30 October 2024, 5:37PM UTC
Chief Investment Office GWM
Investment Research

Long-term care costs and solutions

Modern retirement monthly

Authors: Daniel J. Scansaroli, Head of Portfolio Strategy & UBS Wealth Way Solutions, CIO Americas, UBS Financial Services Inc. (UBS FS); Ainsley Carbone, Total Wealth Strategist, CIO Americas, UBS Financial Services Inc. (UBS FS); Jeff LeForge, Senior Portfolio Strategist, CIO Americas, UBS Financial Services Inc. (UBS FS); Justin Waring, Investment Strategist, CIO Americas, UBS Financial Services Inc. (UBS FS); Katie Williams, Wealth Way Discovery Strategist, CIO Americas, UBS Financial Services Inc. (UBS FS)

- In order to enhance planning for long-term care (LTC) expenses, we created an analysis to simulate usage of LTC services in retirement.
- Nearly 85% of households will utilize LTC expenses at some point in retirement.
- Actual expense levels are highly uncertain. Most families will face total LTC expenses of $100,000 or less, but 37% will have expenses exceeding $500,000.
- Self-funding the worst 25% of outcomes is impractical for most households.
- A comprehensive financial plan is the best way to understand the impact that potential LTC costs could have on the longevity of your retirement assets, and it can help to identify the most suitable funding strategy for your family's situation.

What is long-term care?

Long-term care services assist you with personal care as you age.

Most long-term care (LTC) services help you with the basic tasks of everyday living, but some LTC includes medical care.

Health care professionals use the term "activities of daily living" (ADL) as a way to systematically monitor your ability to perform self-care activities. You can think about ADL as the activities you normally need to do every morning after waking: getting out of bed, bathing, dressing, eating, and using the bathroom. Your ability or inability to perform these activities provides a gauge of your functional status and whether you need assistance on an ongoing basis.

Table 1 - "Activities of Daily Living" (ADL)

Activity	Description
Eating	You may have trouble preparing meals, following an adequate diet, or even feeding yourself without assistance.
Bathing	You may struggle to thoroughly bathe yourself.
Dressing	You may need help dressing and undressing completely and may struggle to fasten garments or tie shoes.
Toileting	You may require assistance moving to and from the restroom.
Continence	You may need assistance monitoring these functions.
Transferring	You may need help standing or moving in and out of beds and chairs.

Source: U.S. Department of Health and Human Services, UBS

Questions to consider as you begin planning for potential LTC costs:

- Have you or a loved one ever experienced the need for assistance with daily living activities?
- What type of care environment do you envision for yourself in the future?

What do LTC services include?

In this report, we focus on the three main types of LTC that you are most likely to use: home health aides, assisted living facilities, and nursing home facilities.

1. **Home health aides** provide private home-based care and help with activities of daily living, like bathing, cooking, and transportation. Some states allow aides to give medication, check vital signs, and perform other health-related services, but home health aides are generally not medical professionals.
2. **Assisted living facilities** generally provide personal care support for activities of daily living, like meal preparation, bathing, and transportation. In addition to ADL assistance, assisted living facilities will typically help to coordinate care with outside health care providers. They offer varied living arrangements, including stand-alone homes and individual apartments in some facilities.
3. **Nursing home facilities** cater to people that need continual medical care and have significant ADL limitations. Nursing homes offer the most extensive non-hospital care available for the elderly, and typically have physical, occupational, and respiratory therapists on staff. Patients commonly move into nursing home care from assisted living (and then frequently back to assisted living) as their needs change.

When you're developing your plan for LTC, keep in mind that many people prefer to live at home as long as possible. Additionally, it is common to receive at least some LTC from unpaid caregivers, like spouses or adult children, but the UBS Investor Watch survey also found that most people do not want to rely on their children for daily care.

Questions to consider as you begin planning for potential LTC costs:

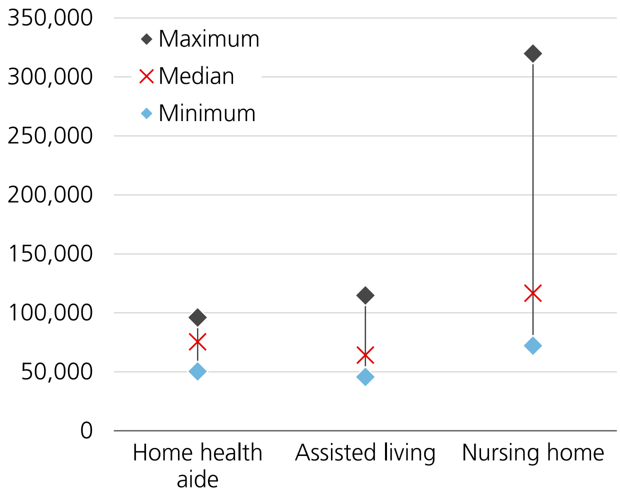
- Which type of long-term care service do you feel aligns best with your lifestyle and preferences?
- Are there specific services you would prioritize when considering long-term care options?

How much do LTC services cost?

Based on nationwide monthly median costs, assisted living facilities cost $5,350, home health aides cost $6,292, and nursing home facilities cost $9,201. However, costs vary dramatically based on the types of service and the location in which they are provided. For example, a year in a nursing home costs approximately $72,000 in Texas, but $173,000 in New York[1].

Figure 1 - The cost of LTC can vary drastically based on the type and location of care

Maximum, median, and minimum annual costs by type of care across the United States in 2023



Source: UBS, Genworth Cost of Care Survey 2023.

Annual cost growth over the past 10 years (2014-2023) has been as follows:

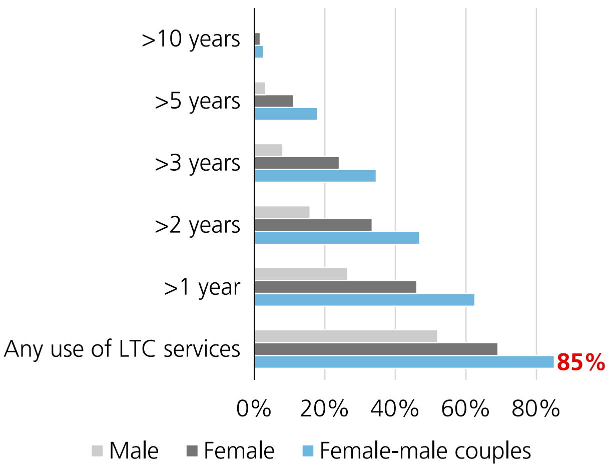
- Home health aide: 5.4%
- Assisted living facility: 4.5%
- Nursing home facility: 3.4%

For comparison, inflation in the US increased by 2.8% annually over the same period. Based on our estimate that inflation will return to 2.4% over the long term, we used the following estimates for future LTC inflation in our analysis in this report:

- Home health aide: 5.0%
- Assisted living facility: 4.1%
- Nursing home facility: 3.0%.

Figure 2 - About 85% of households with a 65-year-old couple today will use some form of long-term care over their lifetime

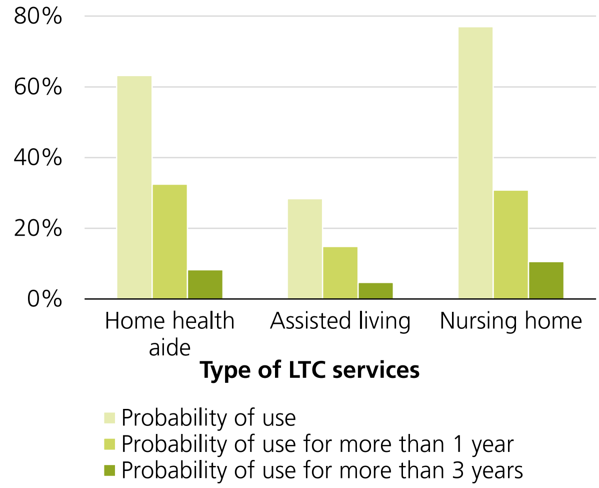
Probability of using any type of long-term care for various durations



Source: UBS.

Figure 3 - A 65-year-old couple has a 77% chance of at least one member using a nursing home

Probability of at least one member using various types of care



Source: UBS.

Questions to consider as you begin planning for potential LTC costs:

- How do you feel about the potential costs associated with long-term care?
- Have you considered how these costs might affect your financial plans?

Questions to consider as you begin planning for potential LTC costs:

- What are your initial thoughts on the importance of planning for long-term care?
- How do you perceive the role of LTC in your overall retirement strategy?

Will you need LTC services?

The simple answer is **yes** (probably). While it's difficult to imagine and to acknowledge the reality, our findings indicate that about 85% of couples will use at least one LTC service before they pass away[2,3] (see Fig. 2).

Based on our analysis, men and women have a 43% and 60% probability, respectively, of ever using a nursing home. More important, there is a 77% likelihood that at least one member of a 65-year-old couple will need to use a nursing home for some period of time (see Fig. 3).

It may surprise you to learn that nursing home visits are rarely final: Approximately 77% of people who go into a nursing home return to the community, typically with a home health aide or by moving into assisted living. Accordingly, financial plans should incorporate the possibility of either returning home or moving to an assisted living facility. Since most families sell their home when they move to assisted living, we have assumed that once individuals use assisted living, they will not return home. They will either remain in assisted living, move to a nursing home, or eventually pass away.

How much will LTC cost you?

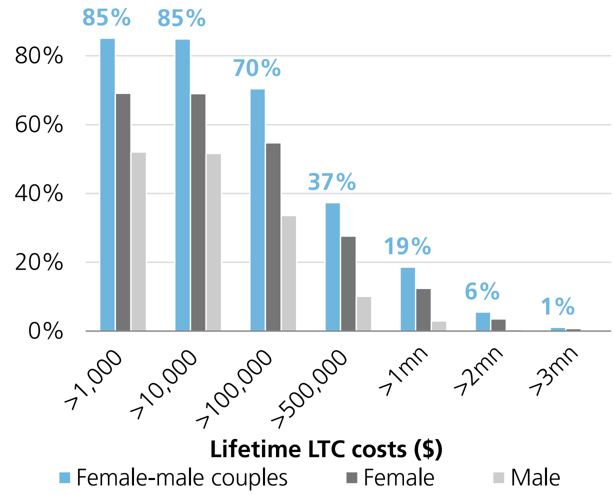
Long-term care can be difficult to plan for because the actual level of expenses incurred is uncertain. Long-term care expenses follow a power law distribution, which might sound technical but is just the 80/20 rule.

Anecdotally, we find that many investors either downplay the costs of LTC or exaggerate the likelihood of needing it. Those that downplay LTC tell us that they intend to stay healthy and avoid the expense. Alternatively, we find that investors who have witnessed family members who experienced worst-case LTC outcomes assume that they will also need years of care that will deplete the majority of their estate.

In reality, although you are likely to need LTC services, you are unlikely to experience devastating LTC expenses. About 15% of female-male households will have no LTC expenses at all, and our analysis indicates that the median 65-year-old couple will incur approximately $323,000 in LTC expenses during their lifetimes. However, and this is a big however, roughly 37% of families will incur expenses of more than $500,000, and 19% of families will incur expenses greater than $1mn (see Fig. 4). Therein lies the challenge.

Figure 4 - Roughly 37% of couples at age 65 today will spend more than $500,000 on LTC during their lifetime

Probability that long-term care (LTC) spending will exceed each specified amount, in %



Source: UBS.

Self-funding the worst 25% of outcomes, which results in roughly $0.75-4.00mn of expenses, is impractical for the vast majority of American households. The functional equivalent would be trying to self-fund rebuilding your house after a fire instead of holding insurance to cover the cost.

Will LTC disrupt your retirement plan?

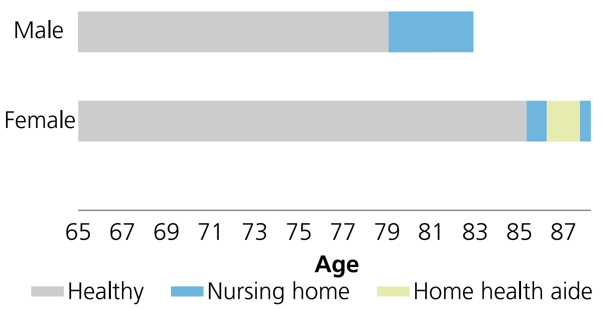
Our results indicate that LTC expenses can cause failure in otherwise well-considered financial plans. We created 1,000 simulated trials of LTC expenses for a 65-year-old couple. The trials reflected a statistically accurate range of possible LTC expenses starting at age 65.

Some trials experienced no LTC expenses and therefore didn't affect the plan. A few trials led to very high expenses, and the rest were somewhere in the middle.

Figure 5 illustrates the LTC experience for two of the individuals in our simulation. The male in this trial remains healthy until age 80, goes into a nursing home for 24 months, and then passes away. The female remains healthy until age 85, experiences a short stay in a nursing home, returns home with a home health aide, returns briefly to a nursing home, and then passes away.

Figure 5 - Timelines for two illustrative care-state simulations

Care-state based on age for two of our simulations



Source: UBS.

After overlaying[4] the LTC expenses on otherwise successful financial plans, we found that financial plans failed (defined as depleting the entire portfolio) 30% of the time for $1mn households, 14% of the time for $5mn households, and 13% of the time for $10mn households (see Fig. 6).

Based on this analysis, we can conclusively say that LTC expenses can ruin an otherwise well-considered financial plan for households under $10mn net worth.

Figure 6 - For $1mn households, 30% of otherwise-successful financial plans failed after including long-term care expenses

Failure rates due to long-term care expenses, initial portfolio value in $ millions

Initial portfolio value	Female	Male	Female-male households
1mn	20%	8%	**30%**
2mn	14%	6%	20%
3mn	12%	6%	16%
4mn	11%	5%	15%
5mn	11%	5%	14%
6mn	10%	5%	14%
7mn	10%	5%	14%
8mn	10%	5%	14%
9mn	10%	5%	14%
10mn	10%	5%	13%

Source: UBS. Portfolio return assumptions are based on UBS's Moderate taxable strategic asset allocations (SAAs) without non-traditional assets.

Questions to consider as you begin planning for potential LTC costs:

- What steps have you taken to prepare for potential long-term care needs?
- If you have an existing LTC policy, do you know the coverage details?

Does insurance help?

LTC insurance can help to reduce financial plan failures stemming from LTC expenses, but it isn't designed to protect investors against worst-case scenarios. Think about a typical insurance product like homeowner's insurance. The policy is generally set up so the purchaser of the policy is responsible for a small portion of the loss (known as the deductible), while the insurance company covers the remainder of the loss. If your house burns down, you might have a $10,000 deductible, but the insurance company would cover losses above that level.

Ideally, an LTC policy would also have a reasonable deductible and cover expenses above that amount. For instance, a household might choose a policy where they pay the first $10,000 of LTC expenses per year and the insurance company would cover any amount above that number. Such a policy would add a lot of certainty to planning. However, there are no LTC policies that use that structure. Instead, policies are generally structured with low or no deductibles and also with caps on annual and lifetime coverage.

In general, there are three types of LTC insurance policies that households can use to help hedge the risk of incurring LTC costs:

1. **Traditional long-term care insurance policies** generally allow the purchaser to customize benefits (amount, period, inflation, deductible) based on their needs. Premiums are typically paid monthly, quarterly, semiannually, or annually. One significant and notable drawback is that premiums can be subject to rate increases.
2. **Hybrid long-term care insurance policies** provide long-term care coverage and include a death benefit. The premium is commonly paid upfront in full, or in a series of fixed installments. If long-term care is never used, the beneficiary's estate usually receives a death benefit equal to the purchase price of the policy when the insured dies.
3. **Permanent insurance policies with a long-term care insurance rider** focus on providing the insured individual with a larger death benefit as does a traditional life insurance policy. However, they also provide a small rider that covers long-term care expenses.

Another approach to planning for potential long-term care costs is an annuity. Some annuities are specifically designed for this purpose, offering features like long-term care riders, which increase payouts if you need care. This can help protect your savings and ensure you have the financial resources to cover a portion of your care costs without depleting your assets.

Questions to consider as you begin planning for potential LTC costs:

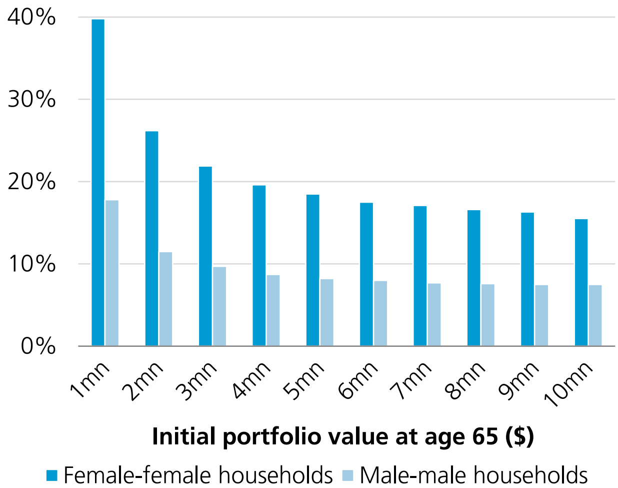
- Have you explored different insurance options for long-term care?
- What factors would influence your decision to purchase long-term care insurance?

A note on same-sex households

Same-sex couples represent a small but growing (64% growth between 2005 and 2022) segment of households in the United States.[5] Male-male couples have a lower usage rate for LTC services than female-male couples, and female-female couples are at particular risk owing to longer life expectancies and higher expected LTC usage (see Fig. 7).

Figure 7 - Female same-sex households are at particular risk

Failure rate in otherwise-successful financial plans due to long-term care expenses, initial portfolio value in $ millions



Source: UBS.

Medicare and LTC

If skilled nursing home care (i.e., care that can only be provided by a registered nurse or doctor) is needed, Medicare covers the cost, but only for a limited time and with certain restrictions. For instance, Medicare covers up to 100 days of skilled nursing care if the patient enters the nursing facility within 30 days of a hospital stay that lasted at least three days. However, 100% coverage is only provided for the first 20 days, at which point the patient is responsible for a daily copay that might be covered by a Medigap policy.

We did not attempt to model Medicare coverage into our analysis for a couple of reasons. First, we don't have a framework for identifying nursing home stays that would meet the qualifications of Medicare coverage.

Second, and more important, we did not have any instances where success or failure in a particular trial was predicated on three months of nursing home expenses. Some families will bequeath slightly more wealth than our analysis predicts due to Medicare picking up a portion of the tab for nursing home expenses. Other families will deplete their assets slightly less quickly than we predict, but the gap between success and failure is unlikely to be bridged by Medicare coverage.

A note on hybrid long-term care insurance policies

Hybrid long-term care insurance policies are one popular solution, allowing you to meet your long-term care insurance and life insurance needs by offering the following elements:

- **Long-term care benefits:** If you need long-term care, the policy will pay for it, up to the policy's limit. Long-term care spending/reimbursements are generally deducted from the death benefit. Reimbursements are generally not subject to income taxes.
- **Death benefit:** If you don't use the policy for long-term care, your beneficiaries will receive the full death benefit when you die. If you do use the policy for long-term care, your beneficiaries will receive the remaining amount. Death benefits are generally not subject to income taxes, but they may be subject to estate taxes if the policy is included in your taxable estate at death.
- **Return of premium:** Some policies will return your premiums if you never need long-term care and you decide to cancel the policy.

Here are a few of the advantages of combining your LTC and life insurance policies:

- **Guaranteed Benefits:** With a hybrid policy, you are guaranteed to receive benefits, whether you need long-term care or not. If you don't use the long-term care benefit, the death benefit will be paid out to your beneficiaries. By contrast, with standalone long-term care insurance, you will lose the premiums paid if you never need the care.
- **Asset Protection:** Hybrid policies can help protect your assets. The cost of long-term care can be significant and can quickly deplete your savings. A hybrid policy can help cover these costs and protect your assets for your beneficiaries.
- **Premium Stability:** Unlike traditional long-term care insurance, hybrid policies often have fixed premiums that do not increase over time. This can provide more certainty and stability in your financial plan, allowing you to dedicate more of your portfolio for growing wealth.
- **Simplicity:** Managing one policy is simpler than managing two. You only have one premium to pay, one set of paperwork, and one company to deal with.

When considering a hybrid policy solution, here are some considerations to keep in mind:

- **Limited coverage:** The long-term care benefit of a hybrid policy may not be as comprehensive as the coverage offered by standalone LTC insurance.
- **Less flexibility:** It may be more difficult or expensive to adjust your coverage if your needs change — for example, you may not be able to increase your coverage without purchasing an additional policy (which may be more expensive than your original policy).
- **Surrender charges:** If you choose to cancel your policy, you may need to pay a surrender charge. You must generally hold the policy for a certain number of years in order to avoid this charge and/or take advantage of any "return of premium" feature.

You should always discuss your options with your financial advisor to make sure that your decision is appropriate for your personal circumstances. Please see the "Options to consider when planning for long-term care (LTC) expenses" section to learn more about your choices.

Conclusion

The uncertainty around future long-term care expenses can create financial fragility for some families in retirement and there's no single funding strategy that is going to be appropriate for every household.

While LTC insurance can help to address the uncertainty of costs, it isn't designed to protect families against worst-case scenarios.

Self-insuring by using liquid assets to pay for LTC expenses provides you with more control of the assets and allows for growth potential if you choose to invest the funds, but it is impractical for most households to self-insure against the worst-case outcomes.

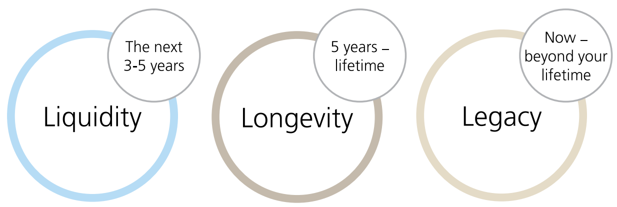
Building a comprehensive financial plan will be the best way to understand the impact that potential LTC costs could have on the longevity of your retirement assets, and it will help you to identify the most suitable funding strategy for your family's unique situation.

The Liquidity. Longevity. Legacy. framework is a helpful way to frame your funding strategy decision, as well as incorporate its impact on your investment strategy and financial plan.

In general, buying LTC insurance will allow you to have more confidence about the size and timing of outflows to meet your lifetime spending needs (the Liquidity strategy and the Longevity strategy).

In turn, this can give you the ability and the confidence to set aside more funds in your Legacy strategy—assets that can be earmarked for needs that go beyond your own lifetime—where they can be invested in strategies that aim to maximize the growth of assets for inheritance or philanthropy.

The Liquidity. Longevity. Legacy. framework



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Questions to consider as you begin planning for potential LTC costs:

- What are your biggest concerns regarding long-term care planning?
- Would you like assistance in developing a comprehensive plan for long-term care?

Key findings

1. Most couples will utilize some type of LTC service after the age of 65.
2. The median lifetime LTC expense for a healthy 65-year-old couple today will be approximately $323,000 but some households will experience much higher lifetime expenses.
3. Excluding LTC in a retirement plan can result in significantly overestimating the likely success of the plan.
4. Women, in particular, need to develop clear plans for handling LTC expenses.
5. LTC insurance products can help reduce, but not eliminate, the planning risk from LTC expenses.

Next steps

As a starting point for estimating the potential cost of your LTC needs, consider the following questions and discuss them with your family and your financial advisor:

1. If you need care, would you prefer to remain in your home?
2. If at home, who would provide the care?
3. If care is needed, what resources would you use to cover the costs (e.g., self-funding, Health Savings Account, long-term care insurance, etc.)?

Options to consider when planning for long-term care (LTC) expenses

Option	Description	Benefits	Considerations
Self-insure	Utilize liquid assets to pay for LTC expenses	If LTC is not needed, money will be saved from not purchasing one of the other options	Difficult to exercise self-control and save Uncertainty of returns
Traditional long-term care insurance policy	Benefits are selected at the onset of the policy and can be designed for both current and future needs	Premiums are guaranteed renewable Flexibility with premiums: monthly, quarterly, etc. Policy can be custom-tailored to suit needs Spousal shared benefits and inflation riders may be available	Premiums may be subject to periodic rate increases Premiums for unused benefits are gone: If you don't use it, you lose it Full underwriting process
Hybrid long-term care insurance policy	Provides LTC benefits for qualifying claims, and a smaller life insurance benefit if the LTC benefits are not used	Includes a death benefit Return-of-premium provision Premium is fixed	Significant upfront premium Death benefit reduced dollar-for-dollar when LTC policy is engaged Smaller LTC pool compared to a traditional LTC policy
Permanent insurance policy with a long-term care insurance rider	A life insurance policy that provides a death benefit, as well as a LTC benefit rider attached to the policy for an additional fee	Can provide a large death benefit Cost-effective if the individual has both LTC needs and life insurance needs	Can be an expensive policy if the individual has no life insurance need Full underwriting process Payouts for services are often more limited than in LTC polices
Fixed annuity with a long-term care insurance rider	LTC insurance coverage within a fixed annuity	Less stringent underwriting process: no medical exam Can provide 2 or 3 times the purchase payment for LTC Open for 1035 exchange from current annuities and life insurance	Smaller LTC pool compared to a traditional LTC policy
Health savings account (HSA)	Acts like a 401(k) and a checking account combined to use for qualified medical expenses	Tax-free withdrawals if used for qualified medical expenses Contributions made through payroll deposits (through employer) are typically made with pre-tax dollars Earnings are tax-free	Contribution limits To be eligible, the individual must be enrolled in a special health insurance plan called a qualified high-deductible health plan

Source: UBS

Endnotes

1. Genworth, "Cost of Care Survey 2023," March 2024. https://pro.genworth.com/riiproweb/productinfo/pdf/131168.pdf
2. For a detailed explanation of our methodology, see: Crook, Michael W. and Sutedja, Ronald, Will Long Term Care Ruin Retirement Plans?, July 2016. Available at SSRN: http://ssrn.com/abstract=2813771
3. Leora Friedberg, Wenliang Hou, Wei Sun, Anthony Webb, and Zhenyu Li, New Evidence on the Risk of Requiring Long-Term Care, Center for Retirement Research at Boston College, October 2015.
4. M. Barton Waring and Laurence B. Siegel, "The Only Spending Rule Article You Will Ever Need," Financial Analysts Journal, Volume 71, No. 1, January/February 2015, pp.91-107.
5. U.S. Census Bureau, 2005 through 2022 American Community Survey 1-year data files

Appendix

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Version C/2024. CIO82652744