The Biggest Financial Threat Facing Federal Employee Retirees!

October 25, 2015 by Todd Ensing

The potential looming threat of Long Term Care (LTC) expenses is the one risk most of us have not insured against. We have our cars and homes insured. We buy insurance to cover accidents and heart attacks or cancer. We even have life insurance that pays out at death. Yet, if we get old and frail and need home health care or a stay in a nursing facility, most of us are fully exposed.

Someone turning age 65 has a 70% chance of needing long term care services during their lifetime. Once care is required 20% will need care for more than five years according to the U.S. Department of Health and Human Services. Odds like these should not be ignored, especially with the magnitude of potential liability.

Cost of care varies by location and quality but ranges from $60,000 per year to over $80,000 – per year! This type of routine care is not covered by Medicare or health insurance and few retirement portfolios will hold up to such high expenses for long. The very wealthy can self-pay, and those without much by way of assets will receive lower end care in a Medicaid facility.
It’s those of us in the middle that will have a serious problem! Please, ask for a free copy of the 2015 Cost of Care survey broken down by state and type of care. The statistics are overwhelming!

The challenge of financing the costs of nursing homes, assisted living facilities and home healthcare during retirement has long been a concern of retirees. For decades, the solution was to buy long term care insurance. However, a top-notch policy comes with a hefty price tag. In addition, most policies show a history of rate increases, forcing many consumers to go without coverage and hope and pray they are lucky enough to avoid these expenses.

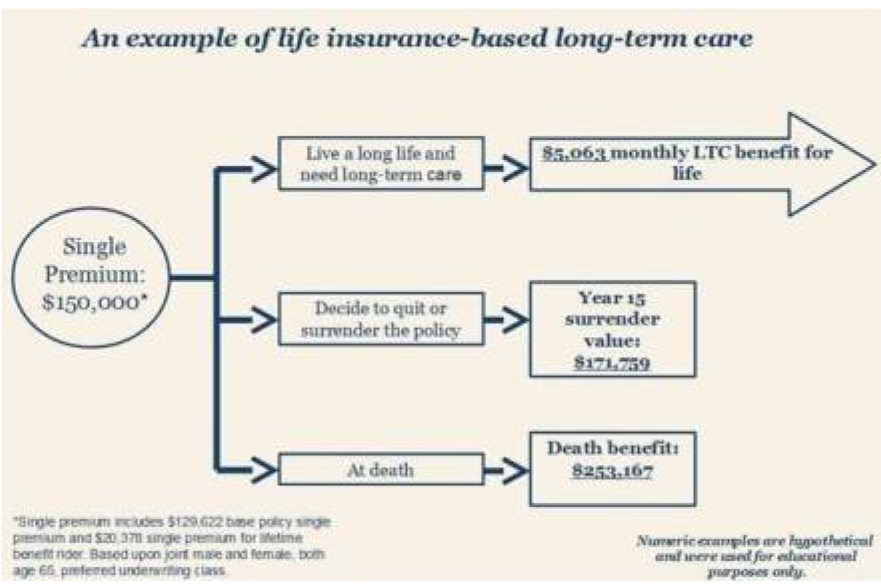
Compounding the problem is that insurance carriers are getting out of the market due to rising healthcare cost eating away at their ability to make a profit. In 1990, there were over a hundred carriers in the Long Term Care market, and now there are only six. Dependable protection for healthcare costs related to Alzheimer’s, Parkinson’s, Dementia and so many other threatening ailments that can devastate your retirement portfolio, has become hard to find. Not insuring this risk is typically the biggest hole in a retirement plan.

But, there is another way – a non-traditional approach that has been around with a solid track record for over 20 years. The only reason you’ve never heard of them before is simply because nobody has presented them to you! These innovative plans provide the same level of benefits as traditional LTC policies and include two more important improvements. First, they removed the risk of rate increases by including a lifetime guarantee. Second, a guaranteed return of premium option is included if your needs change and you no longer need the protection.

In many situations, all that's necessary is simply repositioning your assets – no monthly premiums! Consider transferring your bank CD's, money market accounts or any other "emergency" funds you have set aside for the threat of LTC during your retirement. Doing this will multiply those dollars into LTC protection without losing access to those funds should a different sort of emergency arise.

Traditional LTC insurance policies cover one person, so a married couple needs to allocate funds for two separate plans. However these non-traditional plans can be used by both spouses! This two for one feature makes for a very efficient use of retirement assets. We have limited assets and have to prioritize where those assets go and what they accomplish. That is why taking one asset earmarked for one task and transferring it to another where it is leveraged to handle three tasks is so impressive.

This flowchart shows just how easy it is to reposition a lazy account and make those dollars work harder by multi-tasking:



As you can see one of the three possible outcomes will occur. There is a chance you will not need Long Term Care and if that is the case, no harm has been done as your original asset is still intact and growing. Avoiding death is harder to do, and notice how much greater the payout is to your heirs than the original balance. Not only is your legacy larger, but because of a long standing life insurance feature, it has been converted into a tax free inheritance!

Speaking of transferable assets, if you own an old, one-dimensional annuity, consider a tax free "1035"exchange into an upgraded annuity that will do double duty by providing tax-free LTC benefits from an otherwise taxable asset. This is a big deal! It works because the new annuity would be HIPPA Qualified and PPA Eligible. Industry jargon aside, you've just solved a serious LTC problem with money you already had that wasn't being used to a maximum advantage.

A nice feature about LTC and life insurance payouts is that they are tax-free. But what if you funded your policy with a transfer from an IRA or TSP pre-tax plan? We all know Uncle Sam wants to tax those proceeds somewhere along this process. The good news is we can spread any taxable amounts over 20 years. Not only does this lower the taxable income, but it also counts toward your Required Minimum Distribution at age 70.5.

I know many seniors really dislike having to take RMDs, so at least now you can "supercharge" your RMDs into Guaranteed Lifetime Asset Protection against the threat of long-term healthcare cost during your retirement years.You are essentially converting taxable IRA/Qualified monies into Tax Free & Leveraged LTC Asset Protection. That RMD that you never wanted is now multiplied to pay for long term healthcare, and if no healthcare expense occurs, the leveraged asset will be paid to heirs free of income or inheritance taxes.

To sum up, the largest deterrents to investing in a traditional LTC policy are affordability, rate increases, and the "use it or lose it" nature of the coverage. We have the solution to these issues and in most cases can achieve the results without the usual monthly premium. A simple exchange of an existing account to a plan better suited to multi-task is usually all that is needed. The end result is tax free long term care coverage with no rate increases and a tax free death benefit for wealth transfer and legacy goals. We have just found the perfect vehicle to convert a taxable inheritance into a tax free inheritance and insure against the LTC threat at the same time.

An article in Worth magazine lists the top ten financial issues causing the most family conflict and determining how, and how much money to leave to children is first on the list. But wealth transfer planning cannot begin unless we avoid a LTC financial disaster. The average $70,000 annual LTC expense erases $350,000 to $700,000 from your estate over five to ten years. We must protect your estate from this hit or there may be no money left to discuss leaving to heirs.

On the other hand, if you do not yet have $350,000 to $700,000 set aside for care, we need to create it. Otherwise the discussion becomes that unfortunate one where we confront the real possibility of becoming a burden to our loved ones.

Federal employee question of the day

From a VA Employee: A question on your Blog mentioned that if a federal employee is retired, they can access their TSP money at age 55. Is there any way around being penalized if I want to access my TSP money after I retire but am under age 55?

Have you ever had any questions like this?