

## HEALTH CARE EXPENSE RISK

October 2007

In my June 2007 article entitled *Inflation Risk*, I explained how inflation erodes the buying power of your money over time. An additional risk to financial security in retirement is the cost of health care, which has been rising faster than general inflation. Longer life spans, increasing retiree medical costs, declining retiree medical coverage by private employers, and possible shortfalls ahead for Medicare and Medicaid combine to make healthcare costs a critical challenge for those in or nearing retirement. A study conducted by Fidelity Investments estimates that an average 65-year-old should plan for \$6,631 annually in healthcare expenses alone, which includes Medicare parts A, B, D, and supplemental coverage, among others. But one expense not included in those figures is the cost for long-term care.

What is long-term care (LTC)? Usually, it is considered care for individuals who need help with normal activities of daily living. Some of these services include daily activities (such as bathing, dressing, eating, continence, toileting, and transferring), home health care, respite care, hospice care, and adult day care among others. The expenses associated with this care can be significant. According to Genworth<sup>1</sup> the national average annual cost for an assisted living facility is \$32,572 and \$65,985, for a semi-private room in a nursing home. So what choices do you have to protect your assets from possible erosion from these costs? Two options are to purchase long-term care insurance or self-insure.

Long-term care insurance is designed to pay a daily benefit to help offset care expenses. When you purchase an LTC policy, you are buying access to a pool of cash to use to help offset future care expenses. Criteria to consider in helping make a decision include your current health, family health history (including longevity), age, and financial health. One of the negative connotations of LTC insurance is the cost of the annual premium, which will be determined based on your age, health status, and applied for policy benefits. A question to consider is whether the cumulative, annual premiums for the policy are enough to dissuade you from purchasing when compared to potential future expenses if you need care? Consider a statistic. According to AARP<sup>2</sup>, the lifetime probability facing a 65-year-old of developing a disability in at least two primary activities of daily living for at least three months, or becoming cognitively impaired, is 44% for men and 72% for women.

Self-insuring is another option. However, even if you have enough money to provide for several years of care, if needed, is that the best strategy? Rather than spending your lifetime savings and personal assets, why not transfer some of that unknown dollar amount and risk to your assets to the insurance company in return for an annual, known premium? In essence you use their benefits rather than your own money should you have a future need for care. In addition, long-term care insurance may provide asset and estate preservation benefits for you and your heirs.

While no one knows what their future may hold a long-term care policy should be considered carefully. When considering a policy, it is recommended you compare several carriers with similar, if not the same, benefits. However, it is imperative to understand that not all carriers or policies are the same.

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<sup>1</sup> *Genworth Financial 2007 Cost of Care Survey*

<sup>2</sup> *AARP "Becoming Disabled After Age 65: The Expected Lifetime Costs of Independent Living" June 2005*