

Why Fund Your Long-Term Care Liability with Insurance?

By Connie Golleher

The largest financial risk Americans face during their retirement years is needing long-term care because of a debilitating physical illness or cognitive impairment. Combine the spiraling costs of health care with the absence of proper insurance planning, and a fully funded retirement plan can be spent down very quickly.

It is important to research and prepare a comprehensive long-term care plan as part of your overall retirement plan because the potential costs are so enormous. Nationally, the annual cost for a private nursing home is \$74,208, or \$203 per day—a cost that has gone up 4% a year since 2005—and continuous care in the home can carry a similar annual cost. Costs are typically much higher in large metropolitan areas. For instance, the average nursing-facility stay is now \$90,000 per year in the Washington, DC, area and \$113,150 a year in the Boston area.

Assuming the cost of care continues to increase at the current rate, in 20 years the cost for long-term care could rise to more than \$180,000 per year. The probability that you could exhaust \$500,000 or more on long-term care expenditures is significant. If both spouses need long-term care, the total cost could top \$1 million.

How can you best fund long-term care? The questions to ask are:

Can I “self-insure” for the liability and rely on my existing assets? For people with substantial retirement savings it is a good idea to consider self-insuring for at least a portion of the liability. While partially self-insuring is often feasible, fully self-insuring rarely is. But with the average stay in a nursing home estimated to be three years if you were faced with an additional \$90,000 of annual fixed expense for you or your spouse’s care, how much could you continue to pay without dipping into your principal?

What if I funded the liability by investing the money instead of buying insurance? If you begin saving at an earlier age will you be able to yield enough to cover your long-term care liability? For instance, if starting at age 55 you save \$5,000 annually for the next ten years, you will have at least \$50,000 that you will be able to use for long-term care. That amount is not enough to cover one year of skilled care at the national average. If you were to spend that same \$5,000 annually in premium for a long-term care policy you would be able to purchase a lifetime monthly benefit of \$9,000 that will increase to match inflation.



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Insurance is the most effective way to fund your potential long-term care liability.

Long-term care insurance is flexible, comprehensive, and affordable, and may be partially tax-deductible. It covers all levels of long-term care, including custodial, intermediate, and skilled. A plan of care can be established in a variety of settings, including your home, retirement communities, assisted living facilities, and nursing homes.

With LTC coverage you can protect your assets, maintain your financial freedom, receive quality care and services—and put your mind at ease.