

What Long-Term Care Costs in Retirement Could Do to Retirement Readiness

While many retirement planning models look only to replace a percentage of preretirement income, there are some frequently overlooked expenses unique to retirement that can have a huge impact.

A new report by the nonpartisan Employee Benefit Research Institute (EBRI) reveals that assuming 100 percent of the average expenses (based on post-retirement income) for components likely to be encountered on a regular basis (e.g., food, housing, transportation)—but ignoring the costs of nursing home and home health care expenses—about 17 percent of those in the second-income quartile would run short of money by the 20th year in retirement, as would 5 percent of those in the third-income quartile and 1 percent of those in the highest-income quartile, assuming a retirement age of 65.

However, when also taking into account the costs arising from nursing home and home health-care expenses, the percentage in the second-income quartile now projected to run short more than doubles, to 38 percent, while nearly four times as many (19 percent) of those in the third-income quartile are likely to run short of money in retirement. Eight percent of the highest income quartile would run short by the end of the second decade of retirement, according to the analysis.

The EBRI analysis also considers the results for various income quartiles under a variety of expense and replacement rate thresholds.

The complete EBRI report, “Short Falls: Who’s Most Likely to Come up Short in Retirement, and When?” is published as the June 2014 *EBRI Notes*, and is available [online here](#).

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