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Adding up long-term care expenses

Originally published October 24, 2015 at 8:00 am

A single woman asks about long-term life insurance; a retiree asks about reinvesting dividend.

Q: I am a 59-year-old single woman with no children. I have a little over $1 million in qualified and taxable accounts. Due to pre-existing conditions, I am unable to obtain long-term-care insurance. I was recently told about a universal life-insurance policy with an optional long-term-care benefit rider. The minimum investment is $50,000 (recommended amount is $100,000).

Is this something I should consider?

A: As a single woman without children, you don't need life insurance. And with $1 million in financial assets, you probably don't need long-term- care insurance, even though I like the idea of no-deductible/no-waiting period LTC very much.

It's also possible that your pre-existing conditions may work to (1) eliminate your access to having a life policy or (2) make the insurance so expensive, relative to the benefit, that it would be a poor choice.

Now let's measure your assets against the cost of long-term care. According to Genworth, a major provider of LTC insurance, the current annual cost of nursing-home care is $80,300 in a semiprivate room (the annual cost of an assisted-living facility is $43,200, excluding up-charges). So your $1 million would last about 12.5 years in a nursing home and longer in assisted living.

According to the American Association of Long Term Care Insurance, only 50 percent of those age 60 will need nursing care before they die, assuming coverage from day one, without the usual 90-day elimination period. (For those who buy typical LTC policies with 90-day elimination periods the probability of use is 35 percent.)

But how great will it be? The association website also notes that 44.2 percent of all nursing-home stays are 12 months or less. And 74 percent are under three years. Only 12 percent are five years or more. So there is a 94 percent chance that your worst-case nursing-care total spending would be less than $401,500 ($80,300 times five years).

This suggests it is unlikely you would exhaust your assets in long-term care. My suggestion: stay calm, invest carefully, and savor a long retirement.

Q: I am almost 70. I have been an investor in stocks for many years. During that time, I reinvested dividends to buy more shares. Now that I am truly retiring, should I stop reinvesting and receive them in cash in my IRAs?

A: The bigger question is ease in making required minimum distributions. Taking dividends in cash is a good way to have a constantly renewing supply of cash to make those distributions. Sadly, they probably won't be enough.