

An Action Plan for Long-Term Care

Many people put off creating a long-term-care plan. This step-by-step guide can help you get over inertia, dread, or both.

By [Christine Benz](#), Morningstar

Aug 4, 2021

The figures are bracing: [About half](#) of people turning age 65 will require some type of paid long-term care in their lifetimes. Women will need 3.7 years of care, on average, while males will need an average of 2.2 years. The cost of nursing-home care in a private room has passed the \$100,000/year mark, and in major urban areas, the cost of care runs even higher than that.

Yet despite those daunting figures--or possibly because of them--many people delay installing a long-term-care plan. In a survey from The Associated Press-NORC Center for Public Affairs Research, 65% of respondents age 40 or older said they had done little to no planning for their own long-term-care needs.

A possible reason for the lack of action is that many people are confused about the extent to which the government provides for long-term care. In [a consumer sentiment survey](#) conducted by Genworth, two thirds of respondents said that they expect government programs to cover all or part of their long-term-care costs. Medicaid is indeed the largest single payer of long-term-care costs in the United States, but it imposes strict income limits on individuals who rely on it. And while Medicare may also provide a form of care--"rehab"--following a qualifying hospital stay, it too imposes significant strictures around eligibility and coverage, depending on the type and duration of the stay.

The takeaway is that even people who expect to rely on government resources if they develop a long-term-care need should think through the financial and other implications of long-term care for their retirement plans. And people who expect to rely on their own resources or purchase some type of insurance to cover long-term-care expenses should be methodical about it, thinking through their prospective coverage needs and weighing their options.

In other words, it's wise to create a long-term-care action plan as part of your total retirement plan. To do so, take the following steps.

Step 1: Gauge the likelihood of needing care.

The first step is to get your arms around how likely you are to need long-term care by familiarizing yourself with [some of the data](#). The fact that about half of us will need some type of paid long-term care in our lifetimes and half won't suggests that we should at least plan for the possibility. After all, if I told you that there was a roughly 50/50 chance that you'd get into a car accident within the next year, is there a possibility you would go without auto insurance? That's not to suggest that everyone needs to purchase long-term-care insurance, but rather that you consider the full range of options for covering your care if you develop a need.

Step 2: Get your arms around the costs.

What would care actually cost? As noted above, the median annual rate for a private room in a nursing home was just over \$100,000 in 2020. But there were enormous variations in the cost of care based on geographic location; [Genworth's annual Cost of Care survey](#) enables you to focus on the community

where you'd likely receive care. The data vary about average duration of care, but most of the statistics converge in the 2.0- to 2.5-year range.

Before assuming that you need a \$250,000 long-term-care fund if you're going to pay for long-term care out of your own coffers (or \$500,000 if you're part of a married couple), spend some time customizing those figures. Geography is important, as discussed above, as is the type of care you'd prefer to receive.

The aforementioned costs are for a nursing home, whereas most people would prefer to receive care in their homes. (That's doubly true given the enormous toll that the coronavirus took on older adults in long-term-care settings.) Hiring in-home care also seems to be cheaper than receiving care in a facility. However, it's important to remember that most other household expenses, such as housing and food-related costs, would continue with in-home care, whereas they would be bundled in with the cost of care received in a facility.

If you're part of a married couple, bear in mind that it's not at all uncommon for one spouse to need long-term care while the other remains healthy. In such situations, the couple's financial resources will need to cover the costs of maintaining the household for the healthy spouse while simultaneously paying for long-term care.

You'll also need to factor in inflation when ballparking potential long-term-care costs: Median nursing-home costs (private room) have increased by about 4% over the past year. Inflation has also been higher for care provided in the home, according to Genworth's latest data.

Step 3: Assess available resources.

Armed with a reasonable estimate of how much long-term care might run you, you can then go back to your total in-retirement portfolio. Are your assets sufficient to cover your ongoing living expenses, based on a reasonable withdrawal rate strategy, *plus* the additional long-term-care costs?

If the answer is "yes, comfortably," you probably have enough to self-fund long-term care; proceed to Step 4. If your plan is tight, purchasing some type of insurance--even if it seems costly--is probably the right way to go; skim Step 4 and go to Step 5. (I say "skim" Step 4 because even if you purchase an insurance product, you'll likely need to pay for at least part of your long-term care out of your own assets.) If your in-retirement budget is so tight that setting aside a long-term-care fund or purchasing insurance isn't an option, public resources (Medicaid-provided care) would be the default. That's covered in Step 6.

Step 4: Create a long-term-care fund: How much, where, and what.

If you've determined that self-funding long-term care is the right way to go, the next step is to put in place a concrete plan for doing so. If you determined the potential cost in Step 2 and you're still saving for retirement, you could simply incorporate that additional need into your retirement-accumulation goal and recalibrate your savings target accordingly. Automating your contributions by using an automatic investment plan at your mutual fund firm or brokerage company can further instill discipline in the process of building up a long-term-care fund.

As you prep for and enter retirement, it will be essential to separate any assets earmarked for long-term-care needs from your spendable assets, so that your long-term-care money will actually be there when you need it. I like the idea of creating a distinct long-term-care "bucket," segregating those assets from your other retirement assets. You could think of this as a multipurpose "last-stop" bucket that you could use to cover long-term-care needs, defray your living expenses if you live well beyond your anticipated life expectancy, or pass on to your heirs.

[Where](#) to hold the assets you're earmarking for long-term care is another consideration; are they best held in a traditional or Roth IRA, or perhaps a health savings account? At first blush, the HSA might seem to be the ideal long-term-care vehicle, because the HSA wrapper offers unparalleled tax treatment for qualified healthcare expenses, including long-term care. But stashing your long-term-care fund in an HSA may not be ideal in that if you use HSA withdrawals to cover long-term-care expenses, you wouldn't also be able to deduct those expenses on your tax return.

Finally, think through how to invest your HSA fund, based on your expected proximity to needing to tap it for long-term-care costs. Generally speaking, the older you are, the more conservatively positioned your long-term-care fund should be. The long-term-care funds of younger savers, meanwhile, can and should be more long-term-oriented and stock-heavy, because overcoming long-term-care expense inflation is a key part of the challenge.

Step 5: If insuring is the answer, investigate whether a stand-alone or hybrid policy makes sense.

If you've decided to purchase insurance coverage for long-term care, there are two main options for doing so: stand-alone long-term-care insurance policies and "hybrid" life/long-term-care or annuity/long-term-care products.

The stand-alone policies are pretty straightforward: It's fairly simple to compare costs and benefits across these plans, and you can and should check up on the financial health of the insurer behind the policy. Yet many consumers who thought they were doing the right thing in purchasing the policies have had an unhappy experience: Premiums have jumped up, forcing policyholders to choose between higher outlays or reduced benefits. The number of insurers offering products in this market has also shrunk. Qualifying for coverage may also be an issue for would-be purchasers of stand-alone policies: [About 20% of applicants](#) between the ages of 50 and 59 are denied coverage, largely owing to disqualifying health conditions, whereas a third of people who are between the ages of 65 and 69 were denied coverage.

If you decide to purchase a stand-alone long-term-care insurance policy, it's worth noting that HSA assets may be used to cover the premiums. But there are a couple of caveats. First, the long-term-care insurance must be a "qualified" long-term-care insurance contract; most policies on the market today are tax-qualified, but check with your insurance provider to be sure. Second, the amount of HSA assets that can be withdrawn each year to cover long-term-care insurance depends on your age: In 2021, people between 41 and 50 can withdraw \$850 of their HSA assets to cover long-term-care premiums; people between 51 and 60 can steer double that amount (\$1,690) to cover long-term-care premiums; those between 61 and 70 can withdraw \$4,520; and those 71 and older can withdraw \$5,640. (Long-term-care premiums typically scale up with age, so it makes sense that the allowable withdrawals would increase, too.) Those limits typically increase a bit each year. The third caveat associated with using an HSA to cover long-term-care premiums is that by pulling from the HSA on an ongoing basis, you lose some of that tax-free growth potential that comes along with letting the HSA assets ride up until or into retirement.

If you don't like the idea of paying premiums for a stand-alone long-term-care policy that you may never need, or you can't purchase such a policy because you have a disqualifying health condition, you can investigate hybrid life/long-term-care or hybrid annuity/long-term-care policies. Such products have experienced dramatic growth even as sales of stand-alone policies have plummeted. Not only do they have an attractive "multitasking" quality--premiums won't be for naught if the purchaser ends up not needing long-term care--but health screening is often less stringent than is the case with stand-alone long-term-care policies. Additionally, the hybrid policies are often purchased with a lump sum, which

means that policyholders won't face the same premium increases that traditional long-term-care insurance policyholders have had to face.

Yet, even as hybrid policies can make sense in certain instances, there can be significant drawbacks, too. As with any product that isn't straight insurance, the various features (and the fees associated with them) can make it difficult to comparison-shop. Perhaps more important, purchasing a long-term-care policy today may not look like such a savvy move in hindsight, especially if the premiums on stand-alone long-term-care policies stabilize and/or interest rates trend up--both realistic scenarios.

If you do decide to purchase a hybrid policy, [one good option](#) is to exchange a life insurance policy that you no longer need for the hybrid policy.

Step 6: If government-funded care is part of the solution, think through the ramifications.

If you've determined that you don't have the resources to cover long-term care--either by paying for it outright from your own coffers or by purchasing long-term-care insurance--government resources will be the only option. Just be sure that you fully understand the rules in place to qualify for it; that's especially important if you're part of a married couple and there's a realistic possibility that one of you will need care while the other remains at home. Be aware of [the key issues](#), including the assets that you can own while still qualifying for Medicaid-funded care, the "lookback" period for assets transferred to children or other individuals prior to qualifying for Medicaid-provided care, and the community spouse resource allowance

<https://www.morningstar.com/articles/932642/an-action-plan-for-long-term-care>