

A Guide to Planning Financially for Long-term Care



According to a study conducted by the Administration for Community Living in 2020, a 65-year-old has an almost 70% chance of needing some type of long-term care service and support during the rest of their lifetime.¹ How long-term care is administered can vary depending on the person's needs. For some, it could be receiving extended care in a nursing home facility where they receive 24/7 medical care, and for others, it could be home health care where they are medically supervised in their own home.

Each of these service types can be expensive and easily cause the patient to incur large medical debts. If you are in your 40s or older, now may be the time to develop a plan for potential long-term care needs. While it may be uncomfortable, you should key your family into your plan so they are aware of your wishes and can make decisions in the event of your incapacitation.

In this guide, we share four key items to consider when creating a plan for your long-term health needs.

Measure Your Likelihood of Needing Care

While it is nearly impossible to gauge if you will fall ill in your older years, there are some ways to decipher if you are likely to need long-term care in the future. We know that after 65, a person has a 70% chance of needing some sort of extended care in the future. However, there are other factors that increase the probability of a person requiring long-term care services, including health history, gender, and marital status.

For example, women over the age of 65 are 75% more likely to need long-term care services compared to 64% of men who are over 65, as women statistically tend to live longer than men and therefore require longer periods of care.² Additionally, if someone is unmarried or widowed, they are more likely to need external assistance. This is mainly due to married couples having the option of their spouse being their caregiver.

Another determinant of needing long-term assistance is health history. Those who heavily smoked, drank, had poor diets, or had other health conditions are more likely to become ill or disabled. Some individuals with a family history of chronic disorders like heart disease, cancer, Alzheimer's, or dementia, also are more prone to experience illness or disability. If you fall into any of these vulnerable categories, you should start speaking with your family about how you want to receive care if you need extra help.



Determine Who You Want to Administer Care

When people become ill and/or disabled, often they prefer to recover in their homes rather than move to a facility. However, this choice requires a lot of sacrifices from their families. Family caregivers are typically the patient's children and grandchildren, and they usually spend their own money to help pay for costs associated with caregiving. According to an AARP study, in 2021 family caregivers spent an average of \$7,242 annually out-of-pocket on various equipment, housing, and home modifications.³ Caregivers also are likely to use their personal savings or retirement funds to help pay for loved ones' care, causing them to fall behind on their long-term planning goals. This is all on top of the tendency for family caregivers to need to reduce their work hours or leave their jobs altogether to provide care.

Choosing a caregiver is crucial, and selecting the wrong person can have serious consequences. Care recipients may not want their children to experience financial and mental strain from helping them around the clock and may opt instead for professional care. If professional care seems more suitable for your situation, you should thoroughly research multiple facilities and review their certifications, staffing, quality of care, social activities, and costs to make sure they meet your needs.

Educate Yourself on Long-term Care Costs

While American life expectancy dropped following the COVID-19 pandemic and has yet to rebound, Americans are still expected to live an average of 76 years. Therefore, they will need to factor potential long-term care service costs into their financial plans.⁴ Not surprisingly, long-term care costs are expensive and steadily rising as the American elderly population grows.

A 2023 study conducted by Genworth, a U.S.-based life and long-term care insurance company, reported that assisted living facility rates increased by 1.4% from 2022 to an annual median cost of \$64,200. Home health aide costs increased by 10% to an annual median cost of \$75,000. Additionally, the cost for a semi-private room in a nursing facility rose by 4.4% to \$104,000 per year, and a private room increased by 4.9% to \$116,800 per year.⁵

If you are living off a fixed income in your retirement, these costs can significantly deplete your savings. The average person will need long-term care for approximately three years, so middle-aged adults must plan for these medical expenses.

One common misconception is that Medicare will cover any long-term care costs. However, Medicare is designed for acute medical expenses and short-term care costs, such as inpatient and outpatient care, hospital stays, doctor's appointments, testing, immunizations, medication, and equipment, and only covers certain long-term care services in very defined circumstances. This is not to be confused with Medicaid, which covers the long-term care services of those who qualify due to chronic illness or disability and/or have low incomes. If you don't qualify for Medicare, you will need to figure out another way to pay for your healthcare costs.


Select Your Preferred Method of Payment

There are several methods to cover long-term care costs. One option is to use personal assets, such as funds from retirement accounts, pensions, investment income, personal savings, or Health Savings Accounts. Another option is to seek government healthcare benefits. Federal programs like Social Security and state-level programs, such as the Program of All-Inclusive Care for the Elderly, can help seniors needing long-term care. For local government assistance options, you can visit the [Administration for Community Living's local services locator](#).

The final option for long-term care payment is through private financing. Some seniors may decide to take out a reverse mortgage or home equity loan to get cash out of their homes. But choosing this route can be risky as reverse mortgages can cause you to lose out on mortgage interest deductions and home equity loans tend to have high interest rates and can cause you to lose your home through foreclosure if you miss payments.

A more secure private financing option is traditional long-term care insurance, which covers services like nursing home care, hospice care, housekeeping, meal preparation, and personal care (e.g., bathing, bathroom assistance, eating). This insurance works similarly to homeowners insurance, where you pay a premium and submit claims for covered services, though unused coverage does not result in a refund.

To avoid losing out on insurance benefits, some adults opt for hybrid policies. Hybrid long-term care insurance combines the benefits of long-term care and life insurance, providing both long-term care coverage and death benefits. This can be a useful option for someone planning for both retirement and the estate they will leave to their family.



In conclusion, planning financially for long-term care is a crucial step that can significantly impact your future well-being and financial stability. By proactively addressing these considerations, you can help yourself be prepared financially for potential long-term care expenses. It is important to have open discussions with your family and advisors about your preferences and figure out how you will pay for these expenses.



FOOTNOTES

- ¹ How much care will you need? | ACL Administration for Community Living. (n.d.). Retrieved November 25, 2024, from <https://acl.gov/ltc/basic-needs/how-much-care-will-you-need>
- ² What is the lifetime risk of needing and receiving Long-Term services and supports? (2019, April 3). ASPE. <https://aspe.hhs.gov/reports/what-lifetime-risk-needing-receiving-long-term-services-supports-0>
- ³ Kerr, N. (2021, June 29). Caregivers spend more than \$7,200 a year on Out-of-Pocket costs. AARP. <https://www.aarp.org/caregiving/financial-legal/info-2021/high-out-of-pocket-costs.html>
- ⁴ Simmons-Duffin, S. (2023, March 25). “Live free and die?” The sad state of U.S. life expectancy. NPR. <https://www.npr.org/sections/health-shots/2023/03/25/1164819944/live-free-and-die-the-sad-state-of-u-s-life-expectancy>
- ⁵ Genworth releases Cost of Care Survey Results for 2023: Twenty Years of Tracking Long-Term Care Costs. (2024, March 12). Genworth Financial, Inc. <https://investor.genworth.com/news-events/press-releases/detail/972/genworth-releases-cost-of-care-survey-results-for-2023>



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