Get With the Plan: Retiree-to-be needs a long-term-care insurance policy

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By **Karin Price Mueller/The Star-Ledger**

At 63, Kim is trying to determine when she can retire. The divorced mom of three wants to live in a smaller home or condo when she leaves work, and travel is part of her plan. She hopes to retire at age 69.

"My main goal is to be able to support myself in retirement and to travel both for pleasure and to visit my large extended family," Kim says. "I may do some part-time work, but would not want to rely on it."

The Somerset County woman, whose name was changed, has accumulated $119,100 in 401(k) plans, $108,500 in IRAs, $15,700 in an annuity, $64,500 in certificates of deposit, $25,900 in a money market and $200 in checking.

Kim also receives an annual pension of $14,400 from her ex-husband, which will end upon his death. Kim is also expecting her own pension of $21,600 upon retirement.

The Star-Ledger asked Laura Mattia, a certified financial planner with Baron Financial Group in Fair Lawn, to help Kim prepare for retirement.

"After a full evaluation, we determined that her goal is achievable but some changes are required," Mattia says.

One big concern is that Kim doesn't have a long-term-care insurance policy.

Mattia says the average cost of long-term care in the New Jersey area for a private room is about $110,000 a year in today's dollars. This can be reduced slightly by staying in a semi-private room, she says.

"A long-term care policy could mitigate concerns of unexpected long-term health expenses," Mattia says. "With health care costs inflating at 6 percent, double that of the standard inflation rate, the cost of a three-year stay when Kim is 80 could be approximately $1 million."

That's more than Kim's assets can handle, so she should consider a long-term-care policy that would cover some of the costs.

Given Kim's budget and assets, she'd probably have to cut back elsewhere to afford the premiums, or work additional years to keep the money flowing longer.

If she looks at policies, there are ways to reduce the premiums, including selecting a longer elimination period (the period that she will have to pay prior to benefits being triggered) and to forgo a cost-of-living adjustment, Mattia says.

Looking at retirement, Kim has three sources of potential income: her ex's pension, her own pension and Social Security. These income sources won't be enough to cover her expenses, so she would have to also rely on distributions from her retirement accounts.

Because $14,400 of her expected income is contingent upon her ex-husband's life, Kim has a term life insurance policy on his life. The policy will terminate in 2024, 12 years from now, when she is 75, and the annual cost is $1,200.

"The concern is that it is very probable that the timing of his death could result in a reduction of income with no insurance proceeds to compensate for the loss," Mattia says. "Due to this exposure, it is wise to assume that there will be no income related to her ex-husband. This assumption reduces Kim's probability of success."

Mattia says it may make sense for Kim to downsize her home today rather than wait for retirement.

"By doing that, she could buy a smaller home with the net proceeds of the current home, eliminate her mortgage payments and reduce her expenses," Mattia says.

This reduction in expenses is what will ensure that Kim's retirement has a higher probability of success, she says.

Mattia also reviewed Kim's investments. The portfolio is 65 percent in cash or cash equivalents, mostly in CDs and guaranteed interest funds.

The portfolio has no fixed income, and her stock exposure is mostly in large-cap growth investments.

"There are not enough market diversifiers in her current strategy," Mattia says.

The current portfolio has a projected real return, which takes into account inflation of a mere 1 to 2 percent.

"This will not be enough growth to sustain her cash needs. She will need to increase her real return to 3 to 4 percent," Mattia says.

To increase return without substantially increasing risk, Mattia recommends Kim have at least 40 percent in fixed income. Ideally, she says, a quarter of the fixed income should be further diversified into international bonds, which would reduce the volatility of the portfolio and provide another mechanism to replenish the cash cushion through coupon payments and bond maturation.

"In this current environment she should stick to short- and intermediate-term bonds and stay away from long-term bonds," Mattia says. "She should also stick to quality and stay away from junk or high-yield bonds."

On the equity side, Mattia recommends a value strategy for two-thirds of her stock investments and growth for the remaining one-third.

After considering many scenarios for Kim, Mattia says it was evident that Kim can pursue her retirement goals as planned as long as she reduces her spending by moving into a smaller home and positions her assets to ensure that she will not run out of money.

"This relocation of assets is critical to Kim's overall success. It will increase her long-term projected real return by three times," Mattia says. "By increasing real return and maintaining low volatility, Kim will achieve a higher average return over her retirement horizon with more dollars."

Get With the Plan is designed to illuminate personal-finance concepts and isn't a substitute for actual financial planning or dedicated professional advice. To participate, contact Karin Price Mueller at kmueller@starledger.com.

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