Long-Term Care

Ways to Pay for Long-Term Care Expenses

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(Image credit: Getty Images)

Several years ago, when I was helping care for my parents toward the end of their lives, they were adamant that they wanted to stay in their home for as long as possible. I quickly realized we would need lots of help to honor their wishes. Finding quality and reliable in-home long-term care was expensive, but fortunately, they had the resources to pay for it.

Witnessing how important it was to my parents to stay in their home, I encourage clients to plan for long-term care expenses because many of us are living longer and need specialized care more often. It is estimated that half of all Americans age 65 and older will require long-term facility care.

Today, long-term care costs have continued to rise. According to Genworth's 2023 Cost of Care Survey, the average annual cost for a private room in a nursing home is $116,800. Fortunately, the options to help pay for these expenses have also expanded. The earlier you start planning, the more control you have over your future, empowering you to make informed decisions and feel more secure.

NYSUT NOTE: Planning specialists with the NYSUT Member Benefits Trust-endorsed New York Long-Term Care Brokers program can help you compare long-term care insurers and products so you and your family can find the coverage you need at a competitive price.

Following are some options to help pay for these costs:

Cash reserves

Similar to saving for college costs, you can estimate future costs and what you need to save each month. Although self-funding is possible, it is prohibitive. You would need significant savings to cover potential long-term care costs.

Long-term care insurance

This is a more favorable option than self-funding. Long-term care insurance provides financial security for long-term care costs. Similar to car or home insurance, you pay a premium regularly. While there's no return if you don't use the insurance, the peace of mind it offers can outweigh the cost.

Hybrid cash value life insurance

This form of permanent life insurance includes a savings component. Over time, the savings can grow, and most policies allow you to add a long-term care rider. This rider provides a monthly benefit that is a percentage of the death benefit. For instance, a $500,000 death benefit policy could provide a $10,000 monthly income benefit for 50 months.

This option is advantageous as it combines long-term care benefits with potential life insurance proceeds for your loved ones. Keep in mind that you need to qualify for life insurance to take advantage of this option.

Asset-based long-term care annuity

For a lump-sum premium, this annuity provides a monthly long-term care benefit for a certain number of months. If you do not use the long-term care benefit, these annuities can also offer a death benefit. This type of annuity product can be better than the long-term care and life insurance options since, in most cases, you are accepted based on minimal qualifications.

The qualifications will depend on the life insurance company sponsoring the product. This means that you can receive long-term care benefits while also having a potential death benefit for your loved ones.

Fixed index annuity

Some fixed index annuities offer long-term care income benefits. These annuities typically have minimal qualifications for the product and require a lump-sum premium. It might be a good alternative if you cannot qualify for insurance or an asset-based annuity.

Home equity line of credit

This can be a good option for funding long-term care costs if you have sufficient equity in your home and can make the required monthly payments.

Reverse mortgage

This can be better than a home equity line of credit since you do not have to make payments on the loan during your lifetime. However, the initial and ongoing costs are typically more expensive than a home equity line of credit.

Selling an asset

This is how my parents funded their long-term care costs. This can be real estate, an investment account, etc. It can be an effective way to fund expenses; however, you need to have assets set aside to fund this cost.

Selling your home

In some cases, selling your home and moving into a care facility could be a way to cover potential long-term costs. This can be a good option if you feel comfortable with the idea of moving to a care facility instead of receiving home care. However, it's important to consider the emotional impact of leaving your home. For couples, selling your home may not be feasible, unless it can fund both a care facility and cover the costs of alternative housing for the other spouse.

The above list is not all-encompassing. Insurance may be the best way to maximize the long-term care benefit and get the highest value for the lowest cost. However, it is crucial to speak with a financial planner who can assist you in determining the best method to cover these potential expenses based on your circumstances.

NYSUT NOTE: Unsure of which of these options will be best for your family? The NYSUT Member Benefits Corporation-endorsed Financial Counseling Program has Certified Financial Planners® who can review all your options and advise you on a course of action.

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