

Planning for housing and long-term care in the second half of retirement

Make Your Plan
October 2024

Key Insights

- Housing choices in later retirement can have very different personal and cost implications, so it's best to explore your options and have a plan in place before long-term care (LTC) needs arise.
- While catastrophic LTC events are less likely than many fear, budgeting for higher annual costs over a longer-than-usual period (one to five years) can have financial and psychological benefits.
- A thoughtful self-funding plan can prove successful for a range of investors, but long-term care insurance (LTCI) can help to protect a portion of assets and income if sustained medical and/or custodial care is needed.



Lindsay Theodore
*Thought Leadership
Senior Manager*



Roger Young, CFP®
Thought Leadership Director

Most people don't want to burden their loved ones in older age and are inclined to spend less in retirement just in case they need long-term care (LTC) one day. Yet few take the time to map out a plan for navigating the second half of retirement—and the physical and mental challenges that may accompany it. Whether planning for yourself or a parent, working together to develop a thoughtful aging plan can help reduce apprehension about spending freely in the healthier years of retirement and alleviate some of the shared worries about what's next. Here are some key factors to consider when planning for a smooth transition into the mid- to later years of retirement.

The personal: Housing and care choices

The housing and lifestyle choices you make can determine the LTC support options available to you, as well as the peace of mind you and your family may have along the way.

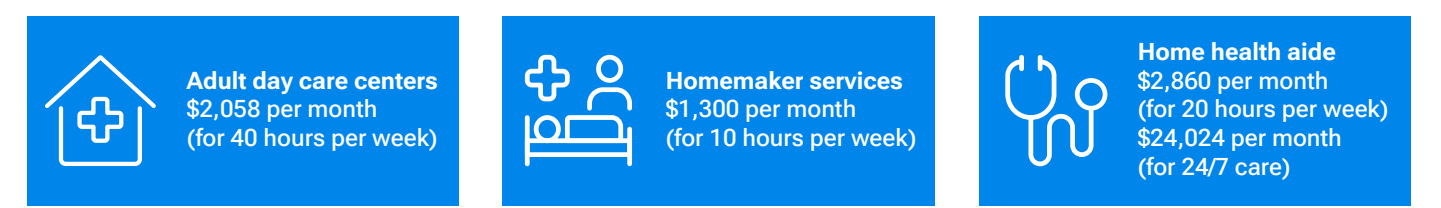
When aging in place means remaining at home.

If you'd prefer to remain in your home, it's important to plan for the logistics and establish support before unpaid bills stack up or you're having mobility issues. While initially affordable and comfortable, it may

become costly and emotionally taxing. Honest communication with loved ones about your changing needs is crucial.

There are multiple support services available to help you age at home, but they vary in cost and care type. **Adult day care centers** and services can facilitate ongoing social interaction and provide respite for family caregivers. **Homemaker services** can assist with daily tasks such as meal preparation, errands, housekeeping, and transportation. **Home health aides** can provide custodial care and basic medical support in the comfort of a patient's home (See Figure 1).

(Fig. 1) Median costs for services that help you age at home*



* genworth.com/aging-and-you/finances/cost-of-care

When aging in place means proactively moving.

If you can afford to and are comfortable relocating, several options are available. **Continuing care retirement communities** (CCRCs) offer residents the contentment of knowing that all levels of care can be provided on-site and all (or a good portion of) future medical expenses have been factored into the entrance fee and monthly payment. The ability to lock in a predictable monthly cost—which will not increase if care needs advance—make CCRCs an attractive option, especially for people with high concerns about needing LTC.

Assisted living communities are designed for older individuals who may eventually need assistance with activities of daily living (ADLs)¹ but do not want to prepay

for advanced LTC support they may never need. Compared with a CCRC, the entrance fee is minimal, but the monthly cost could increase substantially as care needs progress (See Figure 2).

It should be noted that if you opt to age at home or move into an assisted living community, declining health may necessitate relocation to a more extensive (and expensive) care environment such as a **skilled nursing facility or nursing home**—temporarily or indefinitely.

The financial: Estimating the costs of anticipated care

Many factors influence LTC costs, including housing choices, health and family medical history, location, and the

availability of a spouse or adult child to provide intermittent, unpaid care. Since **Medicare** generally will not cover LTC costs and many individuals are unlikely to qualify for **Medicaid**,² it's helpful to start by forming an estimate for the cost and duration of care you may face.

Understanding out-of-pocket costs

According to our analysis of data from the Social Security Administration-sponsored Health and Retirement Study (HRS), out-of-pocket health care spending tends to increase in the last two years of life.³ But the costs are perhaps less severe than many fear. Among the population with the highest out-of-pocket expenses⁴ (age 90+), 50% spent less than \$2,600 per year. And only 5% spent more than \$169,800 over their final two years of life (See Figure 3).

¹ Activities of daily living are essential factors for initiating benefits and include bathing, dressing, toileting, continence, walking, transferring, and eating.
² According to the American Council on Aging, to be eligible for LTC through Medicaid, a single 65-year-old individual generally must have income no greater than \$33,948 per year and "countable assets" no greater than \$2,000. These limits vary by state, age, disability, and marital status. Countable assets are liquid assets, such as bank savings, investments, and IRAs. [medicaidplanningassistance.org/medicaid-eligibility/](https://www.medicaidplanningassistance.org/medicaid-eligibility/)
³ Banerjee, Sudipto, "The Truth About Health Care Expenses Late in Life," T. Rowe Price white paper, July 2023.
⁴ Health care premiums were excluded from out-of-pocket expenses because they are ongoing and predictable. Individuals covered by Medicaid were excluded from this analysis.

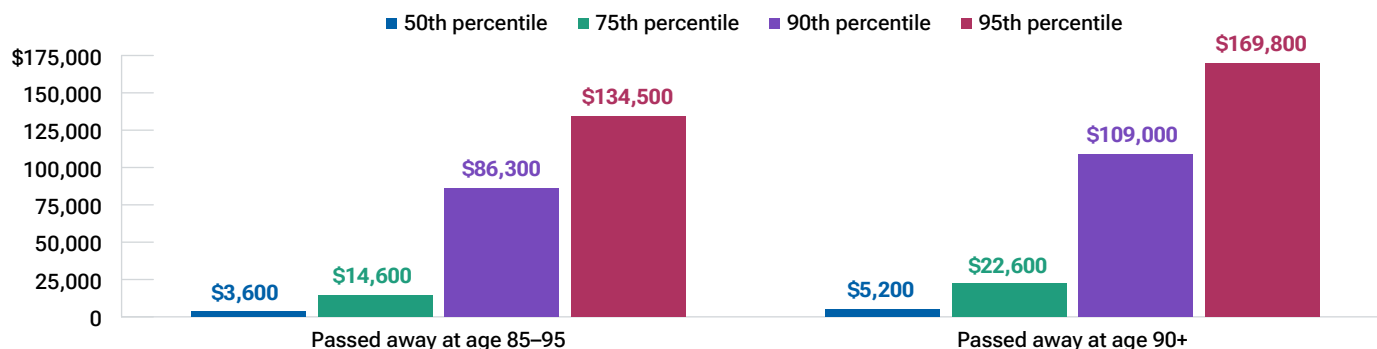
(Fig. 2) Key differences between CCRCs and assisted living communities

	Entrance fee	Monthly cost*	Extent of monthly increases if care needs progress
Continuing Care Retirement Communities (CCRCs)	Higher—Anywhere from \$100,000 to \$1,000,000 depending on the facility, location, and contract type†	Typical starting range is \$2,000 to \$5,000 (depending on contract type and entrance fee)	Minimal with Type A or B contract Moderate with Type C contract
Assisted Living Communities	Lower—Typically equivalent to several times the monthly cost	\$5,350 median nationwide	Cost could increase significantly if advanced care is needed

* Monthly cost for both community types generally includes basic medical and custodial support, food, amenities, building maintenance, and staffing. Costs are subject to annual inflation adjustments.
† There are generally three CCRC contract types: Type A plans typically include prepayment for all future care (custodial, memory care, etc.). Type B plans include a partial prepayment for future care. Type C plans are also known as pay-for-service contracts, meaning costs go up as care needs progress.

Out-of-pocket health care expenses over the last two years of life

(Fig. 3) Spending tends to increase in the last two years of life and is generally higher for those who die at older ages.



Source: Banerjee, Sudipto, "The Truth About Health Care Expenses Late in Life," T. Rowe Price white paper, July 2023. T. Rowe Price estimates from the HRS, 2012-2018. 2018 are the most recent available.

When it comes to LTC facility stays, over 70% of final stays lasted less than three months, and less than 10% lasted more than one year.

Guidance for estimating costs

While high and catastrophic costs impact a smaller subset, there can be psychological and financial benefits to planning for higher costs over a longer period of time. This can help to account for the gradual progression of care that may be needed. A moderate approach might involve budgeting for one to two years of 95th percentile out-of-pocket costs (~\$90,000 per year). If you plan on relocating to a CCRC or moving in with an adult child who has agreed to care for you, you may be able to budget for lower additional costs. If you plan on receiving full-time care at home, you might need to budget more.

The planning: Evaluating strategies to pay for LTC

If you are unlikely to qualify for LTC through Medicaid, the choice often comes down to self-funding and/or purchasing long-term care insurance (LTCI). Advocates of LTCI argue that it can reduce the need for an elderly individual (or their family members) to settle for a patchwork of low-cost services when better, more expensive care is warranted. Others argue that the risk of paying high premiums and never needing

care or facing roadblocks for approval of benefits make insurance less attractive than self-funding.

Long-term care insurance (LTCI)

LTCI can help to protect a portion of your assets and income in the event of a sustained care need. Since lack of knowledge is often a driver for not considering or having LTCI, here are some key items to understand in order to make a more informed decision:

- **If a policy makes sense for your situation, a good time to purchase it is between ages 55 and 65.** Denial rates for applications increase after age 65.⁵
- Most policies offer a **set term (typically three to five years) or a specific lifetime benefit amount.** While lifetime (unlimited) payout policies are no longer available, a policy with a three- to five-year benefit period, a generous daily maximum, and inflation protection may make sense.
- **Personal attributes** (such as age, gender, health, and location) can affect LTCI premiums and approval. Premiums are generally higher for women.
- **There are many policy-related choices and key terms to understand.** Most policy choices are decided up front and can affect the cost of premiums as

well as the potential benefits you could realize from the policy. Two aspects are especially important to understand:

- **Types of qualifying care:** Policies with the broadest range of support types included (home health care, assisted living, skilled nursing, adult day care, physical therapy, etc.) are generally the most expensive, but preferable, since it's hard to predict your needs many years in advance.
- **Activities of daily living and benefit initiation eligibility:** For an LTCI policy to begin paying benefits, the insured must demonstrate the inability to perform two or more of these activities without assistance. It's prudent to seek a policy that defines cognitive impairment as a qualifying condition.

Self-funding

Some individuals prefer to self-fund and, based on their income, savings, and spending, may be in a good position to

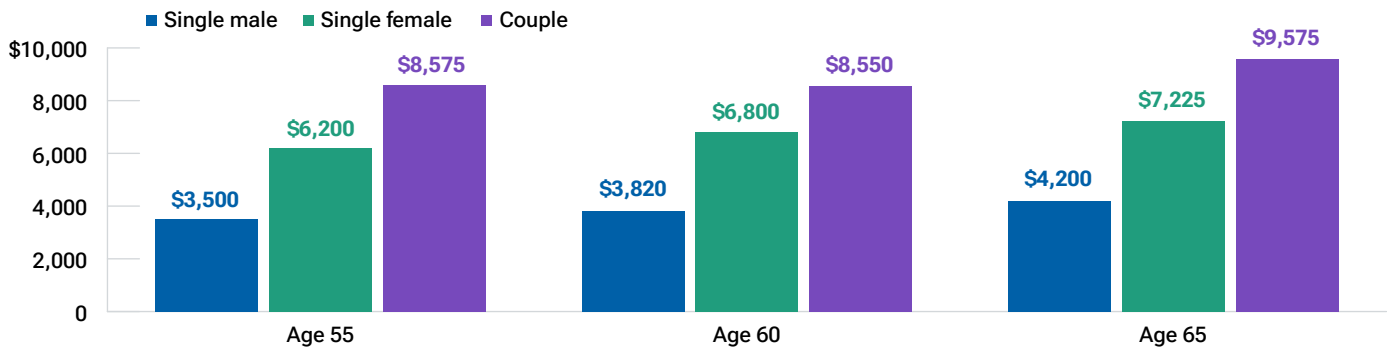


For additional guidance on terms to understand and factors to consider when weighing the costs and benefits of LTCI—as well as information about options such as hybrid policies and state partnership plans—see our comprehensive guide at troweprice.com/longtermcareguide.

⁵ <https://www.aarp.org/caregiving/financial-legal/info-2019/when-to-buy-long-term-care-insurance.html>

Annual policy premium based on \$165,000 initial lifetime benefit

(Fig. 4) Policy premium costs can vary widely, based on starting age and gender.



Source: aaltci.org/long-term-care-insurance/learning-center/lcfacts-2023.php
Assumes 5% annual compound benefit growth rate; select health; prices for state of Illinois and can vary by state. AALTCI calculations as of March 2023.

do so, even with several years of LTC expenses built in at the end of plan.

To build a successful self-funding strategy (whether it includes LTCI or not), here are several key factors to consider:

- Account for how your spending may change over the course of retirement. While your expenses may remain relatively constant during the first half of your retirement, spending reductions later on may provide a cushion for any out-of-pocket LTC expenses incurred in the second half.
- Determine an amount to earmark for your LTC reserve—amount needed today to fund future LTC expenses,

based on assumed investment return, other spending reductions, inflation rates, length and cost of care, and time until care is needed (See Figure 5).

- Consider earmarking account(s) for LTC needs. Once you’ve identified an LTC reserve goal, you can implement a plan to reach it. Also, you could consider investing those assets more aggressively in early and mid-retirement, then dial back the risk over time.
- Maximize lifetime income sources (such as Social Security). Actions such as delaying Social Security can provide lifestyle protection if you live a very long life, whether you need LTC or not.

Advantages or disadvantages of LTCI vs. self-funding

To better understand how the purchase of a standard LTCI policy might help protect an investor’s assets compared with self-funding alone, we analyzed the trade-off.⁶ We sought to understand the advantages or disadvantages of self-funding compared with LTCI based on gender, starting age of care, and care duration.

We compared two men and two women, separately. All investors are age 60, have the same starting investment balance in their LTC reserve, and receive a 6% annual return. Within each gender pair, one person purchases LTCI and the other self-funds. The self-funding investors

⁶ “T. Rowe Price guide to planning for life and long-term care in the second half of retirement,” pages 22–23.

LTC reserve needed today to fund LTC starting in 25 years

(Fig. 5) Expected non-LTC spending reductions can help determine an appropriate LTC reserve target.

Years of expected LTC	Expected non-LTC spending reduction (in today’s dollars)		
	\$20,000	\$40,000	\$60,000
0	\$0	\$0	\$0
1	\$61,254	\$51,498	\$41,741
2	\$122,115	\$102,877	\$83,640
3	\$182,581	\$154,130	\$125,680
4	\$242,649	\$205,248	\$167,846
5	\$302,321	\$256,220	\$210,120

Assumptions: LTC cost of \$90,000 in today’s dollars. Inflation rate is 5% for LTC and 3% for all other spending. 6% average annual return on the LTC reserve pool. Source: T. Rowe Price calculations. The concept of calculating the present value of future dollars needed to cover LTC costs (adjusted for other spending reductions) is outlined in Pfau, Wade D., “Retirement Planning Guidebook: Navigating the Important Decisions for Retirement Success,” (2nd Edition), 2024, Retirement Researcher Media, Vienna, VA.

Ending balance advantage based on gender, starting age of care, and care duration

(Fig. 6) LTCI can help to protect one's investments, especially when LTC is needed earlier and longer.

Self-funder has more \$ at the end of plan				LTCI policyholder has more \$ at the end of plan			
Women				Men			
Duration of LTC	LTC starting age			Duration of LTC	LTC starting age		
	Age 75	Age 85	Age 95		Age 75	Age 85	Age 95
0 years				0 years			
1 year				1 year			
2 years				2 years			
3 years				3 years			
4 years				4 years			
5 years				5 years			

Assumptions: Residents of Virginia. Source for premium quotes and terms (obtained March 2024): mutualofmaha.com/long-term-care-insurance/calculator. The male investor's annual premium is \$2,664; the female's is \$4,536; premiums remain constant until care is needed, at which point premiums are waived. The LTCI policy has a 3-year guarantee period and a \$4,500 maximum monthly benefit with 3% compound inflation protection. Annual LTC costs are greater than the LTCI maximum benefits (but the amount does not affect this comparison). Inflation rates are 5% on LTC expenses and 3% on all other spending. It is assumed that the investor passes away at the end of the care period. Amounts reflect the difference in ending investment balances in today's dollars.

make no withdrawals until LTC is needed. The LTCI policyholders withdraw only the cost of the annual premium each year until LTC begins. The LTCI policy has a three-year guarantee period and a \$4,500 monthly maximum benefit with 3% compound inflation protection.

Armed with these assumptions, we ran scenarios that combined the duration of care needed with the age that care began.⁷ We then observed the **ending balance differential** for each gender group, depending on the timing and duration of their LTC needs (See Figure 6).

As you would expect, **insurance works out better when care is needed longer. But insurance is also more beneficial if care is needed at an earlier age** because fewer premium payments will have been made before benefits start. If care is needed for **less than two years (or not needed), self-funding** usually has an advantage.

— **The greatest LTCI advantage** (the case with **five years of LTC starting at age 75**)

was \$102,000 and \$137,000 for women and men, respectively.

— **The greatest self-funding advantage** (the case with **zero years of care and living to age 95**) was \$196,000 and \$115,000 for women and men, respectively.

Other key factors: Because premiums are higher for women, the **LTCI advantage** for them tends to be **less** (or **self-funding advantage more**) than for a man at a similar age with similar care needs. And of course, if the **investment return were higher** than our assumed 6% or **LTCI premiums increased** over time⁸, **self-funding would look better**.

Key takeaway

When it comes to LTC planning, it's important to recognize that neither self-funding nor LTCI can fully alleviate the potential pressure on your investment portfolio if you require prolonged support. Fortunately, the actual out-of-pocket expenses incurred by most people in the

final two years of life — on services such as in-home care, adult daycare, and nursing home stays — are less severe than many people fear. Among the population with the highest out-of-pocket expenses (age 90+), 50% spent less than \$2,600 per year. More than 70% of final LTC facility stays (for people of all ages) lasted less than three months.

These statistics suggest that for those who have planned and saved adequately, mapped out their spending over time, and closely considered their housing preferences and care options, self-funding can prove successful. However, an LTCI policy might be worthwhile if your LTC risk is particularly high or if you value the peace of mind such policies can offer.



For more information, data, analysis, and practical advice for navigating the uncertainties of the mid- to later years of retirement, see our comprehensive guide: "Planning for life and long-term care in the second half of retirement" at troweprice.com/longtermcareguide.

⁷ In scenarios where no care is needed, the ages refer to the age at death.
⁸ For simplicity, we assumed LTCI premiums did not increase, but premiums can increase 30% or more over the life of the policy.

INVEST WITH CONFIDENCE®

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so they can feel more confident.

Important Information

This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

The views contained herein are those of the authors as of October 2024 and are subject to change without notice; these views may differ from those of other T. Rowe Price associates.

This information is not intended to reflect a current or past recommendation concerning investments, investment strategies, or account types; advice of any kind; or a solicitation of an offer to buy or sell any securities or investment services. The opinions and commentary provided do not take into account the investment objectives or financial situation of any particular investor or class of investor. Please consider your own circumstances before making an investment decision.

Information contained herein is based upon sources we consider to be reliable; we do not, however, guarantee its accuracy. **Actual future outcomes may differ materially from any estimates or forward-looking statements provided.**

Past performance is not a reliable indicator of future performance. All investments are subject to market risk, including the possible loss of principal. All charts and tables are shown for illustrative purposes only.

T. Rowe Price Investment Services, Inc., distributor. T. Rowe Price Associates, Inc., investment adviser. T. Rowe Price Investment Services, Inc., and T. Rowe Price Associates, Inc., are affiliated companies.

© 2024 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.