Most Seniors Will Need Long-Term Care. Here’s How to Save for It.

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Less than 4% of Americans have long-term care insurance, according to LIMRA. DREAMSTIME.COM

Imagine you knew that 80% of the homes in your neighborhood would eventually suffer damage in a storm—but less than 4% of them had insurance that would protect them against a potentially catastrophic expense.

This lopsided risk scenario is similar to how unprepared Americans are when it comes to long-term care. A 2021 report by the Center for Retirement Research at Boston College found that around 80% of 65-year-olds will need some measure of long-term care and support services in their later years.

Yet only 3.1% of Americans have a long-term care insurance policy, according to LIMRA, a trade group. The policies are expensive, and seniors are unsure if they will need it. “It’s a little bit amorphous—it’s not a sure thing,” says Dana Levit, a certified financial planner with Paragon Financial Advisors in Newton, Mass. “It’s hard to convince people now to save for this huge expense. They’ll push that one down the road.”

Levit says some of her clients have had a parent or friend experience a long-term-care need and are concerned they’ll go through the same thing. “They want to be prepared financially,” she says, but it “translates into anxiety, not necessarily into action.”

Part of the wariness stems from the sometimes fraught history of long-term care insurance. Insurers frequently underpriced it in the past, and purchasers were often hit with big premium increases. Nowadays, many seniors are instead opting for hybrid policies that allow them to combine long-term care with a life insurance policy. But like traditional policies, they typically come with substantial exclusions periods” during which the policyholder must pick up the bill before the insurance kicks in.

How should retirement savers—who don’t want to be locked into a long-term-care-insurance policy—approach the uncomfortable prospect of having to fund long term care?

Getting to a Number

“A lot of clients are surprised about the cost because they think Medicare covers most long-term care needs, but in reality it just covers a short-term stay if they’re admitted to the hospital,” says Commie Stevens, head of wealth planning at Beacon Pointe.

In creating a plan with her clients, Stevens’ conversations focus on a few key questions: Will it be possible to age in place? Can modifications be made at home to make that feasible? Can someone provide care at home, whether that’s a family member or outside help? What’s the typical cost of care where they live?

“Aging in place can be less expensive, especially if they don’t need 24-hour care,” Stevens says. Even if someone needs help with daily activities, it may not require someone with a nursing background–they may just need help shopping for groceries.

“We come up with some estimates, but it’s just our best guess. We don’t really know if someone will need the care,” Stevens says.

A good place to start, Stevens says, is Genworth’s Cost of Care survey, a tool that lets users calculate the cost of various levels of care in their area. According to its most recent survey from 2021, the national median cost of an in-home health aide is about $5,100 a month, while an assisted living facility is $4,500 a month. The median cost of a nursing home for one year is nearly $100,000. Higher cost-of-living areas in the U.S. will exceed those amounts.

If you have a fairly robust retirement plan, Christine Benz, Morningstar's director of retirement planning, suggests earmarking $200,000 if you're single, and $400,000 if you're part of a married couple to fund two years of expenses that could include a nursing home stay.

Consider a Health Savings Account

HSAs, which are paired with a high-deductible health plan, let you set aside pretax money for qualified medical costs, which would include everything from dental care to a home health aide. Many employers offer HSAs to employees; for those who don't have access through a workplace plan, brokerages like Fidelity and Schwab offer them too.

Financial planners like them because they come with a triple tax advantage: owners don't have to pay tax on contributions, investment earnings, or withdrawals used to pay for medical expenses.

"If you want to self-insure to a certain extent and have maximum flexibility, and you're in the [mass affluent] middle group of people for whom it makes sense to be thinking about this, then the HSA is your default option—and likely going to be your very best," says Peter Disch, founder of Great Point Wealth Advisors.

Tapping Into Home Equity

If "there aren't enough resources from investments and savings, and there's no long term care policy, the home is the primary asset retirees should look at," Stevens says.

Selling your home and either downsizing or moving into an assisted living facility are ways to fund long-term care. So is relocating to a lower cost-of-living area: A 2023 Vanguard study found that the median homeowner age 60 or older who moved to a less expensive housing market in 2019 extracted $99,000 in home equity.

A reverse mortgage—which lets you live in your home for the remainder of your life and access the home's equity—is an option for those 62 or older who've built up equity in their home and want to age in place. "And you'd have to believe you're staying in the home for at least three years, says Stevens.