

PLANNING FOR LONG-TERM CARE COSTS

(Originally Published in March 2026 Monthly Commentary)

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"Are you or a loved one planning for or thinking about long-term care? This article written by Steve McCarthy discusses the nuances of not only finding long-term care but also funding it."

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.



Many of our clients have already experienced the need for long-term costs with their parents. Planning for the potential need for long-term care costs is an important consideration in ensuring for a financially comfortable retirement. Long-term care refers to a range of services that help meet both the medical and non-medical needs of people with chronic illnesses or disabilities who are unable to care for themselves over an extended period.



The Likelihood of Needing Care: A recent research report from the Department of Health and Human Services estimates that 56% of Americans turning 65 are likely to develop a condition requiring long-term care. On average, a man will need it for about two years, and a woman will need it for about three years. About 20% of people over age 65 will need it for five years or more.

Most older Americans have done little to no planning for their own long-term care needs, according to a survey by the Kaiser Family Foundation. Part of the reason for this may be the misconception that Medicare will cover long-term care costs. Medicare only covers short-term skilled care in a nursing home or at home. Medicaid, which is the largest single payer of long-term-care costs in the United States, does cover long-term care costs. To qualify for coverage, though, Medicaid imposes strict income and asset limits on individuals who rely on it.

Funding Long-term Care Costs: Long-term care costs are expensive. Assisted living can cost \$5,000 to \$10,000 per month. Nursing homes can cost \$100,000 per year or more. If you're living at home, a personal care aide these days is \$30 to \$35 an hour, times how many hours of care you need. It could get very expensive, very quickly. Then the question is how do you pay for it?

As displayed on the J.P. Morgan chart below, the options to cover long-term care include care provided by family or friends, traditional long-term care insurance, a hybrid insurance policy or annuity with a long-term care component, or self-funding care from your savings. After exhausting these options, you may qualify for Medicaid if you deplete your assets.

Long-term care planning options

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Consider utilizing more than one option



Family & friends
Will you want to move closer?



Savings / expense reductions
Some expenses such as travel may go down



Insurance
Options: traditional long-term care insurance, combination life and annuity products, life insurance for a surviving spouse and deferred annuities for income late in life



Life plan communities
Often starts with independent living and offers additional services or facilities when needed. More information:
<https://www.mylifesite.net/>



Home equity
Second homes may be sold; the home equity in your primary residence may be used; credit availability and home value may fluctuate

Medicaid:

After exhausting other options

Rules to qualify vary by state but generally you must be low income with few assets to qualify¹



Start planning early

- Is it feasible to buy less insurance coverage and combine it with other solutions?
- Health Savings Accounts (HSAs) may be used tax free for qualified expenses in retirement.²
- Prefer care at home? Consider how you will remain socially connected.

¹If you transfer assets to others, there is a five-year "look back" where the government will recover the assets transferred if you go on Medicaid. This is not personal advice; consult an elder care attorney if you have questions.
²HSAs may be used to fund qualified traditional long-term care policy premiums up to certain limits. Necessary home improvements may qualify if they don't improve the value of your home. Services for chronically ill individuals who are unable to perform two or more activities of daily living or who have severe cognitive impairment may be qualified if they are part of a prescribed plan from a licensed practitioner. For a list of qualified expenses, see IRS Publication 502 or consult your tax professional; this is not meant to be personal tax advice.
Source: J.P. Morgan Asset Management, latest available data as of December 31, 2023.

Care from Family or Friends: It is estimated that more than two-thirds of older adults who require long-term care receive it from family and friends. While this can reduce financial costs, it often places a significant burden on caregivers—impacting their careers, finances, and physical and emotional well-being. It can also create tension within families, particularly when responsibilities are unevenly distributed.

Self-Insuring: For higher-net-worth individuals, self-insuring—paying for care out of pocket—may be a viable option. Our Retirement Analysis can help determine whether you have sufficient resources to cover potential long-term care costs. Typically, we run the Retirement Analysis until age 95. If long-term care is needed, a good portion of "basic living expenses" and some portion of healthcare expenses can be allocated toward long-term care costs.

Long-Term Care Insurance: Long-term care insurance can be an important way to cover part or all of long-term care costs. These policies aren't cheap, though, and insurance companies have been dramatically raising premiums in the last few years. One way to determine who is a good candidate to purchase long-term care insurance is based on the level of investable assets:

- Those with sufficient assets (perhaps \$3 million or more in invested assets) may be able to forgo taking out a policy and self-insure the risk.
- People with limited assets shouldn't purchase long-term care coverage if the premiums are not affordable. If they incur a lengthy need for long-term care, they are likely to deplete their assets and then have Medicaid cover the cost.
- Many people fall somewhere in the middle. They should be able to spend a certain amount of their personal savings on long-term care but could also benefit from a more limited policy to cover the remainder.

Our Services

Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services:

- Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:
 - Tax Return Preparation
 - Income Tax Projections
 - Tax Minimization Ideas
 - Tax Authority Representation

Other Services:

- MAM has retained several outside experts, whose services are available at no cost to our clients:
 - Medicare Planning— Eileen Hamm of Superior LTC Planning Services, Inc.
 - Long Term Care Planning— Allen Hamm of Superior LTC Planning Services, Inc.

If you decide to buy a policy, doing so while you are still in your early 60's will make it more affordable. In addition, buying while still in good health has become more important as insurers have tightened underwriting standards.

Traditional or Hybrid Policy? If you decide to purchase long-term care insurance, should you purchase a traditional (or "stand-alone") long-term care policy or a "hybrid" policy, which combines life insurance with a long-term care benefits rider. In recent years, hybrid policies have become very popular with consumers. In our December 2019 Monthly Commentary, Allen Hamm wrote an article comparing hybrid policies to traditional policies.

Life Plan Communities. These are also known as continuing-care retirement communities. These provide a whole continuum of care on one campus. This could include independent living, assisted living, memory care and nursing care. There are two models to pay for this care. One is the rental model. Most of the for-profit continuing-care communities do this. Essentially, you pay a monthly price, and you receive a certain level of care. The higher the level of care you require, the more you pay. The other model is sometimes called a buy-in model. What happens there is you pay a large amount of money upfront. Usually, people buy into these when they sell their home. You pay a significant amount upfront and then pay a relatively modest amount every month in rent. If you leave, either because you die or you choose to leave, within a reasonable amount of time, you may receive some of that initial payment back.

Services of Allen Hamm of Superior Long-Term Care: As many of you know, we pay an annual retainer to Allen Hamm of Superior Long-Term Care for Allen to create a Long-Term Care Plan for MAM clients who are interested. The Plan addresses how the client plans to cover long-term care costs from the four possible ways:

- Family members providing the care.
- Self-funding the costs out of assets.
- Government coverage via Medicaid (which entails first depleting your assets).
- Long-term care insurance.

As part of this process, Allen does offer long-term care insurance for those whom it makes sense to purchase insurance to cover part or all of their potential long-term care costs. In addition, if you can purchase long-term care insurance through work, he can evaluate whether that would be your best option. If you have not already done so, please let us know if you would like us to introduce you to Allen.