DON’T LET HEALTH CARE COSTS CRACK YOUR NEST EGG

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Escalating health care costs can undermine the best-laid retirement plans. One of the biggest risks lies in the cost of long-term care. Unfortunately, health care costs in general have been outpacing inflation, and this trend to may continue.

Even if you’re currently in good health, you can’t guarantee that it’ll continue in your later years. Not being prepared can be very expensive. According to data from Lincoln Financial Group’s long-term care website, current national averages for full-time long-term care services can range from $3,680 per month to $14,370, depending on the setting and level of care required[1]. At that rate, it wouldn’t take long to put a sizable dent into most nest eggs.

Most people think of long-term care as nursing-home care, but, in fact, most of the people who need long-term care need it in their own homes or in assisted living. This means that nursing homes are only one part of the picture. The majority of Americans turning 65 will need some form of long term care services in their lifetime, which could include in-home care, skilled nursing facilities, assisted living and adult day care[2]. These costs can add up. The national average for a home health aide is $23 an hour, which means round-the-clock care at home can add up fast – totaling nearly $48,000 per year based on 40 hours of care per week. And if care from a registered nurse is necessary, that figure could climb to more than $280,000 annually1.

Insuring Against the Cost

Long-term care insurance policies are designed to defray the cost of nursing-home, assisted-living and at-home care –costs that are not covered by Medicare except in very limited circumstances. Today’s policies typically offer the same daily benefit for each level of care. Eligibility kicks in when an individual is unable to perform two out of six “activities of daily living.” These include toileting, bathing and being ambulatory.

If you have $10 million in assets, you may not need long-term care insurance. But $5 million may not be enough, as comfortable as it seems, especially if half of those assets are locked up in illiquid assets such as real estate or if you want to leave as much of your estate as possible to your heirs. The government adds an incentive in terms of partially tax-deductible premiums. For 2018, the yearly maximum deductible amount is $420 for those who attained age 40 or less, and rises to $5,200 for those over age 70.

But don't wait to buy long-term care insurance until age 65, because premiums then could be very high. The most cost-effective purchase point generally is from the early 40s to the early 50s. Whenever you buy, be sure to buy a policy that increases benefits to keep pace with inflation. You can also keep costs manageable by electing a waiting period before benefits begin and by limiting the length of coverage to four or five years instead of a lifetime.

Consider all Options

Long-term care insurance is designed to be flexible where you can control the costs relative to the benefits you wish to receive. Long-term care policies offer various kinds of coverage. Some offer adjustments for inflation, others pay only for a stated number of days, and others offer a life-time benefit. When deciding on a policy, you should compare the benefits of different types of policies, the limitations and exclusions, the types of facilities the policy would cover, and the cost of the premiums.

[1] "What Care Costs," Lincoln Financial Group, www.whatcarecosts.com/Lincoln, 2018.

[2] "Long-term Care: The Basics," U.S. Department of Health and Human Services, https://longtermcare.acl.gov/the-basics/, 10/10/17.

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