Episode 119 Options for Funding Long-Term Care Expenses

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SPEAKERS
Bob French, Wade Pfau, Alex Murguia

Bob French 00:00
The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning. After Easter, it feels like a good time to relax a little bit and look at an easy question like solving world peace, great taste versus less filling the ending of The Sopranos or how to fund long term care. So let's get into it.

Alex Murguia 00:57
Hey, everybody, welcome to retire with style. I'm Alex and I'm here with Wade. And today we're going to be arguing about options for funding long term care expenses. Wade. That's

Wade Pfau 01:11
right, Alex. Thanks for joining the show. It sounds like you want to get directly into content. You don't have any exciting life events to share before me. Why would you say that?

Alex Murguia 01:20
Why would you say that? I was just confirming that this was the title of the of the podcast. That

Wade Pfau 01:26
is indeed the case. Yes. Well, we'll introduce the four main funding options, but really do a deeper dive into self funding today, which is just pay out of pocket and not use one of the other three options. And

Alex Murguia 01:37
we'll do the initial dive into personal tidbits since we're coming up the Easter holiday right now. Wade, did you? Did you enjoy the Easter Bunny?

Wade Pfau 01:48
That's right. Yeah, the Easter Bunny, hid some things around the house plastic eggs with candies. So that was pretty exciting. Maybe one of the last years we really do that. Well, we'll

see what happens next year with I think our youngest is starting to get suspicious about the Easter Bunny at this point. We'll see.

Alex Murguia 02:07
What would you put in the eggs? What went on in the pile? Also, what videos you put in the egg? Or

Wade Pfau 02:15
the youngest one likes m&ms, so they had some Easter themed pastel m&ms Chocolates. That's the main two things. And how many people are in the weight household during this duty? I saw them at the supermarket but I did not get any peeps. Why does it it's not really my thing. I

Alex Murguia 02:37
thought about the kids. What about the kids?

Wade Pfau 02:39
I don't know if any of them have had a peep before. I know they just don't look appetizing so

Alex Murguia 02:46
they don't look appetizing so yeah, how many I don't know. You gotta even fresh because we wait a day they kind of it's like getting you know harder. I can put down like one or two racks in one sitting I wasn't just born like this Wade I had to work on this body. Here sit I mean many years of honing, honing in on certain dietary habits now I have perfected my heaps consumption. But there it is, man. Anything else happened? Are we good? We get the start off. I'm just thinking out loud. Now

Wade Pfau 03:31
and yeah, we're recording usually sometimes they have these in the canon advanced but this is literally within 12 hours after recording this will be released so it's pretty much at mealtimes today everyone

Alex Murguia 03:41
and who can we thank for this

Wade Pfau 03:44
thanks Bob French for this. That's the whole

Alex Murguia 03:46
screw this guests that he's going to have on he does sort of have a bob French takeover company in the coming weeks. But we thought for whatever reason it was this week and

Wade Pfau 04:01
Adam and I thought he wanted to release it on April 2 And I thought that worked well is a good April Fool's joke that Oh Bob French took over the podcast but turns out he changed his mind on the release date and didn't inform anyone of this so I don't remember.

Alex Murguia 04:17

I don't even remember him putting giving us a date to begin with. But that's that's more me because you right away write things down on your paper

Wade Pfau 04:23
calendar paper calendar. That's right.

Alex Murguia 04:28
I just go by my invites and accept the invites. And I wake up the day before, like around five o'clock. I looked at my calendar for the next day and kind of see what I'm walking into. And whatever is there is there. I don't know if I trust in it and let the chips fall where they may after that. Others

Wade Pfau 04:44
bring the data.

Alex Murguia 04:46
Yeah, exactly. So, so let's get cracking. Let's get cracking then with the four options. Now. There will be a little bit of a q&a where I'm cueing and your ain Sounds good. But they're effectively for up. At least give me my moment of glory here. For Ya see, see, our OCC are no, no, no. There's self funding with personal assets, we got that one, Medicaid, not Medicare. And we'll we'll get into that one traditional long term care insurance and hybrid policies combining long term care with life insurance or annuities. Very good. And so, yeah, thank you. Thank you. Thank you. I'm done. I'm done now, five minutes is golden. No, but I will yeah, as you can tell, this is the we can unpack all of these. So we're gonna try to unpack the self funding today. And we'll bring in some guests for the others. And we'll do our own thing as well. Now, there is a little quirk here, right for eligible veterans?

Wade Pfau 05:54
Well, yeah, that's just maybe you could put an asterix that there could be a fifth option that the veterans administration may have some options for veterans as well. So if you have that veteran status, thank you for your service. And you may also look at whether there are any benefits available through the Veterans Administration, but we won't be going into depth on that one. Alright,

Alex Murguia 06:15
so first, let's go into what not is on the list and say it was it was with exclamation points and everything. Why is Medicare not on the list?

Wade Pfau 06:23
Right, and that's P, it's very easy to confuse Medicare with Medicaid. They sound pretty similar. It's just two letters different. But Medicaid is a funding option. And that's well, we'll talk more about that in a future episode. That's for people who have effectively depleted other resources, Medicare, your retirement health insurance that most people become eligible for at age 65 is not long term care, they are distinct Medicare's for health related issues, there is a common misperception that Medicare will pay for long term care support. And there is a way to potentially get limited benefits to Medicare. But it really doesn't fulfill the definition of long term care. Even it's fairly restrictive, it's to receive something that might look like long term care through Medicare, you have to spend at least three nights in a hospital and it has to be there, this can be

an issue. Just because you're three nights in a hospital doesn't mean it's classified properly as the three nights of inpatient care. But at least three nights, then you're confined to a home or institution requiring skilled nursing or rehabilitative care for the same condition from a Medicare certified professional, as prescribed by a doctor. And you are expecting a full recovery. So if you meet, it's perhaps if you break a hip could be an example, then you receive the three three inpatient days. You do need rehabilitative rehabilitative care, either at a facility or at home, you're getting that from a Medicare certified professional, it was prescribed by a doctor, you are expecting a full recovery. If you meet that scenario, you can get full benefits for the first 20 days with Medicare. And then you get partial support for 80 days after that for a total of 100 days. Now that partial support can still mean it's quite expensive, for the part not covered through Medicare. But if you have a comprehensive medicare supplement that would cover you fully for 100 days, but then it stops. And usually we think of long term care is not lasting. I mean, really, that's the starting point of long term care is 100 days. Medicare is stopping in 100 days. So it's really not Medicare in that regard. And this

Alex Murguia 08:42
is almost like it's long term care, we're going to call it because Oh 100 is but it's really almost like a REIT that care.

Wade Pfau 08:48
Yeah, rehab from something that you're expecting a full recovery. This happened in my

Alex Murguia 08:53
grandfather in law II broke his head, he had an operation and during that operation, he actually had a stroke. And he was in a care you know, three days a doctor and then he was at a rehab facility expecting recovered because of the stroke though. It really threw a wrench into the expected recovery. He just fulfilled his 100 days, but he had to move back afterwards. So tier one it wasn't like a long term. It was like okay, Medicare is up now we need to find another solution.

Wade Pfau 09:26
Oh, yeah, with lapsing in this case, he needed more than 100 days of care. But yeah, Medicare stops entirely. Yeah. Well, that's a good example where we really shouldn't be thinking of Medicare as a long term care funding source. potentially very limited. Because that's

Alex Murguia 09:46
not that's not pre meds. Yeah, right.

Wade Pfau 09:50
Usually Long Term Care is more custodial care related, which is not medical care, but help with the activities of daily living if you just need help with activity Some daily living, that wouldn't qualify for these Medicare benefits.

Alex Murguia 10:05
Okay. And so what are the breakdowns of more or less the long term care costs, if people are thinking about an equation in their head?

Wade Pfau 10:12

Yeah, so first starting to think about what's going to be your out of pocket costs for long term care. It's and this is related to self funding versus insurance, your any expenses. So if you never had a long term care event, your expenses are zero, but any out of pocket expenses to pay for long term care. Plus, if you do have long term care insurance, any premiums for that insurance, minus any benefits received through the insurance. So if you're purely self funding, you don't have long term care insurance. So you're not paying any premiums, you're not getting any benefits. The cost of long term care is simply what it costs to pay for that long term care out of pocket. And in the context of asset liability matching for retirees, that's kind of the whole conversation around insurance. A significant Long Term Care event is a liability that may or may not happen. If you have insurance, it will partially offset the impact financial impact of that liability. By providing a benefit, you've leveraged your premium dollars to provide a larger benefit to offset some of that out of pocket costs. So you're creating that consumption smoothing. That's what insurance is all about.

Alex Murguia 11:25
Okay. So you think about funding it, you're probably not going to be thinking about the consumption smoothie component, or at least an individual part patron unless they're using some, what is it maxify or something like that? Software. But what are the components that goes into that go into choosing a funding spread?

Wade Pfau 11:51
Yeah, so some of the things you want to think about age, and that can relate to if, at higher Lages, your insurance is underwritten. So at some point, you may not qualify for long term care insurance. So to the extent age fits into that health can fit into that family health history can relate to that if you have a history of dementia, or other conditions that may require more long term care support, it's obviously a consideration your ability to receive help from family and friends in an informal manner for that informal unpaid care in a manner, that's not too much of a burden for them, wealth levels, and how that interacts with Medicaid. If because if you're in more of a scenario where if you have a significant Long Term Care event, you're simply not going to be able to self pay. But then you may qualify for Medicaid. And so well, is qualifying for Medicaid a realistic consideration for your financial plan? What are your legacy objectives in terms of what you'd like to leave behind? What's your risk tolerance as it relates to the uncertainty around long term care spending shocks? And how that would impact your your living standard net of those long term care expenses? And also just the costs and benefits of different types of insurance policies? Kind of all the factors you want to be thinking about when it comes to choosing a funding approach for long term care?

Alex Murguia 13:16
Yeah, and this is, I mean, there's there's nothing here that's out of the ordinary, this is just the standard, you know, tried and true, like financial planning considerations for or any funding strategies? You know, really, you're, I mean, what you want to unclog maybe the risk tolerance for long term spending shocks, does that have to do with like, the new risk of facing retirement, one of the marks, bending shocks? And so how much of that? Is that a risk that you want to take off the table? Is that how you mean it? Just because people are listening in and may hear risk tolerance and think, oh, there's a risk popcorns quite generic yet. And that's not how you're meaning it.

Wade Pfau 13:52

Right? Yeah, that's may not I'm sure. It's kind of up in the podcast at some point. But it's maybe not something we've spent a lot of time talking about. There's this whole idea of what does risk tolerance mean, in financial planning. Within the context of a risk tolerance questionnaire, it's short term market volatility. But that doesn't really have much impact on people unnecessarily over the long term. Risk tolerance in the context of financial planning is more the risk to your lifestyle. What happens if events happen, whether it's a market downturn, whether it's living much longer than expected, whether it's experiencing a significant financial shock, like a long term care need? What happens to be households lifestyle in retirement, and if you're more risk tolerant, it just implies you're more flexible about your lifestyle, you'll go with the flow and if everything works out fine, you have a pretty enjoyable retirement. If you get hit by a shock like this, you're gonna have to reduce the standard of living for the household. And if you're more risk tolerant, you're okay with an idea that, okay, well just spend less, that's fine. If you're risk averse. You don't want to deal with with those types of financial shocks, you really want to maintain the same lifestyle with the same sort of predictable income in the context of the retirement income style awareness. If you're more of a income protection or safety first, that tends to correlate more with wanting predictable income in retirement, whereas total returns or just primarily total returns is much less worried about having predictable income. There's more of a sense of being flexible, ie risk tolerant when it comes to the potential impacts of things like a long term care spending shock.

Bob French 15:35
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Alex Murguia 16:00
While you bring up the point, I mean, we've been focusing a little bit on longevity aversion on certain things, and we've on the lower end of the recent matrix with rapid income protection, you know, the longevity of brokenness is a very salient concerns to them. Where you have a lot of, you know, strong valence was emotional Venera of spending shots and spending sharks go both ways, right? There's medical spending, those chronic illness, adding bending frogs, this Periscope related and that my roof fell off, and I need to fix that. And I'm spending shocking, and those are people that really crave that true liquidity, it just having things more earmark for potential shocks, so then they can be more comfortable, though things, we see that people to the left of the recent matrix, a lot of those folks have the sense of true liquidity preference, which, you know, that's used to fight against spending shocks. And that's yeah, that's the bucket effect, segmentation strategy. And also in income protection. It's in everything, but you know, on a relative basis, you see it more with those boats.

Wade Pfau 17:04
Yeah, that's a good point about the true liquidity your ear, you want to have something earmarked for a long term care spending shock, that technical liquidity, which is more on the right, with the total returns investing or risk wrap, that's more of a sense of, I just want to have a pot of assets that I'll draw from as necessary. So I'm not really worried about earmarking something specifically for long term care if I have to self pay for long term care, I'll take it out of my pot of assets and pay for it. And if that means I have to cut lifestyle in other places, though, I

mean, long term care is a little bit harder to speak about in that context. Maybe other family members have to cut lifestyle in that context, just flexibility to do that. Perfect.

Alex Murguia 17:43
It's a way what are some considerations that the book can start? You know, when you're thinking about this, and it could be as simple as just, you know, introducing other family members into this? Like, what do you suggest?

Wade Pfau 17:58
Well, absolutely, when you make a long term care plan, you don't want to keep that to yourself, you want to share the information, make sure other family members are on board, especially if part of it is they're going to be providing informal care to you make sure that they're on board with that and to avoid misunderstandings in that regard. And then also, just if you have a specific asset, you're marked for supporting long term care, whether it's kind of an idea of potentially using a reverse mortgage to tap equity of the home to pay for in home care, whether it's actually a long term care insurance policy, whether it's even life insurance, you may if you have permanent life insurance, you may not even realize that a lot of those policies may have an acceleration of death benefit writer that allows you to get the death benefit to help pay for long term care while you're alive in that context. So anytime you have an asset in mind that could help fund Long Term Care, making sure your family members know about that so that they if they don't know about it, like if they didn't know your life insurance policy had an acceleration of death benefit rider that you're planning to use to pay for your long term care, and you become incapacitated? Well, they're not going to know they should have done that. So make sure the family understands your plan for funding long term care and is on board with any sort of requirements you have in mind for them in terms of being caregivers or what other what other roles they may have in the plan.

Alex Murguia 19:26
Okay, and frankly, you may have some ideas. Way dad's we now transition into the self funding piece of it and unpack that before we get into the bullet point party. What I can't I can't but a concept that I think is worth mentioning here because some of this is you're looking at the entire balance sheet. Is this idea that money is fungible, is I think some folks really think Alright, I need Pat. I don't have 500,000 in cash 300,000 In Catch a matte, I'm not ready for this. And I want them to relax that assumption from cash to, you know, include just your asset base. Because at the end of the day money is fungible things speak a little bit about that, as an honor wrapping to self funding strategies.

Wade Pfau 20:18
Yeah. And that's one thing to talk about, like, just how do you allocate the assets earmarked for long term care if you aren't earmarking something for that, it's, you don't necessarily like if you're at an extreme, I want to have $500,000 set aside for long term care, can't really just necessarily leave that in cash, when that may not actually be needed for 20 years. But at the same time, if you invest, it's kind of what we talked about, the sooner you need the funds, the less aggressive you can invest them, you have to rely more on having that value fixed. Long Term Care presents a problem for that, because you don't know when you're going to need those funds, or if you're going to need those funds. And so you have to choose an asset allocation around that. And that ultimately may mean not just having all those funds set aside in cash, whether you have more of that technical liquidity mindset so that you're investing in the overall portfolio, or

whether you are earmarking something for long term care. Well, in many cases, it may be your house, that's kind of your I'll use the house as necessary to pay for long term care, sell the house, move into an institution, use a reverse mortgage to tap into the home equity to pay for in home care, or whatever you have in mind for that. And ultimately, you may not want that to just be a huge pile of cash, sitting on the sidelines throughout your retirement as your reserves for long term care expenses.

Alex Murguia 21:44
But this goes back to even talking to boats, because using the house as an example, but I think the House is where there's there's just a strong emotional consideration. And my mom, you know, even to this day is like, Oh, I wish I had my house, my house. But the reality is, if you're talking to your, let's say, your children about long term care, and your children are fine. And your parents have this idea that they're going to leave you the house, but the house comes at the expense of doing some sort of fire drill, or your long term carried, it's not worth it. And this goes back to the concept that you have in balance sheet, and you have assets, and everything is fungible. Right, the fact that it's, you know, a certain amount of money has kind of morphed itself into a house, another pot has morphed itself into some sort of investment portfolio. It's still money that that, that you should be able to access. And if you do speak with your children about this, they may very well say yeah, you know, what, don't worry about us with the house. Why don't we access that capital? You know, they, you know, potentially downsize, make it ready. So I can grow old in it and use the proceeds and develop a reverse mortgage from it, and then use that as a buffer asset if needed to fund something down the line. You know, I'm trying to get away, I'm just trying to just open up someone's suburbia assets are fungible. And you should look at that when you're thinking about self funding.

Wade Pfau 23:14
Yeah, and even in the true liquidity context, where you do want to earmark different assets for different purposes, there's still a degree of fungibility in terms of you don't have to be very precise about how assets are earmarked.

Alex Murguia 23:27
Okay. All right. And so what what do the funding sources include in someone's asset sheet? If you will, we obviously said house, were the one that people could be like, oh, yeah, I didn't think about that.

Wade Pfau 23:38
Yeah. Yeah. I mean, we're in timeout, self funding for long term care house, just part of the investment portfolio that's kind of in excess, you have excess reserves beyond what you need to meet other goals. Sometimes also a life insurance policy, it may not be specifically one where you can tap into the death benefit in advance to pay for long term care, but just the the cash value in a life insurance policy may be another consideration there. But it's what you have in mind for how you're going to pay for long term care that doesn't cross that line into being leveraged insurance dollars. It's really a one to one, okay, anything I take from that asset to pay for long term care reduces my net worth by the the amount of that distribution.

Alex Murguia 24:27

Okay, and what impact would these expenditures have on like your standard of living, if you will, or potential beneficiaries? That's that's, you know, those are fertile ground for discussions as well, as you're thinking about trade offs.

Wade Pfau 24:40
Yeah, that's where the the volatility kind of comes in. And this is where for you as the individual needing Long Term Care, this kind of conversation around spending, flexibility and standard of living kind of drops to the side because it's, if you need long term care, you're not really going to be using your budget to take internet additional trips sort of go to nice restaurants, you kind of really can reallocate your retirement budget into the long term care. But it's just potentially for large, significant events. How much volatility is that going to create for remaining assets, either for a surviving spouse or for the spouse who's not yet surviving the other spouse in this scenario, and potential beneficiaries, such as children, if you had in mind that you would leave them a particular inheritance that you end up because of self funding, need to tap significantly into that to pay for long term care? Obviously, there's no smaller inheritance. And so how much flexibility do you have with these numbers fluctuating in response to these random spending shocks that you experience?

Alex Murguia 25:48
Good, and we were talking about this before, and this was going into bringing in insurance, and maybe, you know, helping somebody helping sharing that risk with somebody else. You know, from an insurance standpoint, you want to expand upon that. Yet,

Wade Pfau 26:07
the whole idea of insurance is kind of in different states of the world, you want to smooth what happens. So in the state of the world, where you don't experience any long term care event, if you pay for insurance, you'll have less, you'll have a lower standard of living, it's just whatever you are going to spend minus the insurance premiums. But and then the insurance doesn't pay off. And then in other scenarios, where you do have a significant Long Term Care event, you're gonna have a higher standard of living in Oregon, it's not necessarily you that has a higher standard of living, but other people in your household or beneficiaries would have a higher standard of living, because those premium dollars get leveraged. And we'll pay out a lot more in benefits due to the insurance and risk pooling that is provided by insurance. So that the standard of living gets more equalized in states of the world where you don't have a long term care need states of the world where you do have a long term care need. And so consumption smoothing is all about that idea of let's smooth my standard of living no matter what happens with relation to a long term care event.

Alex Murguia 27:17
Perfect. And so in terms of kind of where the numbers will be at the start of this art, we threw some numbers out there both both cost of like, this cloth really like your family helping you out, right, you may not pay for those directly, but society basic costs or your your brother or your son or your daughter, you know, there's a pause, right? Everyone has an hourly rate if you really break it down. And there's a cost to that. And we also spoke about cost of out of pocket costs that you could spend, will get, is it fair to say that we'll we'll help folks estimate reserves for self funding later on in this far?

Wade Pfau 27:52

Yeah, yeah, well, we'll talk more about that process as well don't get into too much than right now. So it wasn't on this idea of self funding to is just, usually we think about insurance is useful to pay for low probability, high cost events. Because then if it's a low probability event that helps to reduce premiums, the fundamental problem with long term care and so why self funding may be the best option. In some cases, long term care is not necessarily a low probability event, there's a reasonable probability that people with insurance are going to be able to claim those benefits. And so you're not able to leverage those insurance dollars as much. And so that impacts some of the calculus around Well, should I use insurance? Or should I self pay?

Alex Murguia 28:41
And like in all things alive, good. We had that like, do a best guess who would be the boast that the best, the best ideal for Sona for someone that could probably sell fun? And it's an obvious answer, but you say it out loud, so everyone kind of hears it? Well,

Wade Pfau 28:58
well, people who have assets or maybe who at least have enough assets to get the ball rolling before Medicaid becomes a reality in self funding cases. People who are more risk averse can benefit I'm sorry, less risk averse, and more flexible with their ability to go with the flow to reduce expenditures in other categories, if they have a long term care need, has more flexibility in relation to their spending. So and also with that being more risk tolerant? How would you allocate the funds to pay for long term care if you invest them more aggressively, or if you're willing to assume a higher rate of return on those assets? You won't have to earmark as much for long term care need that versus if you're going to have this sitting in cash? Well, at some point, you might be better off with insurance because insurance might provide a cash like return plus the ability to leverage those dollars if you have a need. Are

Bob French 29:55
you getting close to or are you in retirement? Well investing too. during retirement is a little bit different than during your working years. Your investments are there to help you pay for retirement. And now is when they need to earn their keep to make sure you're on the right track, download retirement researchers eight tips to becoming a retirement income investor by heading over to retirement researcher.com/eight tips, again, get retirement researchers eight tips becoming a retirement income investor by going to retirement researcher.com/eight tips. That's the number eight tips

Alex Murguia 30:32
as no one done by almost like a target date fund, but not for retirement for long term care. probabilities. We kind of interesting, like, you know, they assume that, you know, by 85, you're going to need something for sure. You know, that point? Oh, and something they kind of do it for you. They've been around that II, I guess I'm just literally making this up. But that'd be I

Wade Pfau 30:53
mean, there's a I think you might have, there's a conversation around annuities in this regard, not like annuities linked to long term care benefits, but simply the kulak qualified longevity annuity contract by having an annuity that earns on any JV five, it's not at all a perfect correlation. But to the extent that that's my, that's when I'll need long term care, having this new, potentially relatively large income source turning on at the time correlated with when I'm most

likely to need long term care that you could I think you could fit into that framework of here's a way to plan for having more income when there's a better chance I'll need it fact,

Alex Murguia 31:35
I was planning on doing that with a cue like, you know, with my partner, my qualified money and my wife. Well, when when that that God's do you think about using the Gila?

Wade Pfau 31:43
Yeah, I think about it from time to time and was looking at pricing and other use. Yeah, if you're in your 40s, looking to turn it on at 85, the payout rates can be more than 100%. Now there's inflation that's going to impact the next 40 years, but you can get a pretty decent payout on a life only kulak. At least. Alright.

Alex Murguia 32:09
I don't look at the quotes that you look at the quotes daily. No,

Wade Pfau 32:12
I don't look at them daily. But I did look at them once because I was thinking about the i. So I would have to move my retirement assets somewhere else because my current provider doesn't offer key legs. So it would be a hassle, but I was at least thinking about it at one point.

Alex Murguia 32:30
Current as in McLean, like

Wade Pfau 32:37
snooty options, and they took them away. So I'm not happy about that. Yeah,

Alex Murguia 32:40
I got check it out. It does a good job with that, don't they? Not that? Yeah, they're

Wade Pfau 32:44
much better about offering annuities. Yeah.

Alex Murguia 32:48
Just thinking out loud here. This wasn't one that Oh, Blodgett watch, it looks at quotes all the time. He loves the kind of like boxscore If

Wade Pfau 32:56
he does, all right, so

Alex Murguia 32:59
you reduce risk tolerance? What are some ways to aligning yourself funding with the risk tolerance portion of it in the traditional sets?

Wade Pfau 33:12
You mean, in terms of being

Alex Murguia 33:13

more conservative at the beginning? I mean, be more aggressive at the beginning quarter of quota that earmark and then slowly be more conservative. Is there anything more than that?

Wade Pfau 33:24
Not really. Yeah. I mean, it's just it's, it's a hard problem, because they're saying we don't know when you'll need to start paying for long term care. So you don't know how much time horizon you have. So you don't know when you should start getting more conservative with those investments. That's where the money

Alex Murguia 33:41
as we're talking about it, there really is no, I am gonna hit the cue like fire. But even then you just have to make peace with it. To some extent, and, and, and so yeah, I'm gonna responsibly, you know, put some set aside, so I don't stick it to my kids really. At the end of it, you know, all right. You have here you have a point that you've made that we didn't get into. But what about spending guilt? How does that play into self funding? That's so fun, dynamic. And I imagine the spending job happens while you're not sick at that point.

Wade Pfau 34:19
Yeah. So that's kind of an ongoing thing. That's one of the potential benefits of having long term care insurance is if you need care, you have no qualms about tapping into those benefits. But a reality that can face people is if they're going to self fund, and they need care. They feel guilty about spending that money on care. And it could be their family could be great. Please these are this is your money use it pretty hurt care. They still feel guilty about it. There could even be cases where there is like more pressure of hey, I don't want you to receive long term care because that's tapping into my inheritance. I want that money for my Self. And that can also be more of an issue with blended families potentially with the spouse and the stepchildren and all that. But if you need care and you're self funding, are you going to actually be comfortable spending that money for care? That's the guilt element, whether or not there's any explicit pressure, which of course makes it worse. But even without explicit pressure, you may still feel guilty.

Alex Murguia 35:22
Yeah, I mean, I used to guilt, right. And this is me being ticky tacky. So let's say someone or they understand, right, and this is where if you have like an annuity or some sort of pension at work, you have this license to spend when it comes to just pulling assets. And this is not a long term care license to spend just a regular life span, when you have this sort of pension of some sort in place. I'm wondering if you choose self funding, how much of this is is this sort of a learned behavior, because if you're, if you're self funding, and your biggest fear becomes, I don't want to outlive my assets. And I don't want to, you know, ruin myself with some, just this stressful, chronic illness that I develop that any chronic that any long term care, or just the normal thing of aging, all those that need chronic care. I wonder if, if you're self funding that you get into this mindspace? Where are you doing it saving at all costs, and you're used to saving and accumulating and accumulating, not accumulating from the standpoint of I want to be Jeff Bezos, and you know, I'm gonna get three years left, but I need to go all out if people hadn't Mortus normal accumulation, because that's what you're supposed to do to make sure that you cover not running out, you know, like your longevity fears, and you cover potential liquidity crisis, right? It's, I think, Wait, it's very hard to change that behavior, all of a sudden, and you have a problem, and you start tapping into it. Because when you tap into it, obviously, the gas tanks

start going in the other direction. And so you're talking about guilt, like guilt as in like, I don't want my kids to feel bad, because it's a dwindling network that I have. And all of a sudden, I can't leave what I had. Sure, I, that's a valid point. But I also think some of it has to do with you have such an ingrained behavior, all of a sudden change that mindset after behaving in a certain way for 30 years of stimulus response, stimulus response. And it is just thought, I think it's just stuck to turn that off. Yeah,

Wade Pfau 37:23
you don't like spending and maybe the reason you didn't buy Long Term Care Insurance is you don't like spending money. So you also don't like spending money on anything. So I

Alex Murguia 37:31
ended up grabbing tickets. August had a big ticky tacky with the word guilt. Who knows, right? But I think there's more at play. That just like I feel guilty, I feel guilty spending, my gonna have the beach

Wade Pfau 37:43
house. But the guilt could be a factor to where it's simply absolutely this. I was thinking this would be my kids inheritance. And now I'm going to spend it on long term care. I'm not going to spend it that's kind of a scenario that insurance at least would help avoid in that context. I

Alex Murguia 38:01
thought this grid I was just had to like no, no. Thinking Out Loud more than picking that nitpicking. Epic. Yeah. And if you know me, so self funding and informal caregivers.

Wade Pfau 38:17
Right. And just one other aspect. Well, this whole issue of not wanting to spend money on long term care needs, well, are you going to have your family or friends, be informal caregivers. Ultimately, it's been estimated up to 70% of long term care may be provided through informal family support. We talked in an earlier episode about like the duration of long term care events. And making that distinction between any care versus paid care, the duration of paid care is a lot shorter than the duration of any care. But that means if I have a three year long term care event, it may be the first two and a half years were unpaid in formal care from family members. The last half a year was for paid care when it just became too much of a burden. But we have to be clear that there's a cost to unpaid care that you really have to internalize if you're thinking about self funding for long term care.

Alex Murguia 39:15
Well, this is where Wait, no, no, it doesn't. But after I retire, I'm gonna move to Dallas. I'm about you doing

Wade Pfau 39:24
and I'll be a giver.

Alex Murguia 39:29
When you go to CBS, can you pick up some things for me?

Wade Pfau 39:34

Yeah, that'd be right. I mean, it joke but the reality is with the unpaid care, just people may have to sacrifice careers to become unpaid caregivers. So then they're not earning salary. They're not contributing to Social Security. They're not going to they're not getting ready for their own retirements. Plus, the stress and burden of being a caregiver might ruin their health and make them more like they'd also need long term care at some point. So it's nine free when you get unpaid care. You've

Alex Murguia 40:04
seen it for the last few years here. I'm very fortunate because you know, McLean is our business. So we're not necessarily I'm not clocking in and clocking out. So there's a lot of flexibility. But what did you say? I go to Miami? Probably every, I don't know. 7080 days?

Wade Pfau 40:21
Yeah, yeah. Like three or four days? You know, yeah. And they're also a good example, where if you had a job where it's not so easy to get time off to do that, it could be real problematic.

Alex Murguia 40:33
Yeah. And I can't snap my fingers and have my parents moved here. That's just not realistic. On a whole host of levels. So yeah, there's a foster to this. That's significant. But I mean, I get it. I'm in a very fortunate situation, but I can see somebody that the normal case is somebody that's working for a company. I mean, I don't know how they would do it, frankly. You know, without there being some significant costs, like out of money costs as well. But no, you're 100%. Right on that.

Wade Pfau 41:06
Right, Miss salary, missed work, work related benefits. And then yeah, out of pocket costs, if you're traveling back and forth, maybe it's 100 mile difference. So you're making that drive a couple times a week that wear and tear on the automobile, anything related to that. Just yeah, the cost can be significant, even with unpaid care.

Alex Murguia 41:29
Oh, yeah, the cost said, but you know, you'd say this, but also the person receiving the care. At the end of the day, it's not coming out of their pocket. So they could say, well, so what but I know, I think over time, whether it's, the kid feels like the son or the daughter feels like some sort of obligation to help, you know, that I'm sure they're happy to. And, you know, most of the time, it's no worries. But you can't help but think that after a while, anything in life starts getting, I don't know all this to struggle board, but you're not I mean, there's going to be some resentment in some way, shape, or form, constantly going to the wall like that, I just think.

Wade Pfau 42:12
Yep, absolutely. And they will learn not to try to be too predictive about future episodes. But I do think, with our next episode, we'll have an opportunity to talk with someone who's created an adult daycare center, which actually can be a very important solution for this type of informal caregiver to from nine to five, getting help support so that they can maintain their job, which if they had to be a 24 hour, a day caregiver would not be possible, frankly, in most scenarios.

Alex Murguia 42:45

Okay. And then the last point to take us home before we transition for the next episode is self funding with annuities. And we're here to talk about this, you know, to a greater extent with hybrid stuff, but as a general manner, just so funny with annuities, they get away. Yeah,

Wade Pfau 43:01
we ended up talking about that already. If you recall, earlier, the key Lex and stuff, that's where

Alex Murguia 43:10
I just don't even consider Q lights. It's its own like, world, you know what I'm saying? This

Wade Pfau 43:14
is a test of if you're listening to the podcast, as we do it, I

Alex Murguia 43:17
decided I was gonna get to like, no, but you know, I'm saying, yeah,

Wade Pfau 43:20
that

Alex Murguia 43:24
1k plan or something like that. It's just

Wade Pfau 43:26
you, you have an annuity that will turn on at approximately the age where you're more likely to need long term care. So it's not at all a perfect match. But it is a way to potentially get some additional funds at a period in life when you may need more funds. Yeah, and

Alex Murguia 43:42
for those listening, you know, scoring at home, what's the limit on the few like right now? 200 and change, right?

Wade Pfau 43:47
Yeah, so it was $200,000 I can't remember if this was the year that now became 205,000. Because it is now inflation linked, unlike in the past. Okay,

Alex Murguia 43:57
my low to moderate it's not going to be right. Yeah, you know,

Wade Pfau 44:02
like I saying, if you're in your 40s the payout rates can be more than 100% so that could be more than $200,000 a year of income starting at GD five. Although boy, probably not many, two lakhs are purchased by people in their 40s

Alex Murguia 44:15
and that's why they had that bit right. All right. Anything else Wade for today? No, I

Wade Pfau 44:22
think that'll do it. So yeah, a lot more exciting episodes to come and retire with sale.

Alex Murguia 44:27
Alright, everyone, thank you for listening and we look forward to Bob getting right at doing his episode giving us a little bit of a respite but we look forward to catching you guys that we get easy everyone.

Wade Pfau 44:42
Yeah, yeah, Bob's coming I think later in April. Next week goes to long term care. Excellent. Thanks, everyone. Bye. But

Bob French 44:52
Wade and Alex are both principals in McLean Asset Management and retirement researcher. Both are SEC registered investment advisor users located in Tyson's Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be appropriate for you, consult your financial advisor. All investing comes with a risk including risk of loss. Past performance does not guarantee future results.