THE Wealth REPORT

Many Americans will need some type of caregiving assistance, whether it's from a home health aide, a family member or a nursing home. The challenge retirees face is how to pay for that care, regardless of who provides it.

PLANNING FOR LONG-TERM CARE COSTS

January 6, 2026

Key Takeaways:

- Plan ahead for care costs. Long-term care can cost six figures annually, but dedicated savings accounts, insurance options and family arrangements can help cover expenses without depleting all of your retirement funds.
- Don't rely solely on Medicare for long-term care. Medicare doesn't cover extended caregiving assistance, and Medicaid only kicks in after you've spent down your assets and met strict income requirements.
- Consider hybrid insurance solutions. Life insurance policies with long-term care riders provide flexibility, offering death benefits for heirs or living benefits for care expenses without paying for unused coverage.

Overview

Have you considered how the cost of paid caregiving services might impact your retirement savings? The longer we live, the more our minds and bodies can wear down. As a result, many people in their 80s and 90s need at least some help with things such as being driven places, going to medical appointments, monitoring medications, cleaning their house, preparing meals, paying bills and making financial decisions. And this assistance doesn't come cheap.

When it comes time to consider long-term care expenses, some people are surprised to learn that Medicare doesn't cover this type of assistance.[1] Medicaid offers coverage, but only after the beneficiary has spent down their assets and their regular income is below their state's threshold.[2] Even when retirees do meet the financial criteria, the average waitlist time for Medicaid home care assistance can take months to years.[3] So what can retirees do to make sure they receive the care they need — when they need it?

Establishing a Long-Term Care Fund

Research shows that long-term care could cost as much as six figures per year, and many retirees require it for multiple years.[4] For many people saving for retirement, that cost adds up to a serious chunk of their total net worth.

One strategy to cover the cost is to establish a long-term care fund that is separate from retirement savings accounts. This could be a dedicated Roth IRA or a health savings account (HSA). The purpose of this account is to invest it for continued growth, untapped, even as you spend down your retirement assets. Because this account is designated to be used only in the latter stages of life, this gives the investor a longer time frame to let their money grow.

If you end up not needing the money in the account, it could be designated as an inheritance for your family. Work with your financial advisor to make sure beneficiaries are set up correctly and to help avoid any tax surprises when the money moves to the next generation.

Long-Term Care Insurance

Long-term care insurance is meant to pay for the costs of extended health care in your later years. The challenge with long-term care insurance is that you could pay premiums for years and then pass away suddenly, without having the chance to use the policy. Another issue is that the covered individual may not receive full reimbursement for their caregiving expenses.

Long-term care insurance policies typically pay out a fixed amount, such as $100 per day, for nursing home, assisted living facility or home health aide fees. In addition, a policy may require a waiting period before coverage kicks in, during which time the insured must cover all costs.[5]

Fortunately, the insurance industry offers options to address this need. A hybrid life insurance/long-term care policy is designed to provide flexibility for the insured, combining retirement income benefits, a death benefit for heirs and the ability to use coverage as a living benefit to pay for long-term care assistance. That way, you don't pay for coverage you don't need, but it's available if you do.

Life insurance policies include long-term care coverage options through a variety of options, such as:

- A long-term care rider: Added to a whole or universal life insurance policy for an additional fee
- A terminal illness benefit: Pays out a portion of the policy's death benefit if the policy owner is diagnosed with a terminal illness or cognitive impairment
- Accelerated death benefits: Allow the insured to access a portion of the policy's death benefit to cover long-term caregiving expenses

One word of caution: An accelerated death benefit rider sold with a life insurance policy may raise your premium payments.[6] Some insurers, however, have begun to include long-term care benefits as a standard feature in response to the number of retirees seeking a long-term solution.

Annuity Income

An annuity isn't always the first thing that comes to mind when thinking about long-term care, but it can be used to help cover the cost. Some annuities offer a long-term care rider as an optional benefit (for an additional fee) that allows for withdrawals to cover long-term care expenses.[7]

A long-term care qualified annuity is a type of deferred fixed annuity designed to help pay for nursing home, assisted living, home health care, chronic illness and terminal illness expenses later in life. A few of its provisions might include:

- Crediting a certain amount of interest each year
- Generally providing two or three times the amount of the premium for long-term care payouts
- Typically, limiting the monthly payout and the number of months benefits will be paid
- Paying out initial distributions from the policy owner's account value
- Paying out enhanced long-term care coverage once the account value is depleted
- Typically, imposing a surrender charge on withdrawals during the first seven to 10 years

Family Caregiving

A growing percentage of the population is caring for aging parents. While it's easy to view family-based care as "free," there is a financial toll, particularly for the caregiver. This is especially true if the family member has to cut back on work or even pause their career altogether to provide care.

When planning for future care needs, one approach involves strategically using your assets to encourage family involvement. Consider using your resources to help an adult child purchase a home with an "in-law" suite or fund the construction of an accessory dwelling unit (ADU) on their property. These arrangements create living situations that work for everyone while you age in place near your family.

You could also gift funds to your adult child to help offset costs related to your care. In 2026, you can gift up to $19,000 per person each year without affecting your lifetime gift tax exemption ($15 million).[8] Married couples can give up to $38,000 annually to each child and grandchild.

This strategy keeps wealth within the family instead of paying institutional care facilities. You're essentially compensating family members for caregiving services while maintaining your independence and family connections.

If a family member agrees to live with you and provide care, explore sharing legal ownership of your home. Adding an adult child to the deed allows the property to transfer directly to them upon your death, bypassing probate.

These arrangements require careful planning and honest family discussions about expectations, responsibilities and boundaries. When structured properly, they can help provide security for you while creating financial benefits for the next generation.

Final Thoughts

We tend to spend much of our retirement planning efforts focused on income for a comfortable retirement lifestyle. However, retirement plans can fall short if we neglect to plan for what happens if our health fails or we need long-term care assistance.

It's difficult to plan for the unknown, but it's exactly what is required for a confident retirement, especially in your later years. Fortunately, you don't have to go it alone. Discuss your situation with an experienced financial professional who helps retirees face these challenges every day. Together, you can develop a financial, retirement and legacy plan that aims to meet your needs through your lifetime.

Sources

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[8] IRS. Oct. 9, 2025. “IRS releases tax inflation adjustments for tax year 2026, including amendments from the One, Big, Beautiful Bill.” https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2026-including-amendments-from-the-one-big-beautiful-bill. Accessed Dec. 5, 2025.

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