

Q: I have heard that long-term-care (LTC) costs could be a million dollars. What is your assessment of what we should save for LTC?

A: This may be the most uncertain thing in retirement planning because it is unknown whether you will need LTC, what would be the costs at the time, and how long it might be needed. Medicare does not cover LTC. Those who will be on Medicaid and the very wealthy don't need to make provisions for it. It's the middle class that has to take the gamble.

If the annual costs would be \$80,000 in today's dollars, and if you needed LTC for 3 years, you would need $3 \times \$80,000$ or \$240,000—if you could invest with a return that would equal inflation. More likely, LTC will grow at a higher rate than inflation if labor rates increase faster. If LTC costs inflated at 2% higher than regular inflation and your return on investments, you would need to account for about \$120,000 in today's dollars instead of \$80,000 for each year of LTC, assuming that you would not need it for twenty years.

That 2% difference in return or inflation assumptions makes a 50% difference in the amount of savings you would need for the future care! So the economic conditions can make a huge difference.

There are alternatives of course. One is to assume that you'll be able to rely on relatives for assistance. This is often what really happens until the care becomes really difficult or needs full time medical assistance. Another alternative is to buy a LTC policy that covers only part of what might be your needs, but even then, you should get a policy for which payments increase with inflation even though they may not increase as fast as LTC costs escalate. Blending these two alternatives could turn out to be a wise choice.

A third alternative is to assume that you'll simply go on to Medicaid when LTC is needed and you run out of money to support it. This may be more practical for a single person than a surviving spouse who may live in poverty thereafter.