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SMART INSIGHTS FROM PROFESSIONAL ADVISERS

Something BIG Could Be Missing from Your Retirement Plan

About 70% of people who reach age 65 could potentially need long-term care at some point in their lives, and it can easily cost $100,000 a year. You need a plan in place, just in case. Here are seven ways to pay for it.

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Congratulations! You've done a great job: You've saved, you've planned, you've checked your to-do list twice. And now, as you complete your last day on the job, it's finally time to retire and do all the things you've dreamed about for years.

You can see it all now: You and your loved one will travel to places you've never seen. You'll explore new hobbies, spend time with friends and family, stay healthy and active, and make the most out of every day for the next 20 or 30 years — or more!

The only problem is, it may not play out exactly as you anticipated. There's a hidden threat lurking in the shadows that could devastate your plans. **One day everything's OK. And then, it's not …**

What if you have an accident or a stroke with long-term debilitating effects? Or fall chronically ill with Parkinson's or another life-altering illness, and you need help with two or more activities of daily living, like bathing, eating, dressing, toileting, continence and transferring? Or, you develop dementia or Alzheimer's. With any of those events you've joined the growing population who need long-term care services. Government statistics estimate that 7 in 10 Americans age 65 or older will need some type of long-term care during their lifetime. **That's 70%. Can you really ignore that risk?**

The costs of long-term care can be huge, and if you or your spouse needs extended long-term care it could totally consume your retirement savings.

And yet, a lot of people leave considerations of this risk out of their retirement plans. Some don't think of it. Many don't believe they'll ever need it, or they mistakenly think they can count on Medicare to pay for everything, including long-term care, once they turn 65.

They can't. **Long-term care is considered custodial care.** Medicare, Medicare Supplements, Drug Plans and Advantage Plans are designed to pay for medical care and drug costs related to injury and/or illness. Those plans typically **don't pay for extended long-term custodial care costs** in most situations (i.e., assistance with bathing, eating, dressing, continence, toileting and transferring), although there may be circumstances, such as shorter-term rehabilitation care or terminal illness, when Medicare, Medicare Supplements, Drug Plans and Advantage Plans may pay for care.

According to a 2018 Fidelity report, the average couple retiring at 65 will need $280,000 to cover their out-of-pocket medical expenses through retirement. That doesn't include long-term care.

Why so much? Out of pocket health-care costs are increasing in every category — prescription medications, doctor visits, hospital stays, etc. And, we're also living longer. According to the Society of Actuaries, in one-third of married couple households at least one spouse will live to age 92.

If you're fortunate, you'll stay mentally and physically fit well into old age. My great-aunt turned 98 last year, and it was the first year she didn't bowl in a league! Sadly, not everyone will be so fortunate.

It's hard to predict whether you'll need long-term care, and I personally hope that you never do, but as a part of your financial and retirement planning you need to consider the costs of care today and how you'd cover them. The 2017 Genworth Cost of Care Survey found the national median annual cost for Home Health Aide Services to be $49,192; $45,000 for room and board at an assisted living facility; and $97,455 for a private room in a nursing home — all steadily rising each year.

These are national figures; you can check out the costs in your area at www.genworth.com. In Colorado, for example, the median annual costs for room and board in assisted living were $46,200; and a private room in a nursing home was $102,565. A stay in a private nursing home room for three years could easily cost $300,000 or more depending on your locality.

You know that if you or your loved one needs long-term care, somehow … some way, you'll receive it. **The question is: How will you pay for it?**

There are a variety of alternatives to consider, and some of them include:

1. Spend the funds you've saved for retirement.

For some people, that will work — but for others it won't. A question to consider: If you use up a significant portion of your savings caring for one spouse, will there be enough left to support the other one for the rest of his or her life?

2. Ask family members to help.

Spouses, siblings and grown children often assist with providing care and/or help pay for long-term care expenses. If this is your plan, be sure to discuss it with your family in advance. Keep in mind that assisting with care at home often includes personal hygiene care you or your loved ones may not be prepared to do. Also note: **More than half the states have a filial responsibility law that could require adult children to pay for some or all of their parents' long-term care expenses.** A qualified legal professional can help you determine if this law could apply to your situation.

3. Purchase traditional long-term care insurance.

Today's policies are typically designed to pay for long-term care services needed at home, in assisted living, adult day care, nursing home and hospice. Premiums can be expensive and are typically less expensive the younger you apply. You'll need to evaluate your situation to determine if this fits into your financial retirement plan. If you're already experiencing certain types of health issues, you may or may not be eligible for this type of insurance.

For a couple both age 60 purchasing identical policies, the average annual combined premium for two policies that each provide three years of benefits starting at $150/day or $4,500/month, with 3% compound annual growth, and a 90-day elimination period (the waiting period before the benefits would pay once you're diagnosed as needing long-term care), could be approximately $3,490 per year.

4. Consider a certain kind of life insurance.

You can purchase a life insurance policy that allows you to access the policy's death benefits while you're still alive to pay for long-term or chronic care. Some of today's life insurance policies offer riders for long-term care benefits. Adding riders for long-term care benefits may increase the premium for the policy. To be eligible to purchase life insurance with long-term care benefits will require that you pass certain health underwriting requirements. If you never need to access the policy to assist with the cost of long-term care, your beneficiaries will receive the death benefit, which is an income tax-free pay-out, following your death.

5. Purchase an annuity with enhanced benefits for long-term care.

Some annuities offer benefit riders that will help pay for long-term care when needed. Some require health underwriting, while others do not. The benefits and additional costs for this coverage will vary among contracts. An annuity can also provide a steady income stream to you in retirement. Like other financial products, annuity features and benefits vary widely between contracts. Annuities are insurance products that may be subject to fees, surrender charges and holding periods that vary by company. Annuities are typically designed for retirement or other long-term needs. Guarantees for all insurance products are backed by the financial strength and claims paying ability of the issuing insurance company. Work with a trusted adviser to help guide you to the appropriate product.

6. Consider moving into a facility that offers continuous care choices.

Some facilities offer independent living with the option of moving (when needed) into assisted living, skilled nursing or memory care within the same facility campus. Availability, costs, residential choices, levels of care, amenities and services can vary widely between facilities, so you'll need to carefully evaluate and compare what's available in your area.

7. Spend down your assets and qualify for Medicaid.

Medicaid is the government program that can pay for long-term care and is generally available to individuals who have assets below specific levels. The rules vary from state to state; you can get specific information at https://longtermcare.acl.gov and/or meet with a qualified professional. Using Medicaid may restrict your care choices, including where you receive care, since not every facility accepts Medicaid patients. The decision you make may have an impact on your spouse's lifestyle, so be clear on the consequences.

I was 45 when my mom went into a nursing home. Until that point in my life, I'd never thought about what I would do if I needed care. And then, as Mom got settled into her room in the care facility we met her roommate — a 42-year-old mother whose children came to visit her every day when they got out of school. She had multiple sclerosis. She was on Medicaid and had limited choices about where to receive her care.

I immediately began the process to purchase my own long-term care insurance policy.

If you're in your 50s or 60s and feeling fit, you might not think this is something to bother with just yet. However, a financial or retirement plan that doesn't address these issues is incomplete — and potentially at risk. Talk to your adviser about how you can prepare to stay on track.

Kim Franke-Folstad contributed to this article.

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