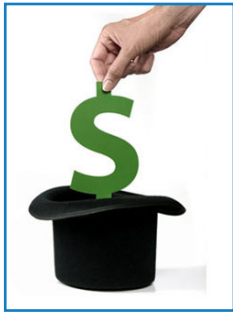


SECOND OPINION



LONG-TERM CARE INSURANCE A GOOD BET FOR SINGLE WOMEN

Q: I am 60 years old. My financial adviser is strongly urging me to buy long-term care insurance (before September, when Genworth is raising its rates).

My mortgage is paid off (home value: \$325,000). My investments and retirement portfolio stand at \$350,000. My income is \$35,000 with minimal liquid cash. I plan to work indeterminately and am healthy, though I will need to buy health insurance upon "retirement."

Though I understand the benefits of LTC, it's difficult to part with hard-earned money, acknowledging it's going nowhere until when and if it's needed.

I've found it difficult to research this subject. Financial advisers and insurance companies naturally want you to buy this product; others advise selling your home at the crucial point. I'd appreciate your thoughts. - J.F., Boston

A: The best candidates for long-term care insurance are single women like you. You are likely to live long enough to need long-term care. More important, you don't appear to have alternatives to institutional care - such as a daughter who lives less than an hour away.

This is the dilemma millions of women face as they age. So I think you are a good candidate for this insurance, in spite of doubts I have expressed about LTC insurance in the past.

Another way to think about LTC insurance is to consider it as "portfolio insurance" on your net worth. With your net worth of \$675,000, a policy that cost \$2,500 a year would cost about 0.37% of your net worth a year. It would provide you with some assurance that you won't go broke, and even a three-year coverage period would allow plenty of time for an orderly liquidation of assets in the event you needed more than three years of care.

Preserving assets, of course, is important only if you want to leave some money to children or charity.

Just remember that when establishing limits on the policy, you will have ongoing income from other sources - so the policy doesn't need to cover the entire cost. Do get inflation protection.

And, finally, don't take all the sweet talk about "home care" as an alternative to institutional care too seriously. This is a powerful marketing tool because no one - absolutely no one - likes the idea of paying money to insure for the privilege of staying in a nursing home. But if you examine your policy closely, you'll find that you don't qualify for coverage until you can't perform several of the five Activities of Daily Living (ADLs). When this happens you'll probably

need more than an eight-hour visit from a non-nursing person every day of the week. A nursing home is likely to be the most workable solution.

One alternative that you may not have examined is the idea of moving to a continuing care community (CCC) when you are somewhat older. These communities offer care that ranges from independent living with some community meals (no more cooking!) to assisted living and nursing care - all in one facility. Because you enter before you are disabled, these communities offer a broader network of supportive peers as well as professional care.

Q: I am offering my limited experience to a 43-year-old friend about switching his 403(b) account at Fidelity to a Margarita Portfolio. He doesn't wish to transfer the account to Vanguard at this time, although Vanguard's Inflation-Protection fund may be a better choice. Would it be advisable to fill the entire one-third IP slot with Fidelity's IP Fund or divide it with another Fidelity offering? It seems to me that the Margarita Portfolio is far superior to the Fidelity Freedom Funds and perhaps a better choice than Vanguard's Target Retirement Funds for this relatively young man who is not inclined to make investment choices. Your comments? - M.J., by e-mail

SECOND OPINION

A: It may be possible to get a close approximation of the Margarita Portfolio using existing Fidelity funds. A young person could start with an initial investment in Fidelity Four-in-One Index fund (ticker: FFNOX). This fund is 55% domestic large-cap stocks, 15% extended U.S. market, 15% international stocks and 15% U.S. bond index. Then, if it is available in his plan, he could add equal amounts of Fidelity Spartan International fund (ticker: FSIX) and Fidelity Inflation-Protected Securities fund (ticker: FINPX). Over time this would bring his equity allocation down from the 85% in Four-in-One

to the less aggressive 66% of the Margarita Portfolio.

The Fidelity Inflation-Protected Securities fund is actively managed, but its expense ratio is only 0.45%.

As the portfolio grows, it would be a good idea to add further asset classes, like the expansion of the Couch Potato Building Block portfolios on my Web site (www.scottburns.com). This can be done by opening a brokerage window in the 403(b) plan, if one is available.

(Questions about personal finance and investments may be sent by e-mail to scott@scottburns.com or by fax to 505-424-0938. Check the Web site: www.scottburns.com. Questions of general interest will be answered in future columns.)

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