LESSON · RETIREMENT RISK

# Long-Term Care: The Risk Medicare Doesn't Cover

Nearly 7 in 10 retirees will need long-term care at some point — and Medicare, despite what most people assume, covers almost none of it.

**Read time:** 9 minutes **Level:** Intermediate **Includes:** Knowledge check

Roughly 7 in 10 people who reach 65 will need some form of long-term care in their lifetime — help with daily activities like bathing, dressing, or managing medications, whether at home, in assisted living, or in a nursing facility. It's one of the largest financial risks in retirement, and it's also the one people plan for the least, largely because Medicare covers almost none of it.

## The Medicare myth

**Medicare is not long-term care insurance**

Medicare covers short-term skilled nursing care after a qualifying hospital stay (typically up to 100 days, with a copay kicking in after day 20) — it does not cover the custodial, day-to-day help (bathing, dressing, supervision) that makes up the bulk of long-term care, and it does not cover ongoing assisted living or memory care. This is the single most common misunderstanding in retirement planning: assuming Medicare "has this covered" when it explicitly does not.

# What long-term care actually costs

Costs vary enormously by region and setting, but a private room in a nursing home commonly runs well over $100,000 a year in many parts of the country, assisted living often runs $50,000–$70,000 a year, and even part-time in-home care can add up to $40,000+ a year. Average lengths of care range widely — some people need a few months, others need several years — which is exactly what makes this risk hard to self-insure against: the range of outcomes is enormous.

**Worked example**

A couple retires with a portfolio sized to comfortably support their planned lifestyle. Three years in, one spouse develops a condition requiring memory care at $80,000 a year. If that lasts four years, that's $320,000 pulled from the portfolio beyond what was planned — often forcing larger withdrawals precisely during a market downturn (compounding sequence-of-returns risk, covered in that lesson), while the healthy spouse still needs the remaining assets to fund their own retirement for another 20+ years.

# The main ways to address the risk

OPTION 1

## Traditional long-term care insurance

A standalone policy that pays a daily or monthly benefit toward qualifying care. Premiums can rise over time and are use-it-or-lose-it if care is never needed, but it transfers the risk most efficiently per premium dollar for those who qualify medically and can afford ongoing premiums.

**Trade-off:** Underwriting gets stricter with age and health changes; premiums are not guaranteed to stay level.

OPTION 2

## Hybrid life insurance or annuity with LTC rider

A life insurance or annuity policy with a long-term care benefit attached. If care is never needed, the death benefit (or annuity value) still passes to heirs, addressing the "use it or lose it" objection to traditional LTC insurance.

**Trade-off:** Usually requires a large upfront premium or lump sum, and the LTC benefit pool is often smaller than a comparable standalone policy.

OPTION 3

## Self-funding

Deliberately earmarking a portion of the portfolio (or a dedicated account) to absorb potential care costs, rather than buying insurance at all. Requires no underwriting and no ongoing premiums.

**Trade-off:** Only realistic for those with substantial assets, since a multi-year care need can consume hundreds of thousands of dollars fast.

OPTION 4

## Medicaid, as a last resort

Once assets are spent down to Medicaid's strict limits, Medicaid does cover long-term nursing home care. Some people plan around this deliberately (with caveats below); others end up there unintentionally after care costs exhaust their savings.

**Trade-off:** Requires spending down to near-poverty asset levels first, and Medicaid's five-year "lookback" period penalizes gifts or asset transfers made shortly before applying.

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## The five-year Medicaid lookback

Deliberately giving away assets to qualify for Medicaid sooner doesn't work the way people assume: Medicaid reviews the five years of financial records before an application and imposes a penalty period (during which Medicaid won't pay) based on the value of gifts or below-market transfers made in that window. This is a common trap for families trying to "protect" an inheritance by gifting assets to children right before a parent needs care — done too late, it backfires by delaying Medicaid eligibility exactly when the money is needed most.

## Why this matters even for a healthy spouse

Long-term care planning isn't only about the person who eventually needs care — it's about protecting the other spouse's retirement, too. Federal "spousal impoverishment" rules allow a healthy spouse to keep a portion of the couple's assets and income even if the other spouse is on Medicaid, but the protected amounts are limited and vary by state, so a plan built assuming "we'll figure it out with Medicaid" can leave the healthy spouse far short of what they expected.

## Building a long-term care plan

- [ ] Don't assume Medicare covers long-term custodial care — it doesn't, beyond short-term skilled nursing after a hospital stay.
- [ ] Get a realistic estimate of care costs in your specific area, across in-home, assisted living, and nursing home settings.
- [ ] Evaluate traditional LTC insurance while still healthy enough to qualify — underwriting only gets harder with age.
- [ ] Consider a hybrid life/LTC policy if the "use it or lose it" nature of standalone LTC insurance is a dealbreaker.
- [ ] If self-funding, earmark a specific pool of assets rather than assuming the general portfolio will absorb it.
- [ ] Understand the five-year Medicaid lookback before considering any deliberate asset transfers.

KNOWLEDGE CHECK

## Test what you just learned

Answer four quick questions to test what you just learned.

**1. What does Medicare actually cover with respect to long-term care?**

> A. All custodial long-term care, indefinitely
>
> B. Only short-term skilled nursing care after a qualifying hospital stay, typically up to 100 days
>
> C. Assisted living costs up to a annual cap

**2. What is the Medicaid 'five-year lookback'?**

> A. A five-year waiting period before anyone can apply for Medicaid
>
> B. A review of the five years of financial records before applying, which can penalize gifts or asset transfers made in that window
>
> C. A rule that Medicaid only covers five years of care

**3. What is a key advantage of a hybrid life/LTC policy over standalone LTC insurance?**

> A. It's always cheaper than standalone LTC insurance
>
> B. If long-term care is never needed, the death benefit still passes to heirs, addressing the 'use it or lose it' objection
>
> C. It doesn't require any upfront premium

**4. Why can a long-term care need also threaten a healthy spouse's retirement?**

> A. It can't — Medicaid always fully protects the healthy spouse's assets
>
> B. Care costs pulled from a shared portfolio, and limited spousal-impoverishment protections, can leave the healthy spouse with less than planned
>
> C. Only single retirees face long-term care risk

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