Long-term care costs and solutions

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Long-term care expenses can create fragility within financial plans.

Key points

- Many families may expect to incur long-term care (LTC) expenses at some point in retirement, but LTC costs are highly uncertain and variable.
- In this paper, we explore potential LTC expenses for families, and assess these costs' potential impact on retirees' financial plans using a simulation of potential market returns and LTC expenses. We also identify several options to consider when planning for LTC expenses.
- Families may benefit from consulting a financial advisor to understand the potential impact of LTC costs on their individual financial situation, and to identify a suitable funding strategy.

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What is long-term care?

Long-term care (LTC) services provide personal care and support for individuals as they age, with a focus on assistance with activities of daily living (ADLs) such as bathing, dressing, and eating.[1]

Table 1 - Activities of Daily Living (ADLs)

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: US Department of Health and Human Services, UBS

Questions to consider

- Has anyone in the family ever required assistance with daily living activities?
- What type of care environment would the family prefer in the future?

What do long-term care LTC services include?

This report focuses on three types of LTC solutions:

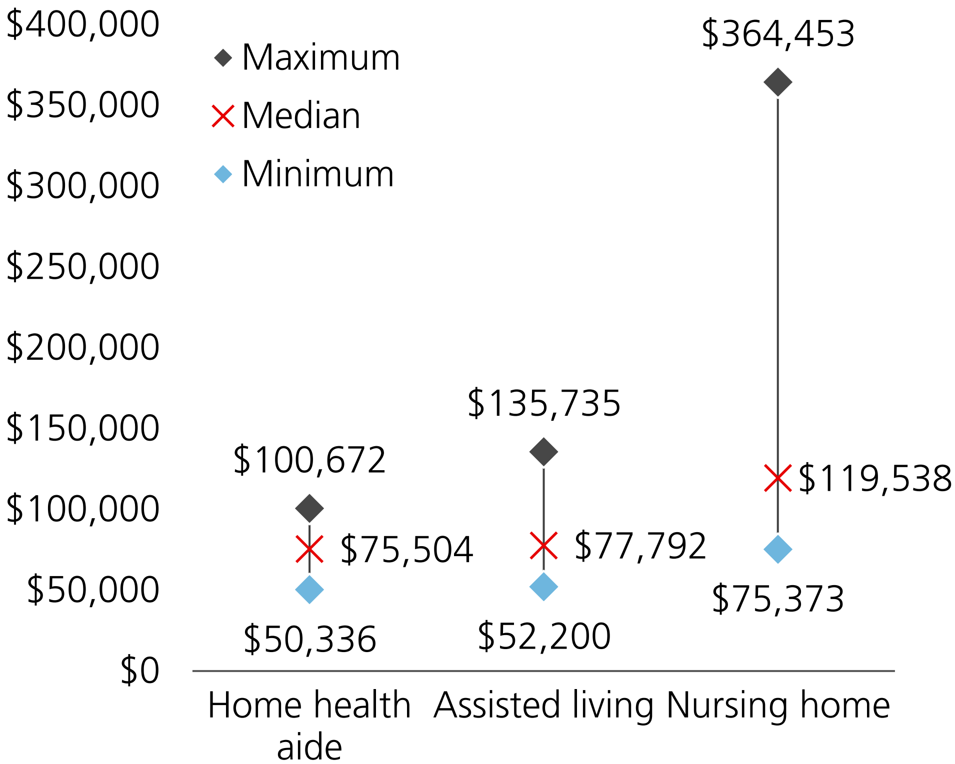
1. **Home health aides** provide care in the home and may assist with activities of daily living, such as bathing, cooking, and transportation. In some states, aides may administer medication or check vital signs, but they are generally not licensed medical professionals.
2. **Assisted living facilities** generally provide personal care support for activities of daily living, such as meal preparation, bathing, and transportation. In addition to ADL assistance, assisted living facilities may 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 individuals who may need continual medical care and have significant ADL limitations. Nursing homes offer extensive non-hospital care for the elderly and typically have physical, occupational, and respiratory therapists on staff. Patients may move into nursing home care from assisted living (and then sometimes back to assisted living) as their needs change.[2]

How much will LTC services cost?

Based on a 2024 Genworth/CareScout study of LTC costs, the median national cost of an in-home health aide is $75,504 per year versus $70,800 for an assisted living community and $119,538 for a nursing home facility. These costs vary dramatically based on location, however. For example, a year in a nursing home may cost approximately $75,373 in Texas, but $181,679 in New York, or $364,453 in Alaska.[2]

Figure 1 - LTC service costs vary significantly depending on location

Maximum, median, and minimum annual costs by type of care

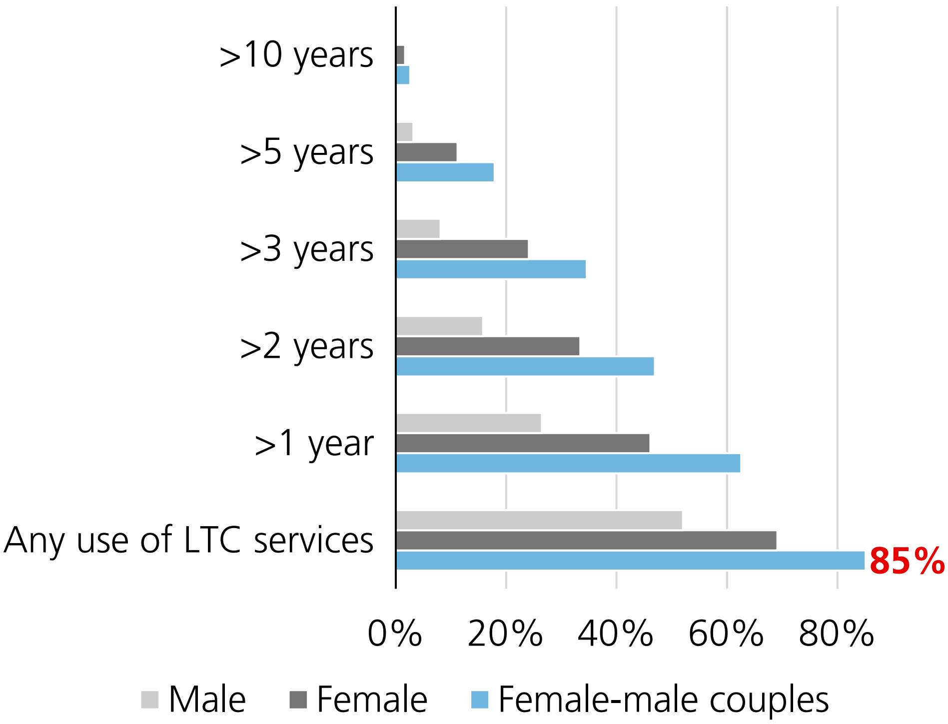


Source: UBS, Genworth/CareScout Cost of Care Survey 2024.

From 2014 to 2024, the Consumer Price Index for Urban Consumers (CPI-U)—a common measure of broad economic inflation—rose by **2.7%** per year, while the "Nursing Homes and Adult Day Services" component of this index grew at a **3.4%** annual pace, according to data from the Bureau of Labor Statistics. According to the Genworth/CareScout study series, there was an even higher inflation rate for individual LTC services over this period: **5.1%** for home health aide services, **4.9%** for assisted living facilities, and **3.4%** for nursing home facilities.[2]

UBS estimates that inflation will average **2.4%** annually over the long term, while health care costs will rise at a faster rate of **5.9%** per year. The latter estimate is informed in part by research from HealthView Services, a firm that specializes in health care cost projections.[3]

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, Crook & Sutedja

Questions to consider

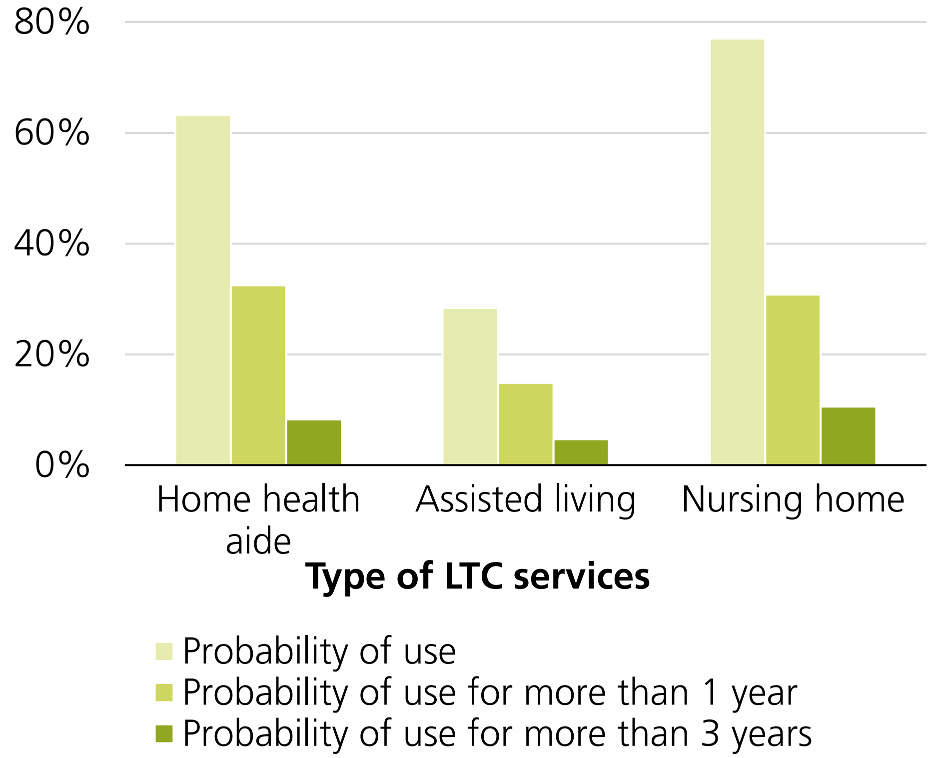
- How do family members feel about potential long-term care costs?
- Has the family considered how these costs might affect their financial plans?

Will families need LTC services?

The simple answer is that research suggests that a majority of families may require some form of LTC. While it is difficult to forecast with certainty, research suggests that about 85% of couples may use at least one LTC service before they pass away.[4]

Research also shows that men and women have a 43% and 60% probability, respectively, of ever using a nursing home; as a 65-year-old married couple, there is an estimated 77% likelihood that at least one spouse will require nursing home care at some point.[5]

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, Crook & Sutedja.

It may also be surprising to learn that research shows nursing home stays are rarely permanent. Approximately 77% of people who enter a nursing home may eventually return to the community, often with the support of a home health aide or by transitioning to assisted living.[5]

Accordingly, families may wish to consider the possibility of returning home or transitioning to assisted living following a nursing home stay.

Questions to consider

- What are the family's initial thoughts on the importance of planning for long-term care?
- How do family members perceive the role of LTC in their overall retirement strategy?

How much will LTC cost families?

When evaluating the need to plan for LTC services, families may wish to keep in mind that about 88% of Americans would prefer to receive living assistance at home or with loved ones, rather than moving into a senior community or nursing home.[6]

Without taking proactive steps to set aside resources to fund professional LTC services, the burden of providing care often falls to unpaid caregivers, such as spouses or adult children. These costs often fall upon women in the family, who may be expected to take on nurturing and caregiving roles for aging parents, sick spouses, or other relatives owing to traditional gender roles. As noted in a study by the Urban Institute, "women who provide care for children and adults who need it forgo an average of $295,000 in lifetime income."[7]

Long-term care expenses may be difficult to plan for because the actual level of expenses incurred is uncertain. Research shows that most families incur relatively modest LTC costs (or even none at all), while a minority of families experience extremely high LTC expenses (often due to prolonged or intensive care needs). As a result, LTC expenses tend to follow a power law distribution—sometimes described as the "80/20" rule—with 20% of families accounting for 80% of the total LTC spending.[4]

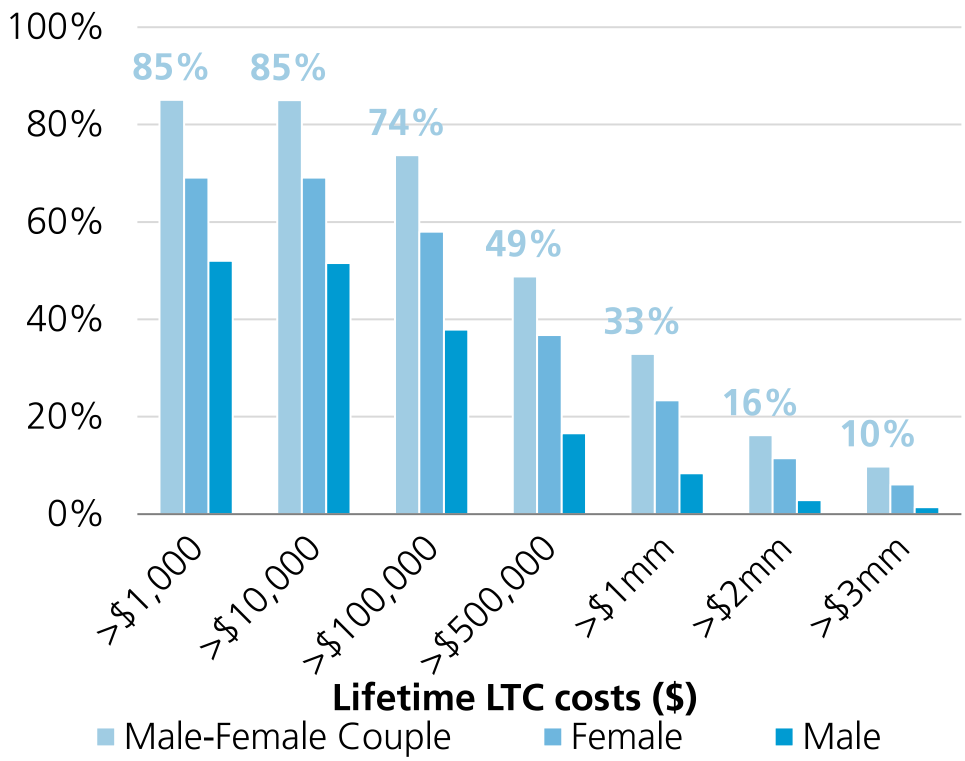
In our experience working with families, we've found that many tend to overlook or downplay the potential costs of LTC, while others tend to overestimate the likelihood of needing LTC services, often owing to personal or family experiences.

Although a majority of families may need LTC services, the severe LTC expenses are less common.

Based on 1,000 simulated trials of LTC expenses for a 65-year-old couple (assuming median LTC expenses and 5.9% annual medical cost increases), we estimate about 15% of female-male households should expect to have no LTC expenses at all, while the median 65-year-old couple should expect to incur approximately $474,000 in LTC expenses during their lifetimes. However, roughly 49% of families may incur expenses of more than $500,000, and 33% may incur expenses greater than $1 million. Self-funding the worst 25% of outcomes, which may result in more than $1.4 million of expenses, may be impractical for many families.[4]

Figure 4 - Roughly 11% of couples at age 65 today will spend more than $1,000,000 on LTC during their lifetime

Estimated probability that LTC spending will exceed a specified amount, in %



Source: UBS, Crook & Sutedja.

Will LTC disrupt retirement plans?

LTC expenses may cause failure in otherwise well-considered financial plans.

To help illustrate the potential impact of LTC expenses on retirement security, we simulated 1,000 trials for 65-year-olds —including single men, single women, and female-male couples. Each scenario assumed annual portfolio withdrawals of 4% (including taxes), with spending increased by 2.4% per year to account for inflation.

Without accounting for potential LTC events, only 10% of trials resulted in a fully depleted portfolio before the end of the couple's lives. However, when we included the possibility of LTC expenses in the simulations, the probability of financial plan failure (defined as exhausting the portfolio before the death of both spouses) increased significantly to 38% for households starting with $1 million, 17% for $5 million households, and 14% for $10 million households.

Figure 5 - LTC expenses may be particularly dangerous for families with fewer resources
Financial plan failure rates, including potential long-term care expenses, based on initial portfolio value

Initial portfolio value	Female	Male	Female-male households
$1mm	27%	13%	**38%**
$2mm	19%	8%	27%
$3mm	16%	7%	22%
$4mm	14%	6%	19%
$5mm	13%	5%	17%
$6mm	12%	5%	15%
$7mm	11%	5%	15%
$8mm	11%	5%	14%
$9mm	11%	5%	14%
$10mm	11%	5%	14%

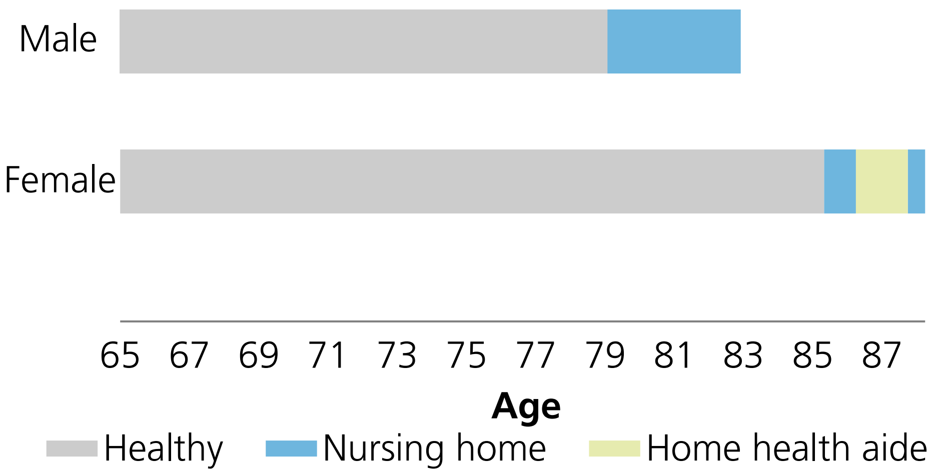
Source: UBS. Portfolio return assumptions are based on UBS Capital Market Assumptions, Moderate Strategic Asset Allocation for taxable investors. Assumes 4% annual spending, increased by 2.4% annually to account for inflation.

This analysis suggests that LTC expenses may present a significant risk to financial plans, particularly for households with lower net worth, where such expenses may represent a larger proportion of assets. In addition to reducing the probability of plan success, LTC expenses may affect a family's ability to transfer wealth to the future generations. For households with a starting portfolio value of $1 million, LTC expenses reduced the simulated trials' median bequest value by almost 60%.

Figure 6 illustrates the LTC experience for two of the individuals in the 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 6 - Timelines for two illustrative care-state simulations

Care-state based on age for two of our simulations



Source: UBS.

Questions to consider

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

Does insurance help?

Insurance solutions may help reduce the risk that LTC expenses could disrupt a financial plan, but LTC insurance is generally structured with caps on annual and lifetime coverage, so it may not fully protect against all worst-case scenarios.[8]

The following are examples of solutions that households may consider to help manage the risk of incurring LTC costs.

1. **Traditional long-term care insurance policies** allow purchasers to customize benefits (amount, period, inflation, deductible) to fit their needs. Premiums are typically paid on a regular schedule (monthly, quarterly, semiannually, or annually), but may be subject to rate increases over time. If care is not needed, unused benefits are forfeited.
2. **Hybrid long-term care insurance policies** combine long-term care coverage with a death benefit. Premiums are usually paid upfront in full or in fixed installments. If long-term care is not needed, the beneficiary's estate may receive a death benefit equal to the purchase price of the policy. These policies can come with substantial up-front costs, and the LTC coverage may be less comprehensive than standalone LTC policies.
3. **Permanent life insurance policies with a long-term care rider** provide a larger death benefit, as with traditional life insurance, and include an additional rider that can help cover long-term care expenses. Long-term care riders often provide limited coverage, and add to the overall cost of the policy.
4. **Annuities with a long-term care rider** offer long-term care coverage as an added feature. These annuities may increase payouts if care is needed, which can help protect savings and provide financial resources for care costs. These products may have high fees and surrender charges, and the long-term care benefits may be capped or restricted by contract terms.[8]

Questions to consider

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

A note on hybrid long-term care insurance policies

Hybrid long-term care insurance policies may offer the following elements:

- **Long-term care benefits:** If long-term care is needed, the policy may pay for it, up to the policy's limit. Reimbursements are generally not subject to income taxes.
- **Death benefit:** If the policy is not used for long-term care, beneficiaries may receive the full death benefit when the insured dies. If the policy is used for long-term care, beneficiaries may receive the remaining amount. Death benefits are generally not subject to income taxes, but may be subject to estate taxes if the policy is included in the taxable estate at death.
- **Return of premium:** Some policies may return premiums if long-term care is never needed and the policy is canceled, but this feature often increases the cost of the policy.

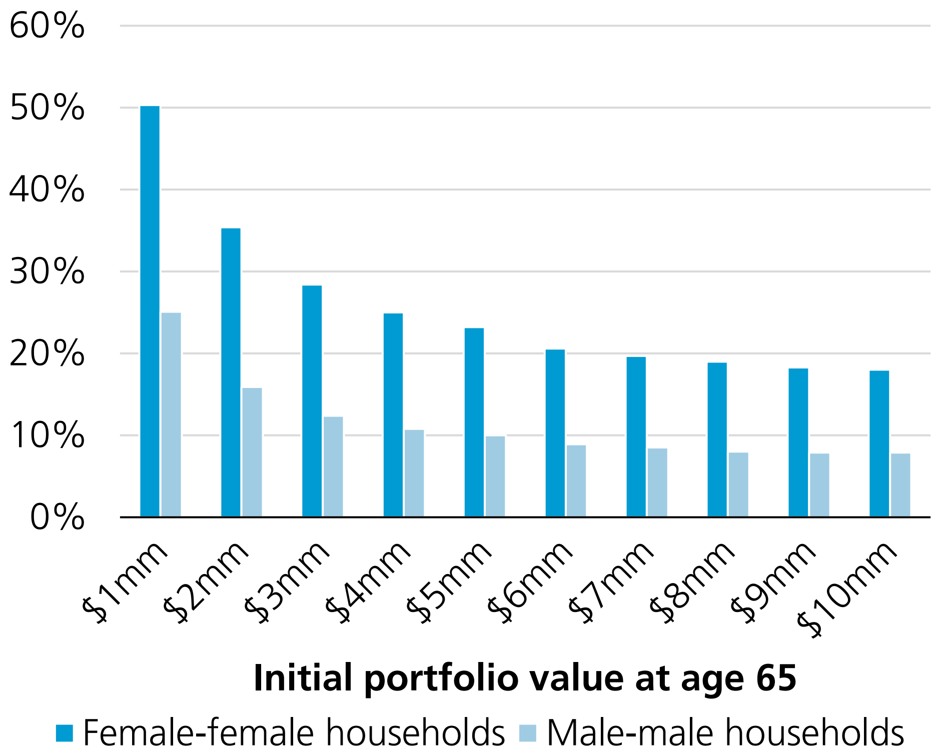
Potential advantages of combining LTC and life insurance policies may include guaranteed benefits, asset protection, premium stability, and simplicity. However, hybrid policies may offer less comprehensive coverage than standalone LTC insurance, less flexibility, and may include surrender charges if canceled early.

Families may wish to discuss options with their financial advisor to determine which approach is most appropriate for their circumstances.

Demographic factors in long-term care risk

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

Financial plan failure rates, including potential long-term care expenses, based on initial portfolio value



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

A family's LTC usage and risk profile may depend on factors such as age, longevity risk, and care usage rates. For example, research indicates that individuals who are not married may face a higher likelihood of needing LTC than married couples, and women may have a higher overall need for long-term care and require care for a longer duration than men.[5]

This also means that same-sex couples may face a different risk profile than heterosexual couples. Male-male couples may tend to have lower LTC usage rates, while female-female couples may be at higher risk owing to longer life expectancies.

Medicare and LTC

If skilled nursing facility care (i.e., care that can only be provided by or under the supervision of licensed professionals) is needed, Medicare may help cover the cost, but only for a limited time and with certain restrictions.

For example, Medicare covers up to 100 days of skilled nursing facility (SNF) care per benefit period if the patient enters the facility within 30 days of a medically necessary inpatient hospital stay lasting at least three days.

At the start of each benefit period, the patient must pay the Medicare Part A deductible (if it was not already paid for a qualifying hospital stay). Medicare then provides 100% coverage for the first 20 days of SNF care. For days 21–100, the patient is responsible for a daily copay (e.g., $209.50 per day in 2025), which may be covered by a Medigap policy. After 100 days in a given benefit period, Medicare will cease helping to cover SNF costs.

The benefit period ends when the patient has not received inpatient hospital or SNF care for 60 consecutive days. If they are admitted again after 60 days, a new benefit period begins and the Part A deductible must be paid again.[9]

Conclusion

Uncertainty around future long-term care expenses may create financial fragility for families and may affect their ability to leave assets for the next generation.

No single funding strategy is appropriate for every household. While LTC insurance may help address cost uncertainty, it is generally not designed to protect families against all worst-case scenarios due to annual and lifetime coverage caps.

"Self-insurance"—a term that refers to using personal assets to cover the family's potential long-term care costs—may leave families exposed to significant financial risk, as there is no actual insurance involved.

Developing a comprehensive financial plan may help families understand the potential impact of LTC costs on retirement assets and identify a funding strategy suited to their circumstances.

The Liquidity. Longevity. Legacy. framework may provide a useful structure for considering funding strategies and their impact on investment and financial planning. In this context, LTC insurance and/or annuity solutions may help hedge potential LTC costs, increasing the family's confidence regarding the size and timing of outflows to meet lifetime spending needs (the Liquidity and Longevity strategies). This, in turn, may allow families to allocate more funds to their Legacy strategy—assets earmarked for needs beyond their own lifetime—which may be invested with the aim of maximizing growth for inheritance or philanthropy.

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

Time frames may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

Questions to consider:

- What are the biggest concerns regarding long-term care planning?
- Would assistance in developing a comprehensive plan for long-term care be helpful?

Next steps

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

1. In the event that care will be needed, would remaining in the home be preferable?
2. If at home, who would provide the care?

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3. If care is needed, what resources would be used to cover the costs (e.g., self-funding, Health Savings Account, long-term care insurance, etc.)?

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

Option	Description	Benefits	Considerations
Self-insure	Use liquid assets to pay for LTC expenses	Flexibility; no premium payments	Requires significant liquidity and risk tolerance; may not cover catastrophic LTC needs
Hybrid long-term care insurance policy	Provides LTC benefits and a death benefit if LTC is not used	Death benefit; return-of-premium provision	Significant upfront premium; using LTC benefits reduces or eliminates death benefit
Permanent insurance policy with LTC rider	Life insurance policy with LTC benefit rider	Fixed premium; can meet both LTC and life insurance needs	May be expensive if life insurance is not needed; underwriting requirements vary
Stand-alone LTC insurance	Insurance covering only LTC risk	Customizable coverage; reimbursement or cash options	Premiums may increase; benefits may be lost if not used; medical underwriting required
1035 exchange	Use funds from a permanent insurance policy via 1035 exchange	No tax consequences; can fund new LTC or hybrid policy	Original policy must have cash value; medical underwriting may be required
Group LTC insurance (via payroll deduction)	Employer- or association-sponsored LTC insurance	Lower group rates; easier qualification; payroll deduction	Limited portability; fewer customization options; may lose coverage if employment ends
Medicaid	Government program for low-income individuals	Can cover most or all LTC costs for eligible individuals	Strict income/asset limits; limited provider/facility choice; may require spend-down
Health Savings Account (HSA)	Tax-advantaged account for medical/LTC expenses	Tax-free withdrawals for qualified LTC expenses	Contribution limits; only available with high-deductible health plans

Source: UBS

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End notes

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