Suze Orman: Insuring that retirement funds are adequate

7/16/2007

Along with the pros of retirement (all that free time) comes one big con: the possibility that you'll outlive your assets and be unable to afford nursing home or at-home care if you require it. That's why **long-term care (LTC) insurance**, which you purchase in addition to your regular health insurance, is beneficial if you're unable to perform basic daily activities by yourself. (Medicare usually doesn't adequately accommodate your needs.)

But the relatively new LTC insurance industry is now experiencing growing pains, and insurance companies that initially underestimated the cost of providing coverage are either exiting the business or sharply increasing premiums for existing policyholders. <u>You must shop carefully for a policy.</u>

You should buy LTC insurance between the ages of 50 and 60. Get a premium you can afford at the time of purchase and for the next 20 years. It makes no sense to pay $8,000 a year for a policy if eventually you have to drop it, so buy a policy you'll be able to afford into your mid-80s -- the average age of entry into a nursing home.

Next, choose a company that has been offering this kind of insurance for at least 15 years and has a rating of A or better (such as John Hancock, MetLife or Genworth). Make sure you choose a zero-day elimination period, which means your coverage will begin on the first day you need care; a 90-day elimination period means that you or your family will have to pay out-of-pocket expenses for your first three months of care.

Because health-care costs are rising at an alarming rate, you'll also benefit from choosing "inflation protection," also called a “benefit increase rider”, whereby your policy increases your benefit payout by a compounded 5 percent annually. And because the average stay in a nursing home is less than three years, you should choose at least a four-year benefit period that also covers at-home care. You may be able to save by purchasing LTC insurance through work or at a spousal-partner discount.

I know you think you'll never end up in a nursing home, but if you do, insurance is nice to have. While I can't tell you the exact problem you'll face, I can pretty much guarantee that one day an unforeseen life twist will leave you in a financial knot. It might be a car accident that puts you out of work, an insurance claim that doesn't cover the cost of replacing your property, or an ill friend or relative far away whom you'd like to be able to visit. In a crisis, it's important to know you have resources.

The rainy day fund
Ideally, you should have eight months of living expenses stashed in a savings account. I know that sounds daunting, but make it a goal. Start putting away a little each month. Every penny you save is a step toward building your own personal insurance plan.

Your Roth IRA
One of the reasons I think Roths are so great is that your contribution can be withdrawn at any time or age with no penalty or tax bill. You just can't touch the earnings before you're 59 without incurring the 10 percent penalty and income tax.

A 60-day loan from your traditional IRA
In a short-term jam, you can withdraw funds from your IRA for up to 60 days without penalty. The catch is that you must replenish the account during that period. If you don't, you'll be taxed on the money you took out and incur the 10 percent penalty if you're not 59 or older.

A low-rate credit card
With a solid credit score, you should be able to get a card with a very low interest rate (around 7 percent). Tuck it away, and use it for a cash advance only in a dire situation.

A home equity line
Take out a home equity line of credit before you need it, but vow not to touch it unless absolutely necessary. The idea is to have the account in place as a last resort. You aren't charged interest until you start using the money. But remember: Your home is the collateral, so don't go this route unless you have no other options.

-- *Suze Orman is a best-selling author and Emmy award-winning TV host whose new book, "Women and Money," was published in March 2007. For details, please visit www.suzeorman.com.*