Planning for Healthcare in Retirement

As we age, we naturally require more and more health care services - and health care is not cheap! In fact, for most retirees, it is generally one of the top 2 expenses in retirement, rivaled only by taxes. It is estimated that 70% of people age 65 will need Long Term Care at some point, with average national Private Nursing Home care costs around $97,000 per year, Assisted Living Facilities averaging $45,000 per year, with prices for all health care types continuing to rise.

Most retirees will qualify for Medicare, which helps cover a portion of the costs of hospitalization, doctor visits, and various other health services. For even more coverage, Medicare participants can buy additional coverage through a Supplement or Medicare Advantage policy. One common misconception about Medicare, however, is that Medicare will provide coverage for Long Term Care services. Unfortunately, Medicare does NOT cover Long Term Care, and even buying a supplement or Advantage plan covers VERY little, if any at all.

So, when should you plan for Long Term Care? As always, planning is best done sooner rather than later. Too many people fail to anticipate the need for Long Term Care until it is too late. Many don't even start thinking about it until after retirement, or when they see their health begin to fail. They attempt to find Long Term Care insurance, only to find that they no longer qualify due to health issues, or due to their age, it's too expensive. This means that they will need to use retirement savings and other assets to shoulder the burden of Long Term Care costs and hope it's enough.

Those with retirement planning foresight may opt for Long Term Care insurance. The traditional pay-as-you-go plans are adequate as long as you can afford it as you age and your rates increase, and is especially good if you do end up needing it. If you don't, however, you lose all the money you paid in premiums. But that's what insurance is all about, right? – transferring risk. Due to rate increases and the fact that it is a use-it-or-lose-it program, these policies are going out of favor in lieu of alternate plans that are more user friendly.

Let's discuss one of our favorites: we call it Asset-Based Long Term Care. It is like a "cake and eat it too" plan. The money you put in is set aside, and available should you need it. If you pass away without needing Long Term Care, you get your money back, plus growth on the account, the money goes to your heirs tax free, and you can borrow from the account tax free if you need retirement income or an unexpected expense emerges. You can use this account for traditional nursing home facilities, but it is also available for home care as long as you meet the minimal requirements of inability to perform 2 out of 6 daily living activities. Furthermore, it is available for a terminal illness even if you don't need Long Term Care or custodial care services.

In order to get all these benefits, the plans are built on a life insurance chassis, and can be funded in a variety of ways. The nice part is that you don't have to pay premiums for the rest of your life. You can set aside a single premium amount upfront, and know the guarantees provided from day one. No additional premiums will be due, and you know exactly what you have. You also have the option to fund them over a few years, which may be easier on your cash flow, and may allow you to receive more tax advantages. If you are over 59 ½ and can access your 401K or IRA funds without penalty, it might be smart to transfer some of those funds now. Pay taxes at today's potentially lower tax rates than future rates, and have a tax free future retirement income stream while taking care of your Long Term Care plan, your terminal illness plan, and providing a death benefit for a spouse or loved one. Sounds like a retirement Swiss Army knife doesn't it? Nothing like having the right tools in your tool bag.

Unfortunately many brokerage firms and portfolio management companies overlook things like taxes and health care planning. Even if you find someone to sell you a health care policy, it may not coordinate with other aspects of your plan, and could be inefficient or ineffective. Our advice is to explore your options with a comprehensive planner that coordinates all 5 essential areas of your plan; Income Planning, Investment Management, Health Care, Tax Planning, and your Legacy Plan. You may also want to look for a financial fiduciary that puts your interests first instead of those of a limited product focused firm.

Sources:

- *https://longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html*
- *https://www.morningstar.com/articles/879494/75-must-know-statistics-about-long-term-care-2018-edition*
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