A Case for Long Term Care

Long Term Care and Health Care issues can have an extremely adverse affect on retirement if not addressed. When approaching or recently reaching retirement, it's imperative to understand the effect an unforeseen illness or injury can have on a retirement portfolio. A typical married couple that have built a reasonable "nest-egg" for retirement are the most at risk as we will see in the case study to follow.

A Case Study

Judy and Ron have recently retired and their story is pretty typical of many retirees today...

During their working years, Ron & Judy had raised their three children who are now on their own and raising families. Ron had worked for a small corporation as a cost accountant earning a reasonable living while Judy was a teacher for over 34 years at a local public middle school. Like many married couples they "put away" as much as they could into their 401(k) and 403(b) plans for retirement, but they had expenses and a family to raise so they did the best they could.

Over the years their retirement savings plans grew to just over $475,000 and at age 61 Judy had decided to retire with a teachers pension benefit of $30,000. per year. Ron retired at age 65 with a corporate pension and Social Security Income that would pay him $37,000 per year for the rest of his life. This gave them a combined retirement income of $67,000 annually while their income needed in retirement to maintain their lifestyle was $93,000 per year. This left them with an annual shortfall of $25,000 per year that would be "made up" by withdrawing the necessary income from their retirement portfolios they had built up over the years.

Seven years had past and their retirement plan was working fine. They had the resources to go on two to three small vacations per year and were very comfortable until Ron, while working out at their local fitness center collapsed, suffered a debilitating stroke which left him in a rehabilitation home for 6 months. Ron worked very hard and was determined to return home and finally did but was in need of professional home health care that came at an annual cost of over $45,000 per year. This additional expense was going to have to come from additional withdrawals from their retirement portfolio, which fortunately was still at around $475,000 balance. The problem was that the portfolio was already generating $25,000 of annual income and what would be the effect of adding an additional $45,000 per year on their retirement savings? They were both very concerned with how long their retirement portfolio would last when withdrawing over $70,000 per year.

Judy immediately called their Investment Advisor Frank, to set a meeting to discuss this situation and see what needed to be done. Frank had worked with them over the years, helping them invest their retirement portfolio but had not discussed other planning issues such as Medicaid and Long-Term Care issues. Frank, their Investment Advisor took good care of their portfolio over the years but was not a Retirement Advisor and had not discussed completing the proper planning in case this type of situation occurred. As well, in the past, both Ron and Judy had discussed doing some Long-Term Care Planning but felt it was probably an unnecessary expense and felt it would never happen to them.

Now they were sitting down at Frank's office discussing how they were going to adjust the portfolio to generate the $45,000 of additional income per year necessary from their retirement portfolio. Frank placed the analysis of their portfolio in front of them and explained that the portfolio had done well in the past generating $25,000 per year while maintaining its balance of $475,000. He went on to explain that the analysis shows that taking an additional $45,000 of income for Ron's health care needs will quickly erode the account balance and the portfolio will run out of money in just under nine years even if he reallocated the portfolio to be more aggressive and it earned an 8% annual return. Exasperated, Sandy asked Frank if their was any insurance or planning strategies they could employ at this point to protect what they had. Frank said with a truly somber expression that it was beyond the point of doing any planning and that when they deplete their retirement savings they then could apply and become eligible for Medicaid.

Judy and Ron were both shocked with this news, but they knew deep down before the meeting that this was possibly the stark reality of their situation.

All those years of putting the money away for retirement was down the drain, unless Ron either passed away soon or they would be left with little or no money. They thought about their situation. Always careful with their diets, working out regularly, putting money away and now this...

What will Judy do if Ron continues to need the home health care or even if these expenses go up? The kids don't have the time or the extra money to help support her if and when Ron passes.

The Facts:

Retirement Portfolio Value: $475,000.

Annual Income from Portfolio: $ 25,000.

Ron's Current Home Health Care Cost: $ 45,000. +

Total Annual Income Needed from the Portfolio: $ $70.000.

Number of years the portfolio will last @ 8% return: 8.8yrs

This is a fictitious story, but the sobering facts are that this situation can happen to anyone and many of us have already witnessed this scenario firsthand. This case study presented is intended to quickly explain the effects a major health care expense can have on the average married couple.

After reviewing this Case study you have two viable options:

Option #1 – Ignore the risk with the understanding that you will "self-Insure" in the event of a catastrophic illness or injury while in retirement. In this scenario you will be paying the escalating health care bills "out of pocket" potentially drawing down the retirement portfolio before Medicaid begins to pick up any costs.

Option #2 – Recognize the risk and understand that it is a wise decision to begin to discuss a Long-Term Care plan that will protect your retirement and transfer that risk to an insurance company versus you. Begin the process of uncovering a Long-Term Care plan to protect the "nest-egg" that you have built so you can enjoy a worry-free retirement regardless of what retirement delivers.

Contact Us at retire@HerRetirement.com to discuss how we can help you protect yourself.