Long Term Care Guide

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A Case for Long Term Care

Long term care and health care issues can have an extremely adverse affect on retirement if not addressed. When approaching or reaching retirement, it's imperative to understand the affect an unforeseen illness or injury can have on a retirement portfolio. A typical married couple who have built a "nest-egg" for retirement are the most at risk, as we'll see in the following case study.

Judy and Ron had recently retired and their story is pretty typical of many retirees today. During their working years, Judy and Ron raised their three children who are now on their own and raising families. Ron worked for a small corporation as a cost accountant earning a reasonable living, while Judy was a teacher for 34 years at a local public school. Like many married couples, they had expenses and a family to raise so they "put away" as much as they could into their 401(k) and 403(b) plans for retirement.

Over the years, their retirement plans grew to just over $475,000, and at age 61 Judy decided to retire with a teacher's pension benefit of $30,000 per year. Ron retired at age 65 with a corporate pension and Social Security income that would pay him $37,000 per year for the rest of his life. This gave them a combined retirement income of $67,000 annually. However, to maintain their lifestyle in retirement, they needed $93,000 per year. This left them with an annual shortfall of $25,000. The shortfall would be made up with withdrawals from their portfolio.

Seven years had past and their retirement portfolio was performing as intended. They had the resources to go on a few vacations every year and were very comfortable until Ron, while working out at their local fitness center, collapsed. He suffered a debilitating stroke which left him in a rehab facility for six months. Ron worked very hard at recovering and was determined to return home.

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Long-term care insurance policies reimburse policy-holders a daily amount (up to a pre-selected limit) for services to assist them with activities of daily living such as bathing, dressing, or eating. You can select a range of care options and benefits that allow you to get the services you need, where you need them.

The Facts

Retirement Portfolio Value:
$475,000

Annual Income from Portfolio:
$25,000

Ron's Current Health Care Cost:
$45,000+

Total Annual Inxcome Needed from the Portfolio: $70,000

Number of years the portfolio will survive @ 8% return: 8.8

He finally did, but he needed home health care that came at an annual cost of over $45,000. This additional expense was going to have to come from their existing retirement portfolio. But, what would be the affect of adding an additional $45,000 a year in withdrawals? They were both very concerned how long their retirement portfolio would last with an annual withdrawal of $70,000 per year. Judy immediately called their investment advisor Frank to see what needed to be done. Frank had worked with them over the years investing their retirement portfolio, but he'd never discussed other retirement issues such as Medicaid and long term care. Frank took good care of their portfolio over the years, but was not a Retirement Advisor and therefore had not discussed the proper planning for these types of situations. Ron and Judy had discussed doing some long term care planning on their own, but felt it was an unnecessary expense because like many, they never thought it would happen to them.

Now they were sitting down at Frank's office discussing how they were going to adjust the portfolio to generate the additional $45,000 needed for Ron's care. Frank placed the analysis of their portfolio in front of them and explained that the portfolio had done well in the past generating $25,000 per year, while maintaining its balance of $475,000. He went on to explain that by taking an additional $45,000 per year, the portfolio would quickly erode and run out of money in less than nine years (even if he re-allocated the portfolio to be more aggressive and it earned an 8% annual return). Exasperated, Judy asked Frank if their was any insurance or planning strategies they could employ at this point to protect what they had. Frank sadly explained that it was beyond this point, and after the portfolio was exhausted they could apply and become eligible for Medicaid. Judy and Ron were shocked with this news. All of those years putting money away for retirement was not enough.

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A person at age 65 has a 70% chance of needing some type of long term care during retirement, but fewer than 8% actually carry any type of long term care insurance. Many people think the government will automatically pay all of their long-term care needs. The government pays for some long-term care services, but planning for the government to pay all of your long-term care costs may not be the best option for you.

"For many people, a failure to plan for LTC expenses can lead to financial devastation. LTC expenses can easily approach $200,000 during the average length of LTC treatment, whether care is provided at home, in an assisted living facility or in a nursing home."

This is a fictitious story, but the sobering fact is that this situation happens everyday to people just like you. The case study presented is intended to demonstrate the effect a major health care expense can have on the average married couple and their life savings. After reviewing this case study you have two options to consider:

Option #1 – Ignore the risk with the understanding that you will "self-Insure" in the event of a catastrophic illness or injury while in retirement. In this scenario you will be paying the escalating health care bills "out of pocket", potentially drawing down your retirement portfolio before Medicaid begins to pick up any costs.

Option #2 – Recognize the risk and understand that it's a wise decision to discuss a long term care plan that will protect your retirement savings, and transfer that risk to an insurance company. Next, you'll begin the process of defining a long term care plan with a retirement specialist to protect the "nest-egg" that you have built so you can enjoy a worry free retirement, regardless of what retirement brings your way.

Your Retirement Advisor's affiliated advisors offer a Long Term Care/Health Care Cost Assessment to review potential health care costs you may face in retirement. Based upon your current health condition, family medical background and other factors, they will prepare a report assessing your expected costs. They will then prepare a long term care strategy to effectively address and tackle these potential expenses. Your best defense is a good plan.

To request a complimentary Long Term Care Assessment or for more information, please contact us at:

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