Planning for the cost of care is all about balance

Third in a six-part series on retirement planning.

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Proper retirement planning, experts advise, must include consideration for health issues that inevitably arise.

Circumstances beyond your control can run even the best-laid retirement plans off course.

One of those often-unforeseen circumstances can be the cost of medical care, and Audrey Miller has seen her fair share of retirees who've been blindsided by it. The founder and managing director of national consulting firm Elder Caring Inc. in Toronto says many people she sees simply haven't put in the work to plan for health-care contingencies.

"Because people are living longer lives and working longer, they're starting the process of care planning later in their lives," she adds. "Longevity is great, but it can be costly all the way around."

The tried-and-true solution applies to any financial planning: start early. "You can expect to have more health issues the older you get, so you don't want to wait until something happens and you are forced to react."

While aging doesn't automatically mean illness or disability, the odds of a health issue naturally increase. The Canadian Medical Association says that 33 per cent of Canadians aged 65 or older have a disability. The number climbs to 44 per cent among people aged 75 or older. In addition, nearly three-quarters of Canadians over 65 have at least one chronic health condition.

So how does anyone start planning for things that may or may not happen?

Begin by taking stock of your health, Miller says. "Also, look to your family's health history to get a sense of what might be ahead. You don't know whether you will inherit certain diseases, but you do need to get a sense of what to plan for."

Then, create a plan that sets out your priorities, she advises. "You need to have a conversation about your wants and desires, directives and paperwork. These are all things that are important to discuss before you are no longer able to express your wishes."

Assess your current environment. For example, a person in a three-storey home may need to be on one level at some point. Or their current home may not be conducive to installing safety upgrades. "Consider the idea of downsizing while you're still in good health," Miller says.

Don't assume you can wait for public-sector funding to cover your care in later years. "Some services are covered under provincial health-care programs," Miller explains, "but they can quickly be maxed out and eligibility is carefully checked. If your plan is to have care at home, you can't expect much from government."

While provinces subsidize some of the costs, such as accommodation and nursing, there are still fees associated with long-term care facilities. In Ontario, these can range from $1,775 a month for four people sharing a room to $2,535 for a private room. Other costs can include medications and personal care, should you need it.

"Not everyone has the luxury or budget to afford private care," says David Trahair, a Toronto-based personal finance trainer and author of The Procrastinator's Guide to Retirement. "When you look at private retirement homes, you could be paying anywhere from $6,000 to $15,000 a month."

Long-term care and critical care insurance can help. However, premiums are high if you choose to invest later in the game. "The earlier you start that process, the more affordable it is," Miller says.

Some people could also consider reverse mortgages as a means to help pay for care, but interest rates are higher than lines of credit. If your home is fully paid for, and you have a reasonable credit rating, a good alternative is to apply for a home equity line of credit before you need it, Trahair says. "When you do need it five or 10 years into retirement, it can be used to pay the cost of long-term care."

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One upside for those who have bought and paid for their homes is that the equity from its sale may be enough to finance a lot of years in a long-term facility, he adds.

The most important part of planning for the cost of care in later life is striking a reasonable balance. "When most people retire, they're active in the early stages," Trahair explains.

"But they can't afford to blow all their savings on travel when they might need care later. Then there are those who put away more than enough to cover long-term care and end up leaving hundreds of thousands of dollars in the bank."

Planning for care is never going to be perfect, because there are no guarantees, he adds. "Just try to be reasonable and balance things, so you don't go to the extreme of spending way too much or too little."

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