Allocate Your Assets During the Late Stage of Life

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Hopefully, you're able to continue living independently during your later years. If, however, you need help taking all your medications on schedule, getting up and going in the morning, fixing your meals, or maintaining your home, consider long-term care. Whether you receive this care in your own home, an assisted living residence, or a skilled nursing home, your outflow of cash is likely to increase considerably, and you may be more concerned than ever about outliving your assets.

Now is a good time for a financial review. Your nest egg has probably been slowly shrinking as you've been withdrawing an ever-increasing income to keep up with inflation. You may have reached the point where you're taking withdrawals of income faster than your nest egg is growing. With good planning and investment management, you've been able to survive ups and downs in the economy; but if the cost of long-term care is now the most pressing uncertainty you face, this strategy can help.

Assess Your Assistance Needs

Before focusing on your investments and whether you need to make changes to your allocation strategy, assess your situation:

- Determine what your needs for assistance are.
- Figure out who's available and willing to be involved with your care. Family? Friends? Acquaintances?
- Determine what kinds of care should be provided by professionals.
- Investigate available federal and state government programs and what kinds of services they provide.
- Determine how your living environment does and doesn't support your continuing to live where you are.
- Look at what kinds of modifications to your home or what kinds of technology would help you to remain where you are.

- Look at other living alternatives and compare the cost of staying where you are to the cost of living in another environment.

Use this information to determine whether your income sources will continue to cover your living expenses (and your spouse's) and whether you can cover long-term care expenses with your income. Then figure out how much more you need from other resources to meet your needs. Other resources may include the following:

- Medicare and/or Medicaid, depending on the services you need, your health status, and whether you qualify financially for Medicaid
- Long-term care insurance benefits if you have such a policy and meet the requirements for receiving benefits (see Strategy #7)
- Annuities or life insurance that includes benefits to cover long-term care if you meet the requirements for receiving benefits
- The equity you've built up in your home

Tailor Your Asset Allocation Strategy to Your Savings

You need to keep at least three years' worth of upcoming living expenses in cash and replenish it at least every two years. Factor in the cost of long-term care that other resources can't cover. If you're still in your home, factor in any large expenses for home modifications and/or assistive technology devices or systems.

After you calculate how much to allocate to your cash stash, you'll know how much of your nest egg is left over. Explore your asset allocation challenges by analyzing the two common scenarios outlined here.

Scenario 1: Your nest egg is modest relative to your anticipated needs

If you determine that your nest egg is adequate relative to your anticipated future income needs, you can now

- Sell your riskier investment holdings
- Buy securities such as CDs and bonds (especially inflation-tracking bonds) that have relatively stable values

WARNING!

At later stages of life, the potential reward of investing in risky assets is no longer worth the risk. The higher returns you may enjoy from risky investments won't significantly extend how long your nest egg lasts, but investment losses, large or small, can significantly shorten it.

Scenario 2: Your nest egg is sizable relative to your anticipated needs

If you have plenty of available resources, consider yourself fortunate! Then consider the following:

- You're free to continue to invest for growth to build your legacy for heirs and charitable intentions.
- Assets reserved for your remaining needs should be invested conservatively, whereas assets you anticipate passing on to your heirs can be invested up to 100 percent in stocks. A good asset allocation may be 20 to 30 percent stocks, 30 to 40 percent bonds, and 30 to 40 percent cash.
- Rebalancing and vigilance are still necessary.

Get Help with Long-Term Care Planning

Working with a financial planning professional who's knowledgeable about planning for and financing long-term care may be helpful. (For more info on long-term care, see Strategy #63.)

Look for the following local resources to work with when planning for your long-term care needs:

- **Area agency on aging:** Your local area agency on aging can help you find nearby programs and services that can meet some of your needs.
- **Medicaid office:** Medicaid offices can help if your resources are dwindling and you suspect you may need to rely on Medicaid to pay for services. Work with your local office well ahead of time so you know current qualification requirements and can best plan how to meet them.

You can find more information from the U.S. Administration on Aging, Department of Health and Human Services, at www.eldercare.gov or 1-800-677-1116.