Retirement Risk Management

Planning for Long Term Care

Post-Retirement Health Care a Critical Part of Retirement Planning

Retirement planning should be fun. The second home, the vacations and golf and other leisure activities—how fun to plan! Serious planning will consider the risk and expense side to the retirement ledger as well, and this is where planning becomes less fun.

Consider the cost of health care. Retirement, especially at age 65 or later, probably means walking away from employer-provided health insurance. A 65-year old couple can expect to spend about $315,000 in health care expenses over the course of their lifetimes. *(Fidelity.com)* That sum includes Medicare premiums, premiums for a Medicare supplement plan, non-covered deductibles and co-pays and such prescription medication costs not covered by Medicare Part D. Okay. $315,000. Put that in the financial planning software program and budget accordingly. But wait a minute. What happens if a long term care event strikes? Not generally covered by Medicare and not included in Fidelity's number above, how does our retirement planning couple plan for that?

Include Long Term Care in the Plan

A long term care event is a financial wild card. The associated expenses are for *custodial* care, not medical care, so for how long would you need someone to take care of you? Only a few days if you succumb to the event; maybe many years for some Alzheimer's patients. You just don't know. You also don't know *when* an event may occur or how much care will cost at that time. The unknowns make planning for care a highly inexact exercise, but the exercise is important, maybe even critical, to conduct. Care at home on a 24/7 basis currently costs nearly $20,000 per month. *(Genworth Cost of Care Survey.)* The Genworth calculation is 168 hours per week at the median cost of $27 per hour.

Maybe at this point you throw in the towel and say long term care will never be needed for you. Hopefully that is true, but the odds are against you. About 70% of the over-age 65 cohort will suffer a long term care event, and the odds of cognitive impairment for an 85-year old is one out of two.

If rolling the dice isn't your idea of a plan, how *do* you plan for an event you cannot predict, occurring at a time you can't determine, with associated expenses you cannot calculate?

Best Assumptions

Most financial planners recommend certain assumptions to be made. Most long term care claims (for people who are insured) occur in the 80's. Nearly 70% of all claims occur between ages 75 and 89. If there is such a thing as a target age, most advisors suggest age 83 or 84 is the time when your funding for long term care should be in place. The vast majority of long term care claims (73%) begin at home, rather than in a care facility. That's where most people would choose to have their care provided, but you don't have to assume the needed care will begin at full time, 24/7. Often care progresses from family-provided, to part time housekeeper to specialized and professional care. *(Claim data from American Association for Long Term Care Insurance, 2022.)*

The average durations of care, provided both at home and in a facility, are 3.7 years for women, and 2.2 years for men.

So how much do you need for long term care expenses? There is no good answer, but two recommendations for you to seriously consider. First, purchase a long term care policy. The leverage is undeniable—typically the pool created for long term care expenses is three or four times the premiums paid. And make sure the plan you purchase offers a death benefit or other "refund" if you die without ever going on care. You may build a large pool; don't leave it on the table if you die.

Second, buy a policy early and with an inflation feature. Care costs increase yearly with inflation. You should have a plan that increases with inflation, too. The typical age for purchasing long term care coverage was in the 70's, and it has been coming down into the 60's. It should be in the 50's. If you're 53 and a care event may occur at 83, you have 30 years to allow inflation to grow your long term care pool. Let inflation be your friend.