You know, as a way of an example, we had a client who gave the financial responsibilities to the oldest child, who to be honest was neither interested, or frankly capable, while the youngest was a CPA. It may have made more sense to make the youngest responsible for the finances. But also, maybe putting any of the children in charge of finances is a bad decision. Maybe it's better to leverage a neutral third party. You also have to consider geography. I mentioned this earlier. Who's closest to Mom and Dad and who can help, but also consider, is that an unfair burden? Maybe it's best to spread out responsibilities and balance the trade-offs, like we did with my grandmother. She lived with my aunt for a while, and then she lived with us. In terms of inheritances, many want to maximize what they give their children. And so bringing it back to healthcare and long term care, you know, you need to really work through what your inheritance desires are, versus your own comfort while you age. My personal preference, maybe I'm a little selfish, is for the latter. I want more comfort. But someone else may say, no, maximizing what the kids get is what I prefer.

ALLY: Oh, it's so hard to, you know, have your parent come around to saying out loud, yeah, I care about my own comfort, so thank you for saying that. Okay, I want to dig deeper into the cost of care, and we are getting a ton of questions on this topic. So know that we can't get to everybody, but hopefully, we'll get to the tenor of it all. So, Fidelity has something called the Retiree Healthcare Cost Estimate, and they say that, or we say, for an average retired couple, age

65 in 2021, that they may need nearly $300,000 saved after tax to cover healthcare expenses in retirement. But interestingly, that figure doesn't include the annual cost for long-term care. So here are two viewer questions to get us started. One, how should one calculate and anticipate healthcare and living assistance costs when residing at home, and at specialized facilities? And two, how do you plan or budget for healthcare costs when you have no idea how much it will cost in 20 years, except to know it's going to cost a lot more?

DAVID: Oh man, I understand and hear the frustration. I would say a good idea is to start with a financial professional who can help you think through the issues, the different options, and model the expected costs. But again, planning can ease the frustration and maybe some of the insecurity that you're feeling. Now stick with me, because I'm going to run through some figures to think about. So for healthcare, let's come up with the average baseline. As you said, assuming average circumstances, average retirement, average health, and average life expectancy, which let's roughly say, 20 years from age 65 to 85, that $300,000 as you mentioned, works out to be about $15,000 a year for healthcare costs. We do assume healthcare costs have been rising faster than general rates of inflation, and in our modeling, we assume, well we assume different rates over time, but in the early years, we assume five percent. So you might want to assume that rate, or be more or less conservative on that. But like you said, that doesn't include long-term care, nor does it include expenses like over-the-counter medications, most dental services and basic vision. And it also doesn't cover things that help you live independently, like housecleaning or grocery services or someone to run errands. So what we lean on are surveys that have been done by Genworth. According to a Genworth survey, depending on how much you need, those kinds of homemaker services can run you about $59,000 a year. Now keep in mind, that's eight hours a day, five times a week. And so you may be able to dial that up or down depending on what you need. Maybe you need a full-time health aide. Genworth puts that at an additional $62,000 per year. And again, can't emphasize enough, you may be able to dial these expenses up or down. For example, maybe you only need to pay for four hours of help a week, because maybe a family is running your errands, prepping your meals, or you're living with an adult child, and only need home health aide for a certain part of the day. But maybe you need some more advanced care, like adult day care, an assisted living facility, or a private room in a nursing home. Those services can run anywhere from $20,000 a year up to $110,000 per year. Now over the last five years, our research indicates that these costs have been increasing at different rates from almost 1.5% for adult day care to almost 4% for homemaker services.

ALLY: Interesting. I mean, you know, even though we kind of are breaking it down from $300,000, which is a huge number, to $15,000 a year. Once you tack on those other things, there's still significant annual costs. And of course, viewers have a lot of questions about them, so let's get to them. Given the last few years, I'm already struggling to keep up with my retirement goals. How am I expected to layer this in? And what are some of the things we should be looking at to save and pay for that—a huge, huge question. And what if my long term isn't so long away, how do I adjust?

DAVID: Yeah, well yeah, totally understand that. And no doubt, these kinds of expenses can have a significant impact on retirement, or the money that we had hoped to leave behind, and the fact is that they will consume more of your annual budget in retirement than they do today, most likely. First, again, I can't stress enough to the importance of taking advantage of a financial professional's skill in this area. They can help you think through these things in a very personalized and detailed way. But I would recommend, work these expenses into your retirement planning. It may be that these expenses fit into your overall retirement budget after all. It may not mean that you need to save more, just a recognition that how you spend your money is likely to change over time. And some of these things you may be spending money on already, and may already be in your retirement budget, for example, housekeeping services. But you can also think about other ways to chip away at those big numbers. Maybe you plan to downsize your home. The difference between the price you get for selling your current home and buying a smaller one may provide, you know, a sum of money to use towards this expense. Additionally, maybe the smaller residence comes with a lower annual operating cost, which allows you to spend more on healthcare. If you're still working, participating in a high-deductible insurance plan, and taking advantage versus HSAs, health savings accounts, could be a wise decision.

ALLY: Okay, so good ways to chip in to kind of remold your future financial situation. But good spot for these viewer questions. So on HSAs, who can start them, how to start them, why to start them? Here's one: Is maximizing HSA contributions and not using them, a wise investment decision? It's kind of along the same vein. Is using an HSA account, like a 401(k), a reasonable approach to address medical expenses and long-term care in retirement?

DAVID: Yeah, so let me start with, the very specific question: Is contributing to an HSA and not using the money now, and saving it for the future, is it a good decision? You know, I think so yes. It happens to be what I do. But you have to make sure that you can fund your current healthcare expenses out of other cash flow. You know, look, HSAs or health savings accounts, are individual tax-advantaged accounts. Now, you need to make sure that you know that you can only open an HSA if you have a high-deductible health plan, or an HSA-eligible health plan. If you do, and you can then open an HSA, you should know that it's federal tax free, every step of the way, so the contributions are pretax, they grow free of tax, and withdrawals are tax free, if they're used for eligible medical expenses. It's not a use-it-or-lose-it situation. It's not like flexible spending accounts, which many of our watchers are probably familiar with. And some employers also make contributions similar to 401(k)s, which is like your employer paying part of your healthcare costs. So you can contribute up to the annual limit, and you can build considerable savings from it. It may not be right for everyone. Premiums in high-deductible plans are generally lower than traditional health plans, in exchange for that high deductible, but if you're someone that's currently experiencing a lot of medical costs, you may prefer a lower deductible. But let's look at an example. Let's assume you're a 50-year-old couple. There may be an opportunity to save $140,000 between age 50 and age 65, before assuming any earnings on the funds, and assuming you have other means to pay your preretirement healthcare costs. This $140,000 would go a long way to helping cover healthcare costs in retirement.

ALLY: Yeah, I gotta say, I never had an HSA before joining Fidelity, so that was pretty exciting, so I definitely encourage people to look into that. Viewers are also asking how much can I rely on Medicare to help? And again, like not to make this all about me, but I'm embarrassed to say, I thought it covered much more than it does.

DAVID: Yeah, well that $300,000 figure that we mentioned earlier, those are for the elements that Medicare basically is not covering. And importantly, Medicare does not cover long-term care in general. It does cover skilled nursing facilities for a limited time, if it's deemed medically necessary for a person to have skilled person care. It can be confusing. But there are a lot of educational resources out there to help you weigh your options, including a new service here at Fidelity available in certain states that can help you navigate Medicare. And then there may be other resources you might be able to take advantage of. If you're a veteran, the Veterans Health Administration, or the needs-based program Medicaid.

ALLY: Good resources, okay. So we're getting the most questions on this next topic: long-term care insurance. Here's the first one: Is long-term care health insurance a good strategy? And the next one: how does a person decide between long-term care insurance, and self-funding. I guess that means paying for it yourself.

DAVID: First, yes, similar to HSAs, I do think it's wise to consider long-term care insurance. And I'm glad the questioner used the term "self-funding." You know, a lot of people say, I'm going to self-insure, which I think misses the point of what insurance is, and maybe it's just a fancier way of saying that you've decided to pay for it all yourself. The point about paying for it yourself is that you miss out on any potential risk transfer, or leverage that you may be able to obtain through the insurance.

ALLY: Okay, let's bring in another one. Help me evaluate what kind of long-term care insurance I should get.

DAVID: Well, ultimately, you need to decide what's right for you and your own personal situation. We can't really do that for you. But some options might include traditional long-term care, hybrid policies and annuities. Now, traditional long-term care. This is probably what most viewers are familiar with. You choose an amount of coverage, how long it lasts, the waiting period before receiving benefits, and it's designed with an annual premium. But, it's losing favor with both insurance companies and consumers. Insurance companies who still issue it may raise annual premiums after purchase. This is a factor that most consumers don't like. It also has a use-it-or-lose-it proposition, meaning if you never had a long-term care event, all that premium you paid in over the years, never pays off. It's like homeowners insurance. Now of course, we never hope that our home burns down, but we're certainly glad that we have insurance when it happens, same as long-term care. These policies have less flexibility than the hybrid policies.

ALLY: Well, cool, because we just got a question on that: what are hybrid policies, and do you recommend them?

DAVID: Yeah, well again, I couldn't recommend them without knowing someone's specific situation. But hybrid policies are life insurance policies with a long-term care rider that accelerates the death benefits in the event you have a long-term care situation, usually subject to a monthly maximum payout. Like traditional long-term care, they pay benefits, usually after you can no longer manage two of what's called the activities of daily living and these are, just think about these things are, being able to care for yourself. If you don't need the long-term care, they do pay a life-insurance benefit at death, and the way that they're structured is that you pay premiums up front, or for a certain number of years. I like them because there's typically good leverage in the policies, so you know, just totally rough example, you may pay $50,000 in premiums today, or as I mentioned, for a number of years, for $250,000 in coverage in the future. They are underwritten, so depending on age, health status, the amount of leverage will differ. But again, if you don't—if you never have the need for the long-term care insurance, there's still a death benefit to leave to a spouse to potentially pay for their long-term care expenses, or to other heirs.

ALLY: All right, let me bring in a few more questions. So, here's one thing: long-term care insurance keeps increasing. Are there other options that provide the same level of coverage? That's one. Please address long-term care for those of us who don't have long-term care insurance. What are our options? Again, what options are available for folks like my wife and me who haven't qualified for long-term care, to prepare for a nursing home stay? All right, we got two more, the next are annuities. What about annuities? Are they a good tool for preserving retirement funds, and what benefits do they have in the current market? So I know that's a lot, I know you can do it, so bring us through.

DAVID: (laughs) So a couple questions there. So, you know, the first one, long-term care insurance keeps increasing. I think most people—when I hear that question, I think about traditional long-term care policies, which is true, that's what I mentioned. It's an annual premium, and insurance companies have the right to petition the insurance commissioner in the state that it's issued to raise the rates and that's probably more information than you wanted. But the point is that they can't go up. I think a good alternative to that situation is the hybrid policy. But you should know that pricing varies based on a number of factors. The macroeconomic environment, interest rates have a big influence on how insurance companies price their products, but also your age and health status will be two big factors on that, so I would shop around on that. There are also long-term care annuities that provide long-term care insurance at a multiple of that initial investment amount. The investment grows tax free at a fixed rate of return. And if used for long-term care expenses, the gains will be received income tax free. However, I mentioned the low interest rate environment, at least in the most recent past. It has made it challenging for insurers to provide annuities with long-term care coverage. So these products have yet to gain any real significant traction in the market, and as a result, they may not be widely available. Two, there was a question on what if we don't qualify? If you don't qualify for long-term care insurance, I think then you're forced to look at some of the options, either using your savings, or using some of the publicly available options like Medicaid, the Veterans Administration, things like that.

ALLY: Okay, I think you got to everything, so let's bring in another one. When should I start long-term care insurance, and is it ever too late to get it?

DAVID: My mantra, I like to say it's never too late. (laughs) But as you get older, there is an increased likelihood of incurring a medical condition that may unfavorably alter the pricing dynamics, or make you uninsurable. There's also usually an age-cap on policy issuance around 70 years old, depending on the company. Most people consider and purchase long-term care when they're in their fifties.

ALLY: Okay. This is a big concern we're hearing about. How can you avoid a nursing home taking your family's assets, and I don't want my care to drain the money I was going to leave for my kids. How do I protect it?

DAVID: Right, that's a very common question, and an understandable concern, especially for as you say families who want to pass on as much of their money to heirs as possible. So Medicaid trusts are a popular strategy promoted by financial planners and attorneys. There are different types, but all share a common objective of preserving family assets while leveraging state and federal resources to pay for long-term care expenses. It's important to remember that Medicaid is a needs-based program. What that means is that to qualify for the benefits under the program, you need to qualify both from an income level, and an asset level. And although certain types of assets, like retirement accounts and a primary residence may be excluded, the amounts otherwise are pretty low, and they also vary both by federal and state levels. So basically, what clients are trying to do is give away their assets into a Medicaid trust for someone else's benefit. And you know, it might be right for some, but not for others. There are a lot of considerations. Two special ones to be aware of is that there is a lookback period. In most states it's five years. California's a little less. So you would need that time frame between giving away your assets and applying for Medicaid. And you know, this approach ultimately may be inflexible for changing circumstances, because again, you've kind of given away your money into the Medicaid trust.

ALLY: Yeah, yeah, okay. Since we're talking about trusts, we are getting a good amount of questions here. Here's the first one: how do you determine if you need a trust?

DAVID: Well, there are a lot of types of trusts that accomplish a number of different things. First, we encourage people to have some basic estate planning documents in place. One, a will. A will designates who's going to settle your affairs after you pass, and specifies who should receive which assets that don't pass via beneficiary designation or title. A financial power of attorney, we mentioned that earlier. This allows someone to manage your financial affairs when you're no longer able to. A healthcare proxy, sometimes called a healthcare power of attorney, that gives someone the ability to receive confidential medical information and make informed decisions about your care. A living will to convey how you'd like to be cared for, and other end-of-life decisions. Now often, we suggest that a pour-over will be paired with a revocable trust. What that means is assets will pour into the trust at death, and be distributed according to the terms of the trust. You can also title assets in the name of trusts during life, and still enjoy all the rights and privileges of those assets. The advantage of this is to avoid the time and expense of probate. And of course, all of this needs to be considered with the advice and guidance of an attorney.

ALLY: Yeah, you know, trust, it's kind of a fancy word. So is there a wealth threshold to start with?

DAVID: No, great question. There's no particular wealth threshold to start one, and maybe to more specifically answer the prior question, like why would you establish one? Well, you know, key reasons would, you know, if we're considering a trust, might be to control assets, to protect assets, as I mentioned, the privacy and probate issue. A lot of people use trusts to manage federal and state, estate and inheritance taxes. You might use a trust to help with incapacity planning, charitable giving, life insurance ownership, special-needs planning. So again, it's very customized. But people use trusts a lot to help manage potential estate taxes. If your estate today is valued over about $12 million, or $12.06 million this year, it may be a good idea to put assets into an irrevocable trust, to get them out of your estate and avoid estate tax on any additional growth of those assets. It's known as an estate freezing technique.

ALLY: Okay, I think you're going to sit up straight on this one, if I've listened to you carefully in the past, but can a trust protect my assets, like my house, and what should you include in a trust?

DAVID: Well, first on the house, I guess I would want to know what the questioner's trying to accomplish. In some states, primary residences are protected from creditors, but yes, a properly constructed trust can protect your assets from you—your creditors, or your heirs' creditors, or quite honestly from the irresponsible ways of our children themselves. So people use trusts to help control spending by heirs, to help ensure assets can last through their lifetimes—they're sometimes referred to as spendthrift trusts—or beyond. You know, maybe you're trying to provide for multiple generations. People use trusts for creditor protection, possibly to protect assets from future divorcing spouses or heirs to keep assets in bloodlines. Blended families like mine use trusts to protect assets from a surviving spouse who may remarry. So going back to my dad as an example, most of his assets were in retirement accounts. Quite rightly, his wife was named as the beneficiary of those retirement accounts. After he passed, if she remarried, she could change beneficiary designation; it becomes her own. So what we did with him is we put those assets in trust, and then he was able to control future distributions of those assets.

ALLY: Okay, you kind of touched on some, but run through the common types for us.

DAVID: Yeah, well the most common trusts we see are, well let's just say generally, revocable trusts and irrevocable trusts. And then in irrevocable trusts, there are a few that we commonly see. So, one is a credit shelter trust. That's the one I was telling you about before. You have a lifetime exemption for estate taxes, it's a little north of $12 million. You put money in a credit shelter trust; it shelters that credit from future taxes. Marital trusts, spousal lifetime access trusts, irrevocable life insurance trusts, granter-retained annuity trusts, intentionally defective grantor trusts, qualified personal residence trusts—I mean those are probably the most common ones, but they all do very specific things, and we probably don't have time to get into them today, but you know, if the viewers have an interest in them, maybe let us know, and we can hold a subsequent webinar on those.

ALLY: Okay, I mean we are definitely getting a lot of questions, so here's one: What's the difference between a trust and a will?

DAVID: Oh yeah, so a will is the most common way to transfer assets upon an owner's death. Using a will alone often means that some assets may be distributed through the legal process of probate. So what's probate? Probate is a public process that may invite scrutiny of a family's wealth, and result in significant costs and delays. It varies by state, some are more difficult; some are less. You know, I think generally, people view Florida as a more difficult probate state, Texas as an easier one. So it's best to know kind of, talk to a legal professional to see if that's going to be something that would be important for you. But basically, the estate planning trust can provide more control over how assets are distributed, and often help a family avoid that probate process.

ALLY: Maybe they missed your answer, but this, to kind of dig into this, how do you know what's best, and when to create one?

DAVID: Well you know, I mean it's so specific and personalized. You know, I hate to dodge the question, but I would need to know and understand the circumstances to say for sure. I would say, as a general rule, if you have some of the concerns around privacy, control, protection, estate taxes, it's probably a good idea to talk to a legal professional about your options.

ALLY: Okay, well, here we go, let's talk to that professional. What questions should I be asking at a first meeting with a planner, or maybe better said, prepare to answer?

DAVID: Yeah, you need to explain what your concern is and what you're trying to accomplish. You need to make the attorney help you understand the pros and cons of different estate planning strategies. There are inherent trade-offs, and understanding and prioritizing what's most important to you is going to help the attorney develop a strategy tailored to your individual needs.

ALLY: Okay, you mentioned pros and cons and trade-offs. Can you describe what some of those are?

DAVID: Yeah, well specifically when thinking about irrevocable trusts, probably the most important thing to remember is that when you fund one, you're permanently giving away your assets. That means that they're generally out of your control and not available for your use. While there are techniques that can limit this, it's a core tenet, so keep that in mind. It's one of the prices you pay for the potential tax benefits. So you have to be sure that you can continue to fund your lifestyle without those assets.

ALLY: Okay, this is perfectly aligned. You said, tax benefits. Good segue to this next one. What should I know about taxes with trusts?

DAVID: Wow, here's what you should know. It gets complicated quickly. So as an example, you can structure your trusts where the trust is responsible for any income taxes due based on the income that's generated on the assets in the trust. But, trust effective tax rates are higher than individual rates because they have a compressed schedule, so you have to evaluate if that's right for you. You can also structure a trust where you're responsible for the taxes due on the income generated in the trust. Now, there are other estate planning advantages to that, but it does create additional drag on cash flow, for assets that you no longer own. There's administrative burdens to establishing and maintaining trusts, and you have to be comfortable with those versus the advantages you are getting from them.

ALLY: You know, I've heard you mention beneficiaries a lot. Here's a viewer question, if we have time, I want to ask one too. But as we talk about what you're leaving behind, what should I do if I don't have beneficiaries for my accounts?

DAVID: Well, I would encourage you to rethink that. You know, usually we have someone in our lives that we would like to see benefit from what we've accumulated in life. You know, maybe you look for more distant relatives. Maybe it's a good excuse to develop or renew a relationship. Friends, neighbors, perhaps a caretaker. I'm sure your church, your university, a favorite charity or cause would welcome a bequest from you. If you truly have no beneficiary through the probate process that we talked about, one's going to be attempted to be found, which could consume some of your assets. And then if none are found, your assets are going to be sold with the proceeds going to the state's coffers.

ALLY: Yeah, I have to say—I'm not going to ask my question, cause you covered it, but one of the things, we've heard some nightmare stories about people who, you know, thought they had done everything right, or their parents, assumed their parents had done everything right, and then they were in court, you know, losing out.

DAVID: Yeah, for sure. That's why I think, you know, we talked about the family conversations earlier. I think it's just so important to have these open dialogues, because there are, and with professionals, because I think there are maybe some things that you're not aware of, and talking to someone who kind of knows the ins and the outs of that are going to help you and your family be really well prepared for it.

ALLY: Yeah, well prepared, well prepared is your motto. But this is a terrific viewer question as we're coming to the end of our time. And this is so much information that's, HSAs, trusts, insurance, here's the question: How does Fidelity provide support for clients' success? And I swear, that was a real question. (laughs)

DAVID: (laughs) That's like a softball question.

ALLY: Yeah, it's a gimme.

DAVID: So, look, here at Fidelity, we're very strong believers in education and knowledge sharing. We have a tremendous amount of information available to start you down on your path. We have qualified professionals to help you chart your journey. Depending on the complexity of your situation, my team is also available to help. I like to say that my team helps navigate these intersections of financial, investment, tax, trust, and estate planning. They're highly credentialed individuals with an extensive variety of experience, that work with our financial professionals to help our clients analyze and recommend a way forward.

ALLY: Okay, David, let me ask for your final thoughts. If people were leaving this conversation with one or two overarching themes, what would you hope those to be?

DAVID: I can't give you one or two. Can I leave the audience with four things maybe? (laughs)

ALLY: All right, go. (laughs)

DAVID: Planning. Start early and often. That would be number one. Number two, in terms of the cost, think about them in three areas, the healthcare costs, the, what I call helping costs, and then the long-term care costs. It is estimated that 70% of those age 65 or older will need some type of long-term care, and for an average period of three years, so it's important to kind of keep the costs we discussed earlier in perspective. Three, talk about it. As hard as the conversations seem, proper and advanced planning will make it easier. And finally, there are a lot of resources to help you here at Fidelity, or through other sources. You should know, you're not alone on the journey.

ALLY: All right, speaking to that, if you viewers are interested in following up on some of these topics, or some of the resources shared here, you can reach out to a Fidelity professional, or navigate to *Insights from Fidelity Wealth Management*SM, and there you can subscribe to your newsletter, and Wealth Management webinar series for more great conversations. David, I love all this access to you. I really appreciate this conversation, thank you.

DAVID: Thank you.

ALLY: I'm Ally Donnelly. Thanks for being here. We hope to see you again soon!

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90% of seniors age 65+ want to stay in their homes based on an AARP study as of February 2017, Can You Afford to Age in Place. A more recent AARP study from November 2021 shows that 77% of adults age 50+ want to remain in their homes, AARP, Despite Pandemic, Percentage of Older Adults Who Want to Age in Place Stays Steady.

70% of those over age 65 will need some type of long-term care, for an average period of 3 years, based on the Department of Health and Human Services Long-Term Care Information as of February 2020, How much care will you need.

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