Life & Legacy

Redefining retirement, one step at a time

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RETIREMENT PLANNING

Take a healthy approach to long-term care

Unanticipated healthcare costs during retirement could ultimately place an unexpected financial burden on your family. Consider these four ways to avoid that possibility.

Policymakers and pundits have spent much of the past year talking about healthcare costs and what to do about them. By comparison, long-term care costs have received little attention. But if you're approaching retirement, you should be thinking about how you'll handle the potential expense of nursing home and other long-term care.

Seven in 10 people over the age of 65 will need some form of long-term care, and about four in 10 will enter a nursing home—with one in 10 staying there for five years or longer, according to the U.S. Department of Health and Human Services. Such care can be extremely expensive: In 2009 a private room in a nursing home cost an average of $219 a day—almost $80,000 per year—and in some areas it cost much more, according to the MetLife 2009 Mature Market Institute Survey.

MEDICAID AND MEDICARE ARE DIFFERENT PROGRAMS

You can't count on Medicare to foot the bill. It pays for a maximum of 100 days of skilled nursing care (and pays the full cost for only the first 20 days) and doesn't pay for custodial care such as help bathing and dressing. Medicaid does pay for custodial long-term care, but only after you've exhausted most of your assets—and it may not fund the quality of care you'd like.

The plan that you and your advisor decide on could include one or more of the following strategies:

SECURING A LONG-TERM CARE INSURANCE POLICY

The core of your plan is likely to be a long-term care insurance policy. These policies generally pay for at least a portion of nursing home or at-home nursing care, as well as custodial care.

The timing of your purchase is a big factor in determining your premium. The younger you are when you purchase a policy, the lower your premiums will be. Still, if you purchase a policy too early in life, you're likely to pay many years of insurance premiums. Your advisor can help you determine the right timing for you based on your individual circumstances.

LIFE INSURANCE AS A FUNDING OPTION

If you have a life insurance policy with accumulated cash value, you may be able to use it to help pay for long-term care. Which of the following approaches you ultimately choose depends on your situation:

- **Life settlement** involves selling your life insurance policy for its present value. If you don't need the policy anymore, you may be able to do this and free up cash toward future long-term care costs. That said, you're not eligible if you're already sick or are younger than age 70 (women) or 74 (men).

- Similar to a life settlement, a **viatical settlement** comes into play if a terminal or chronic illness has reduced your life expectancy to

Who We Are:

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less than five years. Viatical settlements typically pay between 50% and 80% of the policy's present value.

- **Borrowing from the policy** reduces the death benefit of your life insurance policy that will pay your heirs at your death—but you may decide that sacrifice is worthwhile in order to pay long-term care expenses without drawing on other assets.

MOVING TO A CONTINUING-CARE RETIREMENT COMMUNITY

These facilities typically include homes and apartments, an assisted-living facility, and a nursing home in the same community. You pay an initial "buy-in" fee as well as monthly fees, and the cost includes some or all care. Continuing-care communities often provide a high level of care, but they generally cost the most. Buy-in fees can run into the hundreds of thousands of dollars, and monthly fees may be several thousand dollars.

USING YOUR ASSETS TO SELF-INSURE

If you have substantial assets, you may decide to set aside money when you enter retirement to pay for potential long-term care. The amount you need depends on several factors—where you live, for example, since long-term care costs vary greatly from region to region and escalate in urban areas. Your advisor can help you determine whether you have sufficient assets to self-insure all or part of these potential costs.

Specifically, a Roth IRA provides an ideal long-term care fund. The money in the account has tax-free growth potential and is not taxed when you withdraw it. As a result, paying a nursing home bill with Roth IRA distributions won't cause an outsized tax liability the way it would if you withdrew the money from a traditional IRA. Moreover, Roth IRAs do not require minimum withdrawals after age 70½, as traditional IRAs do—so you can leave the money in place until you need it.

Planning early for possible late-life health expenses can help ensure that you and your family continue to be as financially comfortable as possible.

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TALK TO YOUR FINANCIAL PLANNER ABOUT:

- Creating a retirement strategy that will provide sufficient income throughout all stages of retirement
- Finding options to help fund potential long-term healthcare needs late in retirement
- Funding a Roth IRA to supplement retirement healthcare costs

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