One of the issues unique to retired investors is the potential need for long term custodial care. Even with a spouse to help provide care, it is harder to remain at home, but the costs of nursing home care can be prohibitive. This is especially true since Medicare and Medigap retirement health insurance policies will not pay for custodial care—it must all come out of your pocket. What are the best solutions?

In my experience, most of my clients express two primary desires. One is to not be a burden on their children and the second is to stay at home as long as possible, or at least to stay out of the nursing home. A third concern that is often not expressed directly but that is related is a desire to remain in control of their lives and day to day living as much as possible, which entering an institution, regardless of its quality, threatens.

So what can be done about the reality that most of us will need some sort of custodial care before we die?

I think the option most of my clients would prefer is to be able to receive necessary assistance at home as long as possible and to be able to pay for having it professionally provided so that family members do not have to do more than they genuinely desire to do.

So what are the roadblocks to this?

An obvious problem is that the actual physical structure of the home may not be adequate to meet the needs of the semi-disabled or to provide adequate access for medical personnel and equipment in the event of emergency. Doors and hallways may be too narrow, bathtubs and showers may be inappropriately designed, stairs may be an interior barrier, and wheelchair ramps or other accommodations may be needed externally.

A related issue is location of the home. Distance to relatives, friends, stores, doctors, and hospitals can become increasingly critical as we age and lose mobility.

Additionally, there are the costs of having services delivered at home on a one-on-one basis, which can often be greater than the cost of the same service provided in a nursing home or assisted living facility where no traveling is required to reach the patient.

Finally, there is the problem of finding and retaining reliable and competent help to provide the services, a burden that the nursing home or assisted living facility would ordinarily handle if you were a resident there.

The good news is that all these issues may be solved for the most part with a single commodity: money. The bad news is that it can take a lot of money, often $40,000-$50,000 of upfront renovations and in some cases upwards of $100,000 a year for care delivered at home.
The second step in the crash test is to do calculations comparing your expected retirement income to your expected retirement expenses, including a factor for having custodial care delivered at home, to see whether your assets are enough to make home care a reality.

Once this analysis has been done, you can now begin to assess all your options. If your assets are adequate to self-pay, then it may not be necessary to do anything else to prepare. On the other hand, if your assets are not adequate, then you may need to examine other options.

One of the most commonly considered options is insurance. If you cannot afford to self-pay for an extended time, then it may make sense to choose an insured route. This is especially true if you want to be able to stay at home as long as possible, because running out of money means that you will end up on Medicaid, the government program to pay medical expenses for the impoverished. To qualify for Medicaid, you will be required to spend down almost all of your assets, including the equity in your home. Since the government will be paying the bills, you will be limited to the options and locations for treatment that the Medicaid program makes available to you.

By choosing an insured route, your expenses become the insurance company’s problem instead of yours, at least up to any limits there are on the policy you have selected. You remain a “private pay” patient and therefore are in control of all decisions in regard to how your receive any care that you need. Therefore, you are able to maintain both your personal and your financial security, regardless of any physical challenges you face.

These policies can be purchased to provide care either at home or in the nursing home. The provisions to provide care at home are optional in some states, but without them the policy will only pay if you are in the nursing home. Therefore, if your goal is to stay out of the nursing home, while it is tempting to shave premium dollars by skimping on the home care provisions, this should not be done. Remember that inadequate home care provisions may result in you being forced into a nursing home sooner than absolutely necessary.

Needless to say, the insurance is not inexpensive, so you have to be at least able to afford the premiums. On the other hand, if you can’t afford the premiums, you certainly won’t be able to afford the costs of care, which could easily be ten times as high as the cost of the insurance.

There are ways to keep the insurance premiums reasonable, such as using a policy with an extended waiting period between the time you qualify for benefits and the time the policy starts to pay benefits. You may have to self-pay for up to a year, but most people can afford that. What they cannot afford is to have to pay for year after year, which is why the longest benefit period, the number of years the policy will pay, is advisable. A provision that indexes the benefit for inflation is also crucial, since you usually buy a policy like this years before you actually end up having to use it.

If you can’t afford to self-pay, but can afford the insurance premium, the issue is really one of control. By choosing the insured route, you are able to stay in control of your situation. If you choose not to insure, you are taking the chance that you may end up bankrupted by your custodial care costs. So, ultimately, the decision rests on how important it is to you to be able to maintain control over these issues of money and how and where your care will be delivered.
Another issue to consider is whether it is important to you to leave an inheritance for your children, grandchildren, or charity. If so, you may want to consider this type of coverage even if you can afford to self-pay. For example, if self-paying for an extended time would reduce your assets below what you want to leave to others, insuring would solve the problem.

Another option is to buy into a graduated care facility. While there are various types of these available, in general you are required to make an initial payment, typically of several hundred thousand dollars. You also then have a monthly payment as well. In exchange, you receive an apartment where you can live independently and you may receive access to a dining facility for meals. When you reach a point where you need more help, the plan may provide access to an assisted living section of the facility, or in some cases even to an on-site nursing home.

Since these plans vary greatly in both costs and benefits, it is important to understand them thoroughly before buying in. Also, you will need to be sure that the company offering the program is financially sound. You also need to be aware that if you decide you want to live in a different part of the country to be near family, you may find it difficult to recover your investment in this type of facility.

In summary, the possibility of needing custodial care is one of the greatest challenges facing retired investors.

For some investors, self-paying will be a viable option, but if you are considering it you should make sure that you will have enough money and that the worst case scenario for costs of care will not bankrupt you or conflict with any goals you may have in regard to leaving an inheritance.

If you cannot afford to self-pay, then you may want to consider an insured approach if the security and control it provides are worth the premiums it costs.

Another form of an insured approach is to utilize a graduated care type of facility, as long as the inflexibility of being locked into a particular facility is acceptable to you.

Finally, there is the option of taking your chances and hoping you never need custodial care, realizing that if you do it will probably result in ending up on Medicaid.

Paul H. Brock, ChFC, MSFS specializes in helping investors make decisions in regard to long term care and other retirement issues.