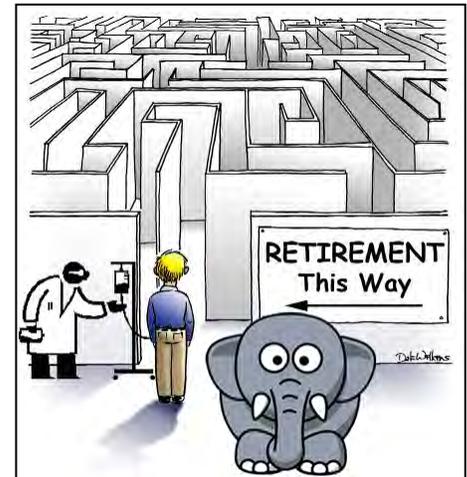


Long Term Care: The Elephant in the Room

Want to clear out a room out fast? Start talking about long term institutional care. Contemplating an extended end-of-life stay in a nursing home is about as popular as discussing the 1986 World Series, or having a root canal. No one wants to consider this possibility. In a 2011 survey by Sun Life Financial, 95% of respondents had not discussed long term care (LTC) with a financial advisor, and 85% of respondents with adult children had never brought up the subject with them. In the same survey, 64 percent of respondents believed that they would never need LTC, with men more confident of this assertion than women.

The statistics say otherwise. The U.S. Department of Health and Human services estimates that 70 percent of people over 65 will require LTC at some point during their lives. And it won't be cheap, either. According to a study by the Center for Research Retirement at Boston College, the mean cost of health care in retirement is \$197K for a couple that is free of chronic disease, and a 1-in-20 chance that the cost could exceed \$570K if nursing home care is required. (In 2011, nursing home care averaged \$87,000 a year, varying with geography.)

Navigating the Retirement Maze



The Medicare Myth

Many people mistakenly assume that once they reach 65, Medicare will foot the bill for extended care. Surprise: Medicare only covers nursing home expenses for hospital-related medical conditions, and only up to a maximum stay of 100 days. It provides no coverage for custodial (i.e., non-medical) or home care, the latter of which can exceed \$24 an hour.

One option is to have a family member, either a spouse or child, provide this level of assistance. But the cost of doing this, both financial (lost wages and employee benefits) and intangible (family stress) can be considerable.

Rich Man, Poor Man

There are two instances in which individuals don't have to worry about the cost of long term care. Couples with a liquid net worth in excess of \$5 million can essentially self-insure against possibly needing LTC, and have enough left over to support their living costs through old age. At the other extreme, couples going into retirement with only Social Security and less than \$250K in savings (i.e., most Americans) will most likely need all of this to carry them through retirement. If one or both spouses eventually require LTC, the likely end result will be a total depletion of their financial resources to the point where Medicaid will take over, leaving them with little more than a house and a car.

For families that fall between those two extremes, there are a number of available options for reducing the likelihood of extended care costs wiping out their nest egg. We'll look first at traditional long term care insurance (LTCI).

LTCI: No “Blue Light” Specials

For those individuals fortunate or smart enough to have locked into long term care insurance (LTCI) policies before 2000, congratulations. You outsmarted the insurance companies, which underestimated longevity and health care costs, and thus underpriced their policies. As a consequence, many insurers have stopped underwriting new LTCI policies, limiting the alternatives available on the market.

However, if you have a newer LTCI policy with uncapped premiums or are shopping around for one, the deals aren't as good any more. Annual premium increases of 30% are not uncommon, and the cost will only increase going forward. Coverage features and options are complex – elimination period, inflation protection, benefit triggers, etc. – and it's difficult to estimate your future expenses well in advance of the need. What often dissuades people from purchasing LTCI, though, is that if you never need LTC, such as if you die suddenly, your estate gets nothing back for all of the premiums you've paid in over the years.

If you have one or more preexisting conditions, don't even bother applying for LTCI. In this situation, the best you can do is cross your fingers and hope that you and your spouse can avoid nursing home-induced poverty down the road.

Better Options Available

Next month, I'll discuss some alternatives to LTCI that may represent better deals, along with some research results that looks at the cost-benefits of these options and thus provide some guidance as how to best proceed.

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