

U.S. & World Early Warning Report For Investors

By Richard Maybury, September 2002 EWR

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Your Most Important Investment – It's Worth Millions

The Problem We Refuse to Face

In this article I write about an uncomfortable subject, so get ready for a rough ride — but a happy ending. The problem is what I call the Methuselah Crisis.

Suppose a slip in the shower or a car accident disables you for life. Who takes care of you?

Or, maybe someday Alzheimer's or simple old age makes it impossible to get along by yourself.

Who will help you bathe, dress, eat and use the toilet?

Friends? Family? The government?

Fact: no federal program covers in-home care for more than a few weeks.

Medicare and other forms of government medical insurance are for short-term *medical* needs, not LTC (long-term care) meaning day-to-day living after your medical condition is stabilized. Medicare provides no LTC home care, just care in a skilled nursing facility, and only for 100 days. And, most people cannot qualify for Medicare until age 65.

Some rely on Medicaid for LTC. Part of the welfare system, Medicaid treats you the way you would expect to be treated on welfare — no privacy and no choices, you live where the government tells you, and do what the government tells you.

Medical advances now come so fast that if you are a baby boomer or younger, odds are you will be alive years or even decades after your body is no longer fully operational.

It is not unusual for in-home care to cost \$1,000 per week.

Our ancestors escaped this problem. If they were seriously ill or injured, they died; few lived past 65.

In my opinion, medical technology improves so quickly now that, for purposes of financial planning, a prudent baby boomer should expect to live until at least 100, and probably 120.

Millions of boomers will not be healthy enough to work past 65 or 70. Ergo, millions could need LTC for decades, but few will have the savings to pay for it. A coming disaster. The Methuselah Crisis.

The LTC problem applies not just to the elderly. Medical wonders save young lives that previously would have been lost to disease or accident. Of those presently receiving long-term care, 40% are between ages 18 and 64. 3% are children. Actor

Christopher Reeve (Superman) was permanently disabled when he fell off a horse at age 38.

Here is the big, terrifying question few boomers have faced: suppose medical science comes up with so many breakthroughs that you are kept reasonably functional for 30 or 40 years after you can no longer work, and you need some degree of LTC for that entire time; what size nest egg must you build to pay for LTC for 30 or 40 years?

Even if you are planning a quick .45 caliber exit for yourself when your money runs out, if you are married, what about your spouse?

Generally wives outlive husbands. A common situation is the man becomes disabled first, and his wife takes care of him, spending all their money to do so. He dies, and she is left destitute. Who takes care of her?

The Census Bureau estimates that the number of Americans over age 100 in 1950 was 2,300. Today it is 65,000, and 83% are women.

Note the trend. 2,300 in 1950, and 65,000 now. That's the handwriting on the wall. If medical breakthroughs over the next 50 years bring another 28-fold increase, boomers living past 100 will number in the millions, and most will be women.

No other generation in history has faced such an extreme LTC problem, boomers are the first. An American born in 1950 already has a life expectancy 21 years longer than one born in 1900.

The Frightening Calculations

If you are a baby boomer, or younger, how much money will you need to cover the cost of LTC for, say, 20 years?

\$1,000 per week for 20 years works out to \$1,040,000. 40 years, \$2,080,000. For a married couple for 40 years, \$4,160,000.

This is in addition to normal living expenses such as rent, food, phone, cable TV, etc.

Granted, I am painting a worst case picture, but I do not think an unrealistic one. I am sure dozens or hundreds of our 8,000 subscribers will experience this worst case, and most of the others a less serious version of the Methuselah Crisis.

I am trying to worry you because I care about you and want you to pay attention to the solution — LTC insurance. But before we get into that...

The March 2002 EWR, pages 3 and 4 gave you some thoughts about retirement planning. Please review them.¹ I pointed out the maximum low-risk "real" annual return you can expect on your in-

¹ Back issues of EWR are \$10 each. Phone 800-509-5400.

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investments over a long period is 4%. For each \$40,000 per year you need to live after retirement, you should accumulate \$1 million in savings.

This is for normal living expenses. LTC would be extra.

Even if you are a multi-millionaire, will you have enough money to avoid the Methuselah Crisis?

We could gamble by relying on Social Security for some of our income, but if a person is 50 years old, odds are high that medical advances will keep him or her alive until at least 100. What are the chances the rickety, corrupt Social Security system will still be here in the year 2052?

What are the chances pigs will fly?

My key point: with LTC insurance, you do not need to save extra millions to cover LTC.

The Solution

You can buy a policy that will cover your LTC needs no matter how long you live.

It must cost a fortune, right?

No. When you consider what it is saving you from, it's dirt cheap. And, the younger you start, the less expensive it will be.

As an example, we will assume LTC costs of \$1,000 per week, and increases in the consumer price index of 5% per year.

If you are age 50, one company offers a policy that will cover this amount of LTC for the rest of your life for an annual premium of about \$1,600 per year.

However, if you wait another 15 years, buying equivalent protection at age 65, the annual premium will be \$7,400. (\$14,800 for a couple.) And, during these 15 years you will be without LTC protection against accident or illness.

Once you are disabled, you probably will not be able to get the insurance.

Another consideration: after you are disabled or very old, will you be capable of searching for good in-home care or a quality live-in facility? LTC insurance can provide a professional care coordinator to help you make these arrangements and avoid mistakes.

Be An Instant Millionaire

It seems to me that except in the case of those who were born wealthy, the first investment anyone should make is not stocks, bonds or CDs, but LTC insurance, because this insurance drastically reduces the need for the other investments. The insurance has the effect of making you an instant millionaire,

for it protects you as if you have already saved the millions needed to pay for good LTC.

LTC insurance by itself is not sufficient — you still need life insurance, health insurance and other investments — but it is an enormous first step toward financial security. It is Methuselah insurance.

Here is another way to look at it. Suppose next year you have an accident causing you to need LTC. We'll assume the price of good LTC will be \$50,000 per year, and you will be able to earn 10% interest on your savings.

You will need \$500,000 in savings to generate the income to pay for the LTC. (I am ignoring taxes, which could make the problem a lot worse.)

What if next year interest rates are so low you can earn only 2%; then how much savings will you need?

\$2.5 million.

You could forego LTC insurance, and plan that if you have an accident you will run your savings down to zero, then go on Medicaid (welfare). Before you decide to go this route, please talk with someone who is on Medicaid's LTC and ask how they like it.

What if you buy LTC insurance and never need it, won't you feel bad about wasting all that money?

You have fire insurance. If your home never burns down, will you be disappointed?

To my way of thinking, it is far better to have LTC insurance and not need it than need it and not have it.

The Inflation Threat

Once you have your Methuselah insurance, the main threat to the policy's value will be inflation.

Inflation protection for your LTC policy can be purchased, but it may not be adequate; you may need to buy additional coverage in the future if inflation pushes up the cost of care beyond what your policy covers.

However, if you have the policy, the amount of money you need to save for retirement is cut by millions, so you can put more money into investments that profit from inflation — namely, real estate, raw materials, precious metals and certain foreign currencies. With these investments, a serious inflation can produce the profits necessary to buy more insurance.

In the absence of serious inflation, these investments will not do well, but with the removal of the burden of needing millions to avoid the Methuselah Crisis, you will have less need of stellar performance from your investments.

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In the February 2002 EWR I gave you a suggested investment plan. If you have LTC insurance, I'd be comfortable slashing the 70% in T-bills, CDs and Savings Bonds to 50% and, to protect against double-digit inflation, putting an additional 10% in precious metals, 5% in Swiss francs and 5% in New Zealand dollars. If inflation fails to roar (unlikely now that we are in a war economy), you won't get very good results. But, with your Methuselah insurance, you will be less in need of good results.

LTC insurance is not 100% safe. A high double-digit or triple-digit inflation would probably demolish it, along with the rest of the US financial system. But, LTC insurance is the best solution I have seen for a remarkably serious and little-recognized problem.

How To Pick A Company

More than 100 companies offer LTC insurance. In my opinion, you should select a company with these characteristics:

- Large — a deep pocket with billions in assets.
- Long-established in LTC insurance.
- Rated highly by S&P, Moody's and AM Best.
- Has never raised rates for established customers.
- Rigorously examines an applicant's health to reduce the company's risks, and therefore protect the company's ability to pay LTC claims.

One company you might consider is GE Financial Assurance, which is a division of General Electric. My wife and I have received excellent service from GE agent Marian Bayham. To help you get started learning about LTC insurance, I have arranged for you to get a free, no obligation package of information explaining LTC insurance, by contacting Marian at 866-826-3582. Box 32, Roseville, CA 95678. www.marianbayham.com

Lots of other help on the Internet, too. Start with www.ltcconsultants.com www.aarp.org/confacts/health/privlhc.html

Until the end of the year, the federal government is offering its employees an LTC insurance plan. At www.opm.gov/insure/lhc/ you will find plenty of easy-to-understand information about LTC insurance, plus a calculator to help you plug in all the choices to get a ballpark cost for what you should pay.

The government's LTC program offers premiums up to 20% less than you will pay as a private individual. Knowing this, even if you are not a federal employee, you can use the government's cal-

culator to get a feel for prices before you shop around among private companies.

The Four Alternatives

The Methuselah Crisis is a tough problem, hard to face. But, you don't read this newsletter to get fluff. (That's what the mainstream press is for.)

The younger you buy the insurance, the less expensive it will be, so please look into it now. Unless you are very wealthy, there are really only four alternatives to LTC insurance:

1. Continue working and saving in hopes you can accumulate enough to pay for good long-term care yourself.
2. Hope you get lucky and never need it.
3. Expect family or friends to take care of you.
4. Welfare.

If you find you cannot afford the insurance, one solution might be to ask a relative or friend to help you pay for it, then write your will so that this person inherits your estate, or enough of it to repay the favor.

Risk level for LTC insurance, LOW. Profit potential, somewhere between zero and infinity — you may never need it, or, in case of accident or illness, you could need it for fifty years starting the day after you buy it.

Please help spread the word about this enormous hidden problem, the Methuselah Crisis; share this article with anyone you think it might help.

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Richard Maybury's articles have appeared in WALL STREET JOURNAL, USA TODAY and other major publications. His books have been endorsed by top business leaders including former US Treasury Secretary William Simon. Richard Maybury has been interviewed on more than 250 radio and TV shows across America.