Retirement – Philosophically Speaking – The Slowing Years

When we think of retirement, we tend to think of all of the things we plan to do with our time when we are no longer required to go to work every day. These plans may include sailboats, travel, and golf clubs. The trouble is that most of what we envision is part of the "active years" of retirement (see my last article). We still have to plan for the later years of retirement when we aren't able to be so active… do we have a picture in our heads of those years?

Within retirement, there are three main phases to consider: the Active, Slowing, and Convalescent periods. I'm dealing with each of them in successive columns. Let's look at the second one here.

The Slowing Period. As time goes on, our bodies become less able to do the things we've always enjoyed. Travel isn't as much fun as natural aches and pains make it less worthwhile. We slow down our pace of life. Recreational pursuits trend downward and medical expenses tend to rise (more on this in the next article). In this period, we realize personally that we must prepare for what comes next. Let's talk about that.

One of the biggest holes in most retirement plans is preparation for long-term care needs. It's a fairly universal need and planning starts before it's needed. Married couples usually assume they will take care of each other, while they are able. Single people or surviving spouses have to look elsewhere for help. For many people, this is the reason they purchase Long-Term Care insurance (LTCi). Unfortunately, traditional policies have become very expensive for what they cover.

Traditional LTCi looks much like other types of insurance. Insured individuals pay their premiums until the time when they initiate a claim. Those of us who sell this type of insurance were trained to use the following statistic to explain the need: a 65 year-old person has a greater than 50% chance of needing long term care services before their death (help with at least two activities of daily living). The problem? It turned out to be true. How can an insurance company adequately price insurance with a 50% claims rate? Many people were projected to get all of their premiums back within the first six months on claim!

This changing landscape has greatly reduced the number of insurance companies willing to sell traditional LTCi policies—with increased premiums and reduced benefits. Now, most LTCi is sold as a hybrid with other types of policies—annuities with LTCi and life insurance with LTCi predominate. Most of these policies do not follow the traditional model of lifetime premiums until there is a claim. These tend to require lump-sum amounts invested upfront. This reality tends to limit the number of people able to take advantage of such policies. Where can average people find pools of money to invest?

Those who have old annuities and life insurance policies may find a benefit in exchanging them for policies with included LTCi. Before doing so, investors should be sure they don't need the policies for their original intended purpose. What can be the benefit? Picture an annuity with a low cost-basis. Any income taken from the annuity will be taxable. Exchanging this policy for one including LTCi may add a tax-free LTC benefit and still keep the ability to take future income, if needed.

There are many who plan to use Medicaid for this purpose, when the need arises. There are special planning considerations to reducing assets and protecting wealth while trying to qualify for future benefits. Consider something… most facilities have a limited number of beds available for this program. If this becomes a widespread approach, many of us will be waiting in a long line for a bed to open. This is a valid planning option… just consider the practicalities and do what you can to take care of yourself while you are able.

We may have a picture of retirement in our minds that seems carefree and relaxing. The reality is that we will only realize it when we have prepared for the eventualities of life. Having a sound plan is the path to a comfortable retirement.

Patrick Yanke is a Raleigh-based financial advisor. Opinions expressed here are his and not necessarily those of Raymond James. The information is not a complete summary or statement of all data necessary for making an investment decision and does not constitute a recommendation. Past performance does not guarantee future results. Guarantees are based on the claims paying ability of the issuing company. Long Term Care & Asset Based LTC Insurance Products may not be suitable for all investors. www.yankefinancial.com.