

## Health care costs can be unpleasant surprise for retirees

Health care costs become less shocking as they continue to escalate. But that doesn't mean we are all prepared for the impact of our health on our financial security. Many people plan for lifestyle and spending goals in retirement but overlook costs to cover health care.

Fidelity Investments determined that a 65-year-old couple retiring in 2009 will need approximately \$240,000 to cover medical expenses in retirement, even with Medicare insurance coverage.

These costs cover doctor and hospital bills, prescriptions, etc.

This figure makes it easy to understand that while market fluctuations may upset your retirement plans, health care costs can be the quarter-million dollar surprise for many retirees.



**Gary Brooks**

What's more startling is that the \$240,000 estimate does not include the cost of long-term care. Long-term care can deplete your life savings even more rapidly. In 2008, the average cost of a year in a nursing home in the Seattle-Tacoma area exceeded \$80,000. The average length of stay is 2.4 years. Assisted living facilities cost a bit more than \$40,000 annually and the cost of a home health care aide has passed \$24 per hour.

Medicare does not cover the majority of these costs. Medicaid only applies once your assets have been depleted. Even then, the quality and extent of its coverage is limited.

Research from the AARP suggests there is a 68 percent probability that someone 65 or over will need assistance with at least two activities of daily living (eating, bathing, dressing, etc.) or because of being cognitively impaired. Many of these people will need help with long-term care costs.

### **CAREGIVING HAS FINANCIAL AND EMOTIONAL IMPACT**

In the case of long-term care, the benefits of managing risk through the use of insurance should be considered a family decision, not solely an individual one. Particularly with a long-term care situation, you're not only insuring against risk of something happening to you and your money. You insure against the consequences that the situation creates for your family.

If you become reliant on your spouse, children or others to act as caregivers, their life has to change to accommodate your needs. Most people are thankful to have loved ones involved in supervising care but they don't want to deal with them actually providing care.

### **MANAGING RISK, PROTECTING ASSETS**

Some people worry about the cost of insurance, others are uncomfortable with the possibility that they may never benefit from paying the premium over the years. Most people don't hesitate to insure their home because it is considered a valuable asset. Using long-term care insurance essentially acts as insurance for your life savings,

protecting a portion of it from depletion due to the need for expensive care.

Long-term care insurance has evolved from limited coverage exclusively for nursing home stays to more flexible policies with broader coverage, cost reduction features, and options to share care between spouses or families. The cost is dictated by age and health. The younger and healthier you are at the outset of the policy, the lower the annual premium will be. This may explain why the average age of a long-term care insurance buyer has dropped from 72 in 1990 to 58 today.

Long-term care insurance is not for everyone. If you're likely to qualify for Medicaid or you're certain of your ability to fund the expense without impacting other goals, it may not be a valuable component of your financial plan. For millions of people who find themselves in between Medicaid and millionaires, it would be wise to weigh costs vs. benefits.

You can learn more by reading the Shopper's Guide to Long-Term Care Insurance available at the web site for the National Association of Insurance Commissioners, [www.naic.org](http://www.naic.org).

*Gary Brooks is a certified financial planner and the president of Financial Life Design, a consulting firm in Tacoma. Reach him at [gary@yourFLD.com](mailto:gary@yourFLD.com).*

SECURITIES AND ADVISORY SERVICES OFFERED THROUGH COMMONWEALTH FINANCIAL NETWORK, MEMBER FINRA/SIPC. A REGISTERED INVESTMENT ADVISER.