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Should you self-fund long-term care?

5 questions to help you decide.

Fidelity Wealth Management



Key takeaways

Most older adults will need some form of long-term care, but the level, duration, and cost are hard to forecast.

Some people who qualify for insurance may opt to self-fund, while others may benefit from a blended approach using both insurance and savings.

If you're considering self-funding, it's important to assess which assets are available and liquid, tax implications, and how that plan may align with inheritance goals.

Planning for long-term care is often one of the most challenging parts of preparing for retirement. While the majority of older Americans¹ will eventually need some form of long-term care, the cost of that coverage can vary wildly. Still, not having a plan is a risk no one can afford to take, says Jacquelyn Calandriello, a New York-based wealth planner with Fidelity Investments. "Planning for long-term care involves a lot of uncertainties. It's difficult to predict the level of care you might need or how long you'd need it for," Calandriello says. "But it's critical to be proactive rather than reactive."

One option to help pay for long-term care costs is long-term care insurance, with either a

traditional or hybrid policy. Long-term care insurance offers several benefits, including the security of knowing that at least some of your long-term care costs will be covered, and in the case of a hybrid policy, the option to leave a death benefit to your beneficiaries or preserve the remaining contract value if you do not use all of the funds for long-term care.

Learn more about long-term care funding options: [6 ways to pay for long-term care](#).

However, not everyone can qualify for a long-term care policy, especially if they are in their late 60s or older, when medical concerns tend to increase. Other people, often those with substantial savings, may choose to forgo insurance and instead plan to pay out of pocket for any long-term care costs that may arise. "When I work with clients whose assets can support self-funding, we talk through the pros and cons, and I run a stress test on their plan," says Calandriello. Below are questions Calandriello typically works through with her clients as they weigh their choices.

1. What would self-funding mean for your financial plan?

Self-funding offers flexibility and avoids the premiums and restrictions of insurance policies. However, it also introduces risk: Care costs can be unpredictable, and a prolonged illness could significantly erode your wealth.

Calandriello suggests starting with research on potential expenses. While the average stay in an assisted living facility is less than 2 years, keep in mind that women tend to need care longer than men—3.7 years compared to 2.2 years—and that 1 in 5 people will need long-term care for more than 5 years.² The national median cost for a full-time at-home caregiver is over \$75,000 per year, and a private room in a nursing facility will likely run well over six figures.

(You can refer to the [CareScout Cost of Care](#) [survey](#)³ to help estimate the potential long-term care costs in your area.)

2. Do you qualify for insurance?

If you're interested in long-term care insurance, options include traditional long-term care policies, where you typically select a level of coverage and pay an annual premium for life, and hybrid policies that combine long-term care and life insurance, allowing you to draw down or accelerate the death benefit to pay for any long-term care needs. If you need long-term care, you can access your policy's death benefit to help cover those expenses, up to a set monthly limit. Should you exhaust the entire death benefit, your insurer would continue providing additional long-term care coverage.

Both hybrid and traditional long-term policies will require medical underwriting, with many factors to take into consideration, including weight, any chronic diseases, and physical limitations. Given that, experts typically recommend evaluating your [long-term care insurance options](#) as early as possible, since premiums tend to rise as you age and you're more likely to have medical issues that disqualify you from coverage.

If you don't qualify for long-term care insurance, you may be able to consider a long-term care annuity, since those typically have a more simplified medical screening requirement. Like a traditional annuity, a long-term care annuity is a contract with an insurance firm that provides access to a pool of benefits in exchange for a single premium payment. If you become eligible for long-term care benefits, the long-term care annuity coverage will draw from both your account value and the designated long-term care pool. Once the account value is fully depleted, the insurer will continue paying benefits from the remaining long-term care pool. However, not all insurers offer long-term care annuities.

For some of Calandriello's clients, combining multiple strategies may be an appropriate choice. "Some of my clients obtain long-term care insurance to cover a certain level of potential expenses, knowing they can then access their personal investment portfolios to self-fund for any additional needs beyond the coverage the insurance provides," she explains. This

fund for any additional needs beyond the coverage the insurance provides," she explains. This approach can provide added flexibility and may reduce reliance on personal assets for some clients, though specific outcomes depend on policy terms, costs, eligibility, and individual circumstances.

3. Who might provide care for you in your later years?

"I always try to get an understanding of what my clients envision a long-term care event to look like," says Calandriello. These decisions can be a significant factor in potential long-term care costs. While many people hope that their family members can manage some or all of their care, it's important to be realistic about whether your family is both willing and capable of supporting you, given the physical and emotional demands of caregiving. "I have had clients tell me that their spouse can handle it, but when I meet with them, I can tell that physically it's not likely to work," says Calandriello.

Many retirees also hope to stay in their own home indefinitely, but that can be complicated by a medical event. If you have multiple staircases and narrow hallways, for example, you might need to do extensive, and costly, renovations to stay put.

4. What assets could you use for self-funding?

If you're considering self-funding, you'll want to identify which accounts or assets you'd tap, since the decision can have tax and liquidity implications. "Having a high net worth doesn't mean all of your assets are going to be usable for something like long-term care," cautions Calandriello. If you have substantial wealth tied up in illiquid assets like real estate, for example, you may not have the time or ability to sell it during a health crisis. And if you have highly appreciated assets that would require you to pay long-term capital gains taxes when you sell, those tax costs could potentially reduce the value of what you could use for long-term care.

Assets in a health savings account (HSA) are an obvious choice for funding long-term care, since withdrawals from an HSA to pay for qualified medical expenses are tax-free,⁴ and long-term care expenses generally qualify. But pulling assets from a brokerage or retirement

account may allow you to take a deduction for medical expenses, which are deductible to the extent that they exceed 7.5% of your adjusted gross income in a given year. So a married couple filing jointly with a \$150,000 taxable income would potentially be able to deduct long-term care expenses exceeding \$11,250 that year—which they might spend on just a single month in a nursing home.

If you're considering paying for long-term care through a mix of insurance and savings, you may want to consider how tax savings can potentially offset some of the out-of-pocket cost. Using the above example of a hypothetical couple with an \$150,000 adjusted gross income, assume they have \$75,000 in annual long-term care expenses, \$36,000 of which is covered by a long-term care policy. They fund the remainder with \$14,000 from an HSA and \$25,000 of qualified Roth IRA withdrawals. Assuming this couple is already above the itemization threshold for deductions, the portion of their long-term care expenses funded by Roth withdrawals would be tax-deductible above the 7.5% threshold (\$11,250) giving them an additional tax deduction of \$13,750 (\$25,000-\$11,250).

5. Do you hope to leave an inheritance?

Given the unpredictability and potential costs, self-funding long-term care can directly conflict with goals for family or charitable gifting. It's important to have candid conversations with family members about your expectations and hopes for your late-in-life care, as well as how funding a potential long-term care event may impact your legacy plans.

The big picture

The big picture

Deciding whether to self-fund long-term care isn't just about numbers—it's about values, health, and family dynamics. Insurance can help preserve assets for heirs, while self-funding prioritizes flexibility and control. You may also want to consider a hybrid approach where you combine insurance with earmarked savings. No matter what you choose, keep in mind that consulting a financial professional can help make sure your long-term care funding plans align with your overall wealth objectives, and help you plan for long-term care long before it's needed.

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- 1, 2. Longtermcare.gov, "How Much Care Will You Need"? <https://acl.gov/ltc/basic-needs/how-much-care-will-you-need>
- 3. Genworth Cost of Care Survey, conducted by CareScout®, 2024, <https://www.carescout.com/cost-of-care>
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