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Planning for Long-Term Care

SUMMARY

You may have spent years carefully working and planning so that you have sufficient income for a comfortable retirement. You may think that your retirement savings are protected; but have you ever considered what might happen if you or your spouse required long-term care?

The cost of long-term care services provided in the home, at a community facility or in a nursing home may not be covered by Medicare or other medical plans. With the median annual cost of a private room nursing home stay currently hovering around \$91,250¹ and the median cost of in-home care assistance at \$45,760² per year, the expenses can deplete your retirement savings. These figures do not take into account lifestyle choices and extra amenities. Quality care and facilities could cost well into the six figures annually.

To mitigate this risk and help protect their retirement portfolios, many people purchase long-term care insurance. By paying an annual premium, you can help transfer the financial risk of long-term care to an insurance company. Equally as important, long-term care insurance can provide you with the freedom to choose the type of care you want.

THE HIGH COST OF LONG-TERM CARE

Long-term care (LTC) costs have soared in recent years and are expected to rise even higher. According to the Genworth 2015 Cost of Care Survey, here's what you can expect to pay for a private room in a nursing home, assuming an approximate 4% annual increase in costs.³

	1 YEAR OF CARE	3 YEARS OF CARE	5 YEARS OF CARE
Cost today	\$91,250	\$284,846	\$494,240
In 15 years	\$164,336	\$512,990	\$890,094
In 30 years	\$295,960	\$923,867	\$1,603,010

Figures in the table were computed by Genworth based on information from the 2015 Cost of Care Survey and represent room costs for an individual.

¹ Genworth 2015 Cost of Care Survey.

² Genworth 2015 Cost of Care Survey. Annual cost computed based on \$20 per hour and 44 hours of help per week.

³ Percentage increase represents the compound annual growth rate for surveys conducted from 2010 to 2015.

The Reality of Living Longer

Living a long life is more of a reality today. However, living longer is not always synonymous with living better.

The longer we live, the more likely it is that we may need someone to help take care of us. Thoughtful planning means asking yourself:

- Who will take care of me and where

do I want to receive care?

- How will the care be paid for?
- What impact will this have on my family and our finances?

The Case for Long-Term Care Planning

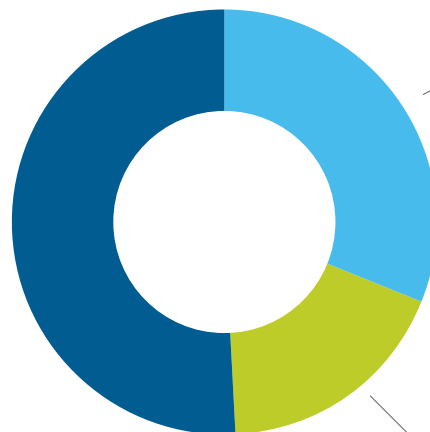
Most of us will need care as we age.

Americans Age 65 and Older



When given the choice, many people remain in their own homes while receiving care.

51%
Home Health Care
Professional provider giving care in the home



31%
Nursing Home
24-hour professional assistance

18%
Community Care
Assisted living/
Adult day care

Source: US Department of Health and Human Services, National Clearinghouse for Long-Term Care Information, www.longtermcare.gov, June 2015.

What is Long-Term Care Insurance?

Long-term care includes services provided to anyone with a chronic disease, disability or sudden illness, who requires assistance with Activities of Daily Living (ADLs) such as eating, bathing, dressing or moving from a bed to a chair. It also includes the supervision of persons with severe cognitive impairments, such as Alzheimer's disease, or other mental illnesses that can limit a person's ability to think or reason.

HOW DOES LONG-TERM CARE INSURANCE WORK? Long-term care insurance generally provides coverage for those who are unable to perform two or more ADLs for a period expected to last at least 90 days, or require substantial supervision due to a severe cognitive impairment. The long-term care services can be received at home, in a nursing home, or in an assisted living or community facility, as long as it is provided in accordance with a plan of care prescribed by a licensed health care practitioner. Purchasing a long-term care insurance policy typically offers the flexibility to choose where and how you receive care.

The cost of a policy is typically a function of your age, health and amount of coverage. There are key decisions you will need to make when designing your plan:

- **Benefit Amount.** This is the maximum amount you will receive from

the insurance company for long-term care expenses. You can choose to have benefits paid monthly (monthly maximum) or daily (daily maximum). Your Financial Advisor can help you determine an adequate benefit amount based on rates for long-term care services in your area.

- **Total Coverage Amount.** Also described as the policy's "pool of money," it is the maximum amount available to cover the cost of your long-term care services. When you access benefits and use less than the maximum daily or monthly benefit available to you, the unused portion will remain accessible until a later date or until your benefits are exhausted.

- **Elimination Period.** This is the amount of time that you are willing to pay for long-term care services out of pocket before you begin receiving benefits. Common choices are 30 or 90 days.

- **Inflation Protection.** Many policies offer inflation protection riders that can help keep the value of your coverage in pace with the rising cost of care. These riders provide periodic increases to your monthly or daily benefit maximums for as long as your coverage remains in force. Your Financial Advisor can review these alternatives with you to determine which may be appropriate for your circumstances.

The cost of a policy is typically a function of your age, health and amount of coverage.

Why Should You Consider Long-Term Care Coverage?

Many people underestimate their need for long-term care in the future. As a result, some postpone the decision to purchase coverage until they reach an age where it is more expensive or perhaps even unavailable because they are no longer insurable.

Here are some of the reasons people generally give for not purchasing long-term care insurance as well as some important factors you should consider when making your decision:

“I’m healthy now and take very good care of myself. Chances are I will never need long-term care in my lifetime.”

Planning ahead for long-term care is important since there is a good chance you might need some long-term care services if you live beyond the age of 65. Almost 70% of people over age 65 require some services⁴ – and the likelihood of needing care increases as you age.

“Long-term care insurance is just for nursing home expenses.”

Long-term care insurance is not just for nursing home costs. In fact, most long-term care takes place in

your home or assisted living facility. Depending on the policy you choose, you may even be covered for emergency medical response systems, home modifications due to a medical condition or the temporary services of a health care professional to help with at-home convalescent care.

“I don’t need long-term care insurance. My Medicare/Medicaid coverage will provide for long-term care.”

Medicare and Medicaid are designed to pay for hospitalization and physical health care, and generally do not cover the cost of long-term custodial care. While Medicare can defray the cost of some nursing home expenses as well as care received at home, it only provides coverage for a limited time and is subject to restrictions.

As for Medicaid, recipients must meet several financial eligibility criteria. As a result, Medicaid is typically a last resort for most individuals.

“It’s too expensive.”

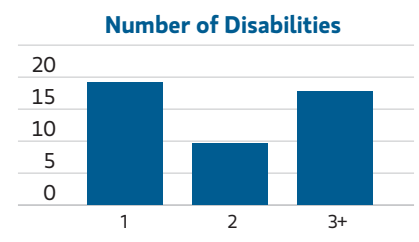
Long-term care insurance may not cost as much as you think, since the features of a policy can be customized to fit both your needs and budget. The

actual cost of the premiums depends on several factors including: your age and state of health when you apply for a policy, the Benefit Amount, the length of the total coverage maximum pool of dollars and the Elimination Period, and whether you choose to add optional riders, such as inflation protection, to your policy.

⁴ <http://www.longtermcare.gov>

What Is the Chance That You Will Require Long-Term Care After Age 65?

Percent of Population Aged 65+ With a Disability



Source: The 2015 Sourcebook for Long-Term Care Insurance Information, American Association for Long-Term Care Insurance.

When Is The Best Time To Purchase Long-Term Care Insurance?

From a financial viewpoint, the best candidates for long-term care insurance are generally people between the ages of 45 and 75 who have at least \$200,000 in assets to protect. Those under age 45 may be interested in purchasing long-term care coverage for their parents or for themselves, since the premiums will be lower at a younger age. Because long-term care insurance is medically underwritten, all candidates should be in reasonably good health.

AGE MATTERS

As is the case with life insurance policies, long-term care insurance becomes more expensive as you grow older. Moreover, physical infirmity may increase costs or prevent you from obtaining coverage altogether.

Most new long-term care individual applicants are between the ages of 55 and 64, a period of time when many people are able to qualify for good health discounts. Conversely, the older you are, the more likely you might suffer from health conditions that would impact your coverage.

WHEN DO MOST PEOPLE APPLY FOR LONG-TERM CARE INSURANCE?

Under 55	36.8%
Ages 55–64	54.0%
Age 65+	8.0%

WHAT PERCENT OF APPLICANTS IN EACH AGE GROUP IS REJECTED FOR UNACCEPTABLE HEALTH?

Ages 50–59	21%
Ages 60–69	27%
Ages 70–79	45%
Age 80+	70%

Source: The 2015 Sourcebook for Long-Term Care Insurance Information, American Association for Long-Term Care Insurance.
 Note: Due to rounding, items will not add up to 100%.

Ways to Pay for a Long-Term Care Event

Having choices in long-term care planning is a great thing. With the development of alternatives to stand-alone long-term insurance, there are more ways today to help solve the long-term care funding problem. Talk with your Financial Advisor about the best approach for you.

Long-Term Care Planning Solutions

<p>Self-insure</p>	<p>Self-insuring is an option to pay for long-term care by allocating personal savings or setting aside investments from a retirement strategy. However, care can be expensive and can consume big chunks of money you may prefer to use for something else, or could have a negative impact on your portfolio if the long-term care event occurs unexpectedly (asset liquidity, tax liability, and market fluctuations).</p>
<p>Stand-alone Long-Term Care Insurance</p>	<p>Traditional or stand-alone long-term care insurance creates a pool of benefit dollars to reimburse you for expenses incurred when receiving care for an extended period of time (policy maximums apply). Policies provide greater flexibility in the types of benefits and services to design a plan customized to fit your needs. Other features include care coordination services to help you plan your long-term care services when you need care, tax qualified premiums, continuous payment options (monthly, quarterly, annually) and automatic premium waiver when on claim.</p>
<p>Combination Life and Long-Term Care Insurance</p>	<p>Combination policies provide a convenient way for you to purchase both life and long-term care insurance in a single policy. This concept creates one pool of money to insure against each risk. Death benefits are immediately created for your beneficiaries and reimbursements for qualified long-term care expenses can be deducted from the policy's cash value. Return of premium riders offer a money-back guarantee on your initial investment. (May be available at additional cost. The amount returned will be adjusted for any benefits paid and any loans and withdrawals, and may have tax implications.) Premium payments are typically single sum or limited pay options to create leveraged payouts.</p>

Protecting Your Assets, as Well as Your Health

The cost of health care services continues to rise. If you require long-term care, you could end up using a significant portion of your savings to pay for this care.

A long-term care insurance policy helps to protect the assets you've worked a lifetime to accumulate. It can help keep your assets intact and may allow you to provide your loved ones with the meaningful legacy you had always intended to leave them. In addition, by owning a long-term care insurance policy, you provide your loved ones with greater options for your care while relieving them from full-time caregiver responsibilities.

TAX BENEFITS MAY BE AVAILABLE.

Premiums for qualified long-term care policies may qualify as a medical expense and be partially tax-deductible up to age-based maximum limits, if your nonreimbursed medical expenses, including those premiums, exceed 10% of your adjusted gross income if you are under age 65, or 7.5% of your adjusted gross income if you are age 65 or older.⁵ If you own a Health Savings Account (HSA), you may be able to pay your LTC insurance premiums with pre-tax dollars. In addition, benefits paid for long-term care services are not taxable as income. LTC insurance enjoys unique tax treatment for business owners. Please consult your tax advisor for additional information.

OPTIONS BEYOND LONG-TERM CARE INSURANCE. While traditional long-term

care insurance is the most popular option for people concerned about nursing facility and other potential expenses, it is not the only option. A number of life insurance providers offer whole life or universal life policies with riders that accelerate benefits for long-term care, if you need it. These combination "linked-benefit" policies typically offer a 90-day elimination period, and some may also offer inflation-protection options. Some policies are available on a single-premium basis, while others require annual premium payments. In addition, linked-benefit policies can:

- Provide benefits to meet long-term care expenses
- Provide your beneficiaries with a traditional death benefit in the event you do not require long-term care
- Return your premiums if you change your mind and decide you no longer want coverage (may be available at additional cost). The amount returned will be adjusted for any benefits paid and any loans and withdrawals, and may have tax implications.

You should be aware that while linked-benefit products offer a death benefit in the event you don't need long-term care, they are generally more expensive than traditional long-term care policies. Talk to your Financial Advisor for further details.

⁵www.irs.gov; 7.5% of AGI temporary exemption for individuals age 65 or older valid from Jan. 1, 2013 to Dec. 31, 2016.



COMPLETE YOUR FINANCIAL STRATEGY.

Long-term care insurance can be a valuable extension of your financial and retirement strategy. With a bit of foresight, you can help protect your savings against the potential risk of long-term care expenses so that you can enjoy the retirement you have planned.

For more information about long-term care insurance, contact your Morgan Stanley Financial Advisor. Your Financial Advisor has access to multiple long-term care products from a wide variety of respected insurers and can help you choose the one that offers the optimal combination of cost and benefits. If you do not have a Morgan Stanley Financial Advisor, please visit www.morganstanley.com/wealth to find a Financial Advisor near you.

Morgan Stanley Smith Barney LLC offers insurance products in conjunction with its licensed insurance agency affiliates.

Since life insurance and long-term care insurance are medically underwritten, you should not cancel your current policy until your new policy is in force. A change to your current policy may incur charges, fees and costs. A new policy will require a medical exam. Surrender charges may be imposed and the period of time for which the surrender charges apply may increase with

a new policy. You should consult with your own tax advisors regarding your potential tax liability on surrenders.

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