

# The Wild Card That Could Destroy Your Retirement

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Could you withstand a half million dollar or more hit to your retirement savings? Even for many one percenters that could be the difference between a comfortable retirement and destitution. Yet, the odds that you may someday get this hit are uncomfortably high.

Long-term care costs are a wild card that can wipe out the most careful lifetime investment planning. And the event is so random and capricious that it's difficult to impossible to simulate in a financial plan. And no matter how carefully you have saved, how good your asset allocation plan and investment strategy is, the results may be ruined if you, your spouse, or another family member need long-term care.

Unless you are already destitute and eligible for Medicaid, no present or planned government program is going to step in and save you. You are on your own. For instance, nursing home care isn't covered by your health insurance, and isn't covered by Medicare. Once a hospital releases you to any kind of long-term care facility, your medical coverage quits paying for your care. And, you may not be hospitalized even a single day before you need long-term care.

Costs vary widely, but in my home town of Miami, the average bill is \$93,440 a year for a semi private nursing home room at and private room at \$116,216 a year for private room. (Home health care and assisted living facilities are somewhat less, but not insubstantial.) Not many people put that item into their retirement budget.

The odds that you might need some form of long term care for some period during your life are frighteningly high.

Research shows that at least 70 percent of people over 65 will need long-term care services at some point in their lifetime<sup>1</sup>. And while most people think of long term care as impacting only those in senior years, 40 percent of people currently receiving long term-care services are ages 18 to 64.<sup>2</sup> Of those that require long term care, about 80 percent will need five years of service or less.

For a couple, the odds that one of you might need LTC are a great deal worse. And I have clients that are providing care for one or more parents and a spouse. It's a crushing burden for all concerned.

That leaves two choices: Either you assume the risk, or you lay it off. Long-term care insurance has evolved to cover this risk for you. But, it's an expensive complex product that's becoming more difficult to get.

It's expensive because the risk is high for the insurance company. As people live longer, there is a much greater chance that they will need the benefit at some point, and that they will need it for longer periods. I don't have a great love for insurance companies, but when you see a hundred carriers leaving the market it's a strong hint that they are losing money providing the coverage.

It's complex because there are different triggering events, waiting periods before coverage starts, coverage amounts, and length of time that coverage continues. Then there are different payment plans. For instance you could pay for your entire life, or only pay for 20 years, or pay until you reached age 65. Each factor adjusts the premium.

It's getting harder to get because too many people want to wait until just before they need it. Any agent can tell you stories of clients that waited to apply for LTC until they were in their late 70s, taking 12 medications each day, and just about to have a hip replaced. Insurance companies are generally not stupid so it's logical that they would like to know that you are not already brain dead.

Nevertheless, adverse selection is still a huge problem for the insurance companies. People that think they may need the coverage soon will apply in larger numbers than people that are healthy.

Waiting isn't a great idea because 45 percent of applicants 70-79 and 66 percent of age 80 and over applicants are being declined, so it makes sense to purchase it between ages 40's to 60's.

Being expensive, complex, and hard to get, far too many people will procrastinate or never even consider the option. Big mistake! If you are really rich you might reasonably decide to self insure. If you are really poor, you might have to accept whatever Medicaid will supply. But if you are in the great middle class you owe it to yourself to wade through the options to make an informed decision.

Starting early, limiting years of coverage, and accepting longer elimination periods before coverage kicks in will all help in keeping premiums tolerable.

I'd advise finding an agent that is an expert in long-term care insurance and working with him/her. Your average life agent may not have the necessary expertise. Look for an insurance company with extensive experience in long-term care, a commitment to that market and the financial resources to pay up when and if you need it. There are still a half dozen great carriers in the market that deserve your confidence. If you are in your forties to sixties, and still in reasonably good health there's a good chance they can tailor something to your needs.

Make sure any policy you get is "guaranteed renewable". That means the insurance company can never cancel your policy, although they may increase premiums for an entire class of policy holders, but only after state regulators approve.

The bottom line here is that with both high risk and devastating consequences everybody ought to carefully consider their options. Don't let the flying fickle finger of fate ruin your retirement.

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**Disclaimer:** No one at [Investor](#) Solutions is an insurance agent, and we don't have any insurance company affiliations, so we don't have a dog in this race. But, we do feel that it's a mistake for anyone to fail to consider the problem and make an informed decision as to whether they should insure the risk.

Peter Gelbwaks of Gelbwaks Executive Marketing Corporation generously provided expert background information and an update on recent trends in the long term care insurance marketplace.

1. Medicare & You, National Medicare Handbook, Centers for Medicare and Medicaid Services, Revised November 2012.
2. U.S. Department of [Health](#) and Human Services National Clearinghouse for Long Term Care Information, 10/22/08.