A comprehensive financial plan is the best way to understand the impact that potential LTC costs could have on the longevity of your retirement assets. (UBS)

Will long-term care needs disrupt your retirement plan?

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The uncertainty around future long-term care (LTC) expenses can create financial fragility for some families in retirement, and there's no single funding strategy that is going to be appropriate for every household.

Long-term care can be difficult to plan for because the actual level of expenses incurred is very uncertain as everybody's life situation is different.

Although you are likely to need LTC services, you are unlikely to experience devastating LTC expenses. About 15% of female-male households will have no LTC expenses at all, and our analysis indicates that the median 65-year-old couple will incur a total of $323,000 in LTC expenses during their lifetimes. However, and this is a big however, roughly 37% of families will incur expenses of more than $500,000, and 19% of families will incur expenses greater than $1 million. Therein lies the challenge.

While LTC insurance can help to address the uncertainty of costs, it isn't designed to protect families against worst-case scenarios. Self-insuring by using liquid assets to pay for LTC expenses provides you with more control of the assets and allows for growth potential if you choose to invest the funds, but it is impractical for most households to self-insure against the worst-case outcomes.

Building a comprehensive financial plan will be the best way to understand the impact that potential LTC costs could have on the longevity of your retirement assets, and it will help you to identify the most suitable funding strategy for your family's unique situation.

The Liquidity. Longevity. Legacy. framework is a helpful way to frame your funding strategy decision, as well as incorporate its impact on your investment strategy and financial plan.

In general, buying LTC insurance will allow you to have more confidence about the size and timing of outflows to meet your lifetime spending needs (the Liquidity strategy and the Longevity strategy). In turn, this can give you the ability and the confidence to set aside more funds in your Legacy strategy—assets that can be earmarked for needs that go beyond your own lifetime—where they can be invested in strategies that aim to maximize the growth of assets for inheritance or philanthropy.

Key findings:

- Nearly 85% of households will utilize LTC expenses at some point in retirement.
- The median lifetime LTC expense for a healthy 65-year-old couple today will be approximately $323,000, but some households will experience much higher lifetime expenses.
- Excluding LTC in a retirement plan can result in significantly overestimating the likely success of the plan.
- Women, in particular, need to develop clear plans for handling LTC expenses.
- LTC insurance products can help reduce, but not eliminate, the planning risk from LTC expenses.

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

1. If you need care, would you prefer to remain in your home?
2. If at home, who would provide the care?
3. If care is needed, what resources would you use to cover the costs (e.g., self-funding, Health Savings Account, long-term care insurance, etc.)?

For much more on long-term care planning, see **Modern Retirement Monthly: Long-term care costs and solutions**, published 30 October 2024.

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