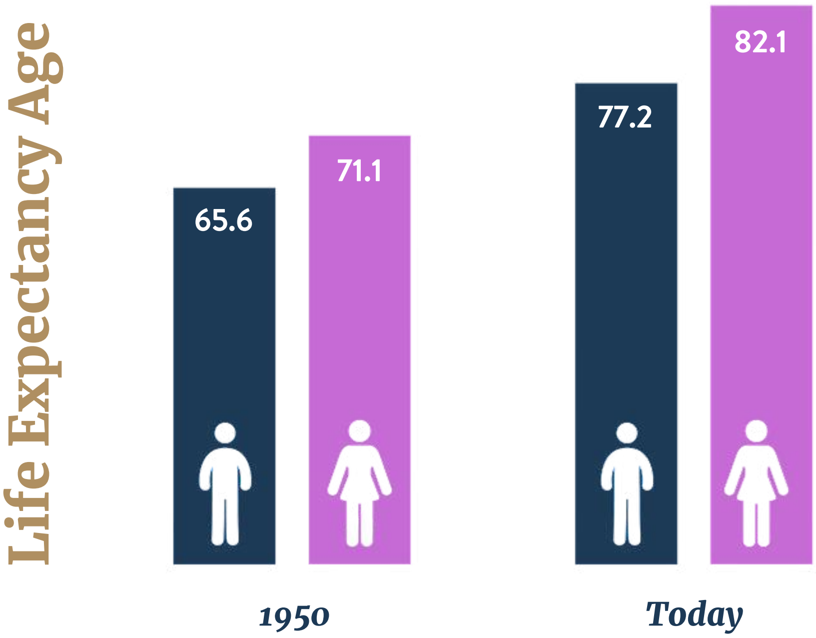
Asset Strategy

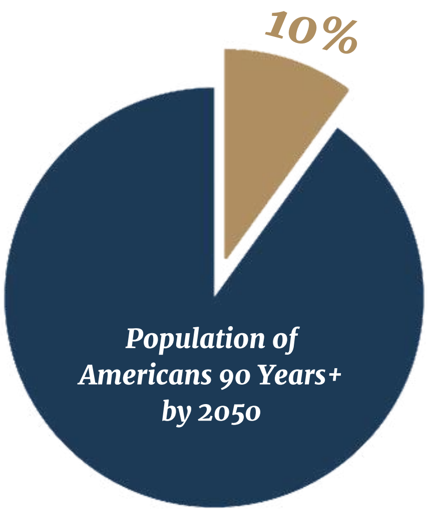
Helping you Create, Manage, Protect & Distribute Wealth®

INTRODUCTION TO LONG-TERM CARE

Introduction:

Americans today are living longer than in the past. In 1950, life expectancy for Americans was 68 years old, and in 2025, it's about 80. Of course, many people live to be older than that. In fact, the Census Bureau estimates that by 2050, Americans 90 and older will make up 10% of the population. A longer, healthier life is certainly a blessing, but it comes with extra costs that are important to consider when creating a retirement plan.[1,2]





Saving more money is a good start for covering your expenses in retirement, but you should also estimate how much you will need. Healthcare will likely constitute one of your largest retirement expenses. An average 65-year-old couple retiring today will need an estimated $330,000 to cover their healthcare costs. The problem is that this does not include a major health-related expense: long-term care.[3]

If you know someone who takes care of their parents, you know how stressful this can be. Even if your family members are nearby and can help you around the house as you get older, they might not be able to provide you with all the care you need. That's why knowing that you have a long-term care plan in place in case it's needed can help give you and your family peace of mind.

1. http://www.geoba.se/population.php?pc=world&page=1&type=15&st=rank&asde=&year=2025 as of 1/1/2025
2. https://www.barrons.com/articles/life-expectancy-retire-educated-guess-6bf1c7c1 as of 9/13/2024
3. https://www.investopedia.com/healthcare-costs-in-retirement-are-rising-what-you-can-do-to-keep-up-8694157 as of 8/12/2024

Long-Term Care:

Long-term care is not technically medical care. It is assistance with everyday tasks like bathing, dressing, mobility, housework, shopping, food preparation, and eating. We might not want to think about getting to a point where we can't do these things for ourselves, but the reality is that it happens, and it's much better to be prepared.[4]

It's estimated that 70% of Americans age 65 and older will need long-term care at some point in their lives.[5]

As of 2025, the average duration of long-term care remains approximately **3.7 years for women** and **2.2 years for men**. The median annual cost for a private room in a nursing home has risen to about **$116,800**. Consequently, individuals retiring at age 65 should anticipate incurring an average of **$138,000** in long-term care expenses during their retirement. Notably, from 2004 to 2020, there was a **62%** increase in the cost of private rooms in nursing homes, and this upward trend is expected to continue, potentially leading to even higher expenses in the future.[6,7]

Long-Term Care Locations:

Long-term care can be administered at home, in an assisted living facility, or in a nursing home. Some people prefer to "age in place" and remain where they are most comfortable, and others require more advanced help in a specialized facility. Nursing homes can provide skilled nursing care if you have an injury or illness and can provide help with all "activities of daily living," defined as bathing, dressing, getting in or out of bed or a chair, walking, using the toilet, and eating.[8]

An alternative to both of these options is an assisted living community, which typically provides three levels of care within one facility: independent living, assisted living, and skilled nursing care. Retirees who are mostly able to take care of themselves but don't want to take care of a house, a yard, or make all of their meals can enter the independent living stage and enjoy the social benefits of a retirement community. If they require more care as they age, they can change to assisted living or skilled nursing within the same facility.

4. https://longtermcare.acl.gov/the-basics/what-is-long-term-care.html as of 1/4/2021
5. https://acl.gov/ltc/costs-and-who-pays/what-is-long-term-care-insurance as of 2/18/2020
6. https://www.marketwatch.com/story/boomers-beware-tapping-home-equity-to-pay-for-long-term-care-carries-serious-risks-5ca1d815 as of 10/24/2024
7. https://www.wsj.com/personal-finance/caregiving-aging-at-home-retirement-103520c7 as of 9/24/2024
8. https://www.medicare.gov/sites/default/files/2024-05/10153-medicare-coverage-of-skilled-nursing-facility-care.pdf as of 5/21/2024

Traditional L.T.C Insurance:

There are several ways to pay for long-term care, but the right choice for you depends on your individual circumstances. Utilizing different insurance options is one solution. There is traditional long-term care insurance, life insurance with a long-term care rider, and annuities.

Long-term care insurance premiums for a 65-year-old in 2025 are estimated to be approximately **$1,700 annually for men** and **$2,700 for women**. These premiums typically provide coverage of around **$165,000** in benefits. To achieve higher coverage amounts, such as **$386,500** by age 85, policyholders may consider adding inflation protection riders to their policies. These riders increase the benefit amount over time to keep pace with rising care costs, but they also result in higher annual premiums. For example, a 65-year-old male opting for a policy with a 5% annual inflation growth provision may face premiums of approximately **$4,200** per year, while a female of the same age might pay around **$7,225** annually for similar coverage.[9,10]

If you plan to buy insurance, shopping in your 50's and 60's is better than waiting because premiums will be lower. There is even an 8 to 10 percent difference in initial premiums for a 64-year-old versus a 65-year-old.

One of the downsides to buying long-term care insurance is that the price can go up after you buy a policy. Many people saw their rates go up in the last few years because the cost of claims was higher than insurance companies had projected.

9. https://www.forbes.com/advisor/life-insurance/long-term-care-insurance-cost as of 8/4/2024
10. https://www.consumeraffairs.com/insurance/cost-of-long-term-care-insurance.html as of 4/17/2024

Tax Deductions & HSAs:

One way to mitigate long-term care insurance costs is to deduct part of them from your taxes. Most policies are tax-qualified, so if you itemize your taxes, consider deducting premiums. The amount you can deduct rises with age.

For the 2025 tax year, the IRS has updated the deductible limits for qualified long-term care insurance premiums based on age. These limits represent the maximum amount of premiums that can be treated as medical expenses for tax deduction purposes. The updated limits are as follows:

- **Age 40 or younger: $480**
- **Age 41 to 50: $900**
- **Age 51 to 60: $1,800**
- **Age 61 to 70: $4,810**
- **Age 71 and older: $6,020**

Another way is to use a Health Savings Account (HSA), which is a tax-advantaged savings account that allows you to put away pre-tax dollars to pay for qualified medical expenses.

In order to qualify for an HSA, you must be covered under a qualified high-deductible health plan.[11]

11. https://www.morningstar.com/retirement/whats-changing-retirement-2025 as of 12/19/2024

A New Type of Policy:

One reason someone may feel hesitant to buy long-term care insurance is that if they don't end up needing it, the money they spent on premiums would be wasted. More recently, a new type of policy has been introduced that merges the benefits of long-term care insurance with those of permanent life insurance. While the policies can vary in form, all promise a death benefit if you pass away without having needed long-term care.

These "combination" or "hybrid" policies are structured as permanent life insurance but include extended benefits for long-term care purposes. Depending on the policy, benefits are allotted over a predetermined period of time or up to a selected total amount. In many cases, if you do not max out the entire benefit while living, the remainder becomes payable as a death benefit to a beneficiary. Others feature a "return of premium" guarantee, either upon death or if you decide you don't want to continue the policy after a certain number of years.

Like traditional long-term care policies, combination policies offer a level of long-term care coverage that is generally several times greater than the amount paid in premiums. However, unlike traditional policies, these premiums do not increase from year to year, and there is more flexibility in payment options.

An annuity-based long-term care insurance policy is similar. In exchange for an initial lump-sum payment, the policy will pay out more than that amount in benefits if you need long-term care and will still pay out a benefit even if you never need long-term care. Unlike traditional long-term care insurance policies, these policies' premiums will not rise. Keep in mind that, like traditional annuities, these policies require a large lump-sum initial payment.

Long-term care annuities can also carry tax benefits. Qualified annuities are funded with pre-tax dollars, and payments are taxed as income, like a traditional retirement account. Non-qualified annuities are funded with after-tax dollars, but payments are still taxed because of the annuity's investment growth. Tax on payments is based on your principal, the length of time the annuity has grown, its interest earnings, and your life expectancy.[12]

12. https://www.nerdwallet.com/article/insurance/hybrid-long-term-care-insurance as of 10/13/2024

What about Medicare? Is Long-Term Care Covered?

Some people wrongly assume they can rely on Medicare to cover their long-term care costs. While Medicare can cover short-term stays in skilled nursing facilities, it does not cover the cost of help with daily living activities for extended periods of time.[13]

As of 2025, Medicare Part A provides coverage for skilled nursing facility (SNF) care under specific conditions. To qualify, a beneficiary must have a prior inpatient hospital stay of at least three days. Once this requirement is met, Medicare covers the full cost for the first 20 days of SNF care within each benefit period. For days 21 through 100, beneficiaries are responsible for a daily coinsurance amount of **$209.50**. After 100 days, Medicare coverage ceases, and the beneficiary is responsible for all subsequent costs.[14]

Since Medicare won't necessarily cover long-term care costs, some people may look to **Medicaid**. And while Medicaid will cover a large portion of long-term care costs, there are strict functional and financial requirements to qualify. To start with, applicants must either be 65 or older, have a permanent disability, or be blind.[15]

As of 2025, Medicaid's financial eligibility criteria for long-term care services vary by state, with most states setting an individual asset limit of **$2,000**. However, exceptions exist; for instance, Illinois allows up to **$17,500** in assets, while California has no asset limit for Medicaid Long Term Care. Certain assets, such as one's primary residence, may be exempt from these limits, depending on state-specific rules. For example, many states exempt home equity up to a certain value, which can vary annually.[16, 17]

Veterans Benefit:

There is long-term care cost aid for veterans who served at least 90 days, with at least one day during wartime. The VA system also offers additional longterm care coverage for those who require help with activities of daily living. Aid and Attendance (A&A) is the additional pension that is offered to Veterans requiring further assistance and is a VA benefit that can help you cut back on your long-term care expenses if you qualify.[18]

As of 2025, the Veterans Health Administration (VHA) operates the largest integrated health care system in the United States, providing care to over 9.1 million enrolled Veterans across 1,380 health care facilities, including 170 VA Medical Centers and 1,193 outpatient sites of varying complexity.[19]

13. https://www.theseniorlist.com/insurance/long-term-care as of 12/17/2024
14. https://www.barrons.com/articles/retirees-face-sticker-shock-on-healthcare-costs-if-they-dont-prepare-45edec23 as of 8/15/2024
15. https://www.usa.gov/medicaid-chip-insurance as of 1/7/2025
16. https://www.medicaidlongtermcare.org/eligibility/by-state as of 12/10/2024
17. https://www.medicaidplanningassistance.org/medicaid-eligibility-2025 as of 11/18/2024
18. https://www.va.gov/pension/aid-attendance-housebound as of 4/17/2024
19. https://www.va.gov/health/aboutVHA.asp as of 9/12/2024

Paying with a Retirement Account:

If the biggest chunk of your nest egg is in a qualified retirement plan like a 401(k) or IRA, you may consider using those funds to pay for long-term care.

Consider that the money you withdraw from a traditional 401(k) or IRA is taxable. Unfortunately, paying for long-term care costs with a retirement account can trigger a larger tax burden and drain your account faster than you might have planned. This can also have a negative impact on your estate plan if you want to pass on your retirement accounts to your loved ones. One option is to convert to a Roth account. Withdrawals from a Roth account are not taxed because tax is paid on contributions. With a Roth account, you will at least not have to worry about triggering a high tax bill in the future if you ever need to withdraw large amounts of money to pay for long-term care.

Planning is the Answer:

There's no obvious one-size-fits-all answer for covering long-term care costs, which is why it's important to seek out professional advice tailored to your unique personal and financial situation. What is obvious is that today's retirees need a plan and shouldn't assume they will never need long-term care.

It's important to figure out how to cover yourself and your spouse, protect your savings, anticipate your tax burden, and navigate the complexity of Medicare and Medicaid. At Asset Strategy, we help retirees and pre-retirees decide how they can best pay for long-term care in the future, should they need it. The most important thing you can do is resolve to address the issue of these costs before you need long-term care.

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This is for informational purposes only, does not represent legal or tax advice does not indicate suitability for any particular investor, and does not constitute an offer to purchase or sell investments. Please consult the appropriate professional regarding your individual circumstance.

LTC Annuities are annuities with a long-term care rider. These hybrid long-term care insurance products, like traditional deferred annuities, provide future payments based on an initial lump-sum investment. Long-term care annuity benefits are a pool of money with a monthly benefit cap. Annuities grow with interest and a long-term care annuity can either be fixed or variable.

Fixed Annuities are long-term insurance contacts and there is a surrender charge imposed generally during the first 5 to 7 years that you own the annuity contract. Withdrawals prior to age 59-1/2 may result in a 10% IRS tax penalty, in addition to any ordinary income tax. Any guarantees of the annuity are backed by the financial strength of the underlying insurance company.

There are retirement account risks that could diminish investor returns, such as, but not limited to: low-interest rates, market volatility, withdrawal timing and sequence of returns risk, government policy uncertainty, and increased longevity. Prospective investors should perform their own due diligence carefully and review the “Risk Factors” section of any prospectus, private placement memorandum or offering circular before considering any investment.

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The right strategies depend on the individual, their market risk tolerance, and income needs. We can help you create a plan to help protect what you’ve earned and seek to create reliable income in retirement.

Schedule a complimentary meeting with us to discuss your concerns and potential solutions.

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