

Self-insurance for long-term care

The good news for retirees is that life expectancies are growing longer. In 1955 an American aged 50 could expect to live to be 75. By 2005 that figure had jumped to 81. What's more, a 50-year old now has a 24% chance of surviving to age 90 and beyond. (These figures come from WolframAlpha.com.)

The potentially bad news is that longer retirements require more resources to preserve financial independence. One important aspect of planning for a long retirement is addressing the possibility of an extended stay in a nursing home. Should you buy insurance to cover such costs? Or can you afford to assume the risks, to "self insure" and pay nursing expenses out of your retirement resources?

Many factors will go into that analysis. One rule of thumb, according to a recent article at FinancialPlanning.com, is the "two-household" approach. If a couple has enough cash flow to maintain two households, they have enough to cover the expenses for one spouse in a nursing home and one still living in the couple's home. This is more likely to be true for those with \$2.5 million and up in investment assets. Those with smaller fortunes should give more serious consideration to long-term-care insurance.

What about singles? When there is no surviving spouse to provide for, fewer assets may suffice, and the threshold for self-insurance perhaps may fall as low as \$1 million, if there is pension and Social Security income. That's because in this situation the home may be sold, and the proceeds paid over time to the nursing home.

The answer on purchasing long-term-care insurance also turns upon whether an inheritance is wanted for children or other heirs. An extended nursing home stay can consume the family fortune quickly. Insurance is a mechanism for protecting that fortune.