Long-Term Care: A Threat to Retirement Security

By Megan Fromm

Employers I've talked to all have the same goal: help employees build a sound retirement plan to achieve financial success and security. Company leadership wants to protect employees during their working years and later in life.

The main components to a sound retirement plan are managing a nest egg, growing investments and safeguarding against uncertainty.

THE MISSING COMPONENT

As an employer, you may be missing a key component in safeguarding against uncertainty: the need for long-term care. According to Genworth's 2013 Cost of Care Survey, 75 percent of people age 65 and older will need some form of long-term care in their lifetimes. However, far fewer are financially prepared to handle that need.

With the U.S. Department of Health and Human Services estimating that nursing home costs average $84,000 per year, it's not surprising that many Americans are having to spend down their retirement savings to pay for care.

LONG-TERM CARE INSURANCE

Savvy employers are helping fill the uncertainty gap by introducing long-term care insurance (LTCI) to employees. By championing the benefit, they bring employees the ability to get coverage when they are young and healthy. Plus, employers can offer long-term care insurance plans with reduced underwriting and group pricing that employees wouldn't be able to get as an individual. Better pricing and easier approval make the product accessible to employees that couldn't normally qualify for coverage.

Long-term care education is key to helping employees protect their retirement savings. Without your help, employees can fall victim to widely held misconceptions. They may think:

- Other benefits will cover them.
- The government will pay for their care.
- This type of coverage is only for older people.

The truth is that long-term care insurance is the only benefit that covers this type of custodial care, and government options (Medicaid) are only available to people with low income and limited resources. Planning at a younger age makes financial sense because premiums are based on the age you are when you sign up, and you must qualify medically to get coverage.

Your employees will consider long-term care insurance earlier if you introduce it as a benefit.

	401(K)* PLAN	401(K)* PLAN + LTCI PLAN
Employer Contribution	$5,000	$5,000
EMPLOYER CONTRIBUTION		
401(k)	$5,000	$3,111
LTCI Premium	–	$1,889
Total Contribution	$5,000	$5,000
EMPLOYEE BENEFIT		
401(k) Value	$1,553,950	$1,357,108
LTCI Value	-	$394,200
Total Value	$1,553,950	$1,751,308

*401(k) values based upon rate calculator from www.bankrate.com.

401(k) Assumptions: Employee is age 40, earning $100,000 a year, contributing 10 percent to a 401(k) with an annual rate of return of 10 percent, and planning to retire at age 65. The employer maximum 401(k) contribution is 5 percent of employee's annual salary.

401(k) + LTCI Plan Assumptions: Employee is age 40, earning $100,000 a year, contributing 10 percent to a 401(k) with an annual rate of return of 10 percent, and planning to retire at age 65. The employer maximum 401(k) contribution is 3.1 percent of the employee's annual salary. The LTC Insurance plan benefit is $180 per day for six years.

SHIELD AND SUPPLEMENT THE 401(K)

Do you already contribute to employees' 401(k) plans? If so, you can spend the same amount of employer dollars, but provide richer benefits by pairing a 401(k) with long-term care insurance. See the example below, which shows an employer contribution of $5,000 to the 401(k), in the left column, and then redirecting those dollars to a 401(k) and LTC plan, in the right column.

The majority of LTCI purchasers will hold on to their original plan for life.

By diverting $1,889 to long-term care insurance, the resulting benefit is almost $200,000 more to the employee.

Unlike other benefits, where providers may change from year to year, the majority of LTCI purchasers will hold on to their original plan for life. In fact, 99 percent of employees who have the coverage keep it when they move to their next employer, or into retirement. You can think of it as a "legacy benefit" that employees maintain for life to protect their retirement savings. ■

ABOUT THE AUTHOR

Megan Fromm is an Account Executive at LTC Solutions, Inc., an ALA VIP Business Partner.

mfromm@ltc-solutions.com

425-658-7512