

# Episode 221: What Actually Counts As Long-Term Care?

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## SUMMARY KEYWORDS

Retirement income, long-term care, financial risk, Medicare, Medicaid, long-term care insurance, activities of daily living, self-funding, assisted living, nursing homes, continuing care retirement communities, cost of care, inflation, retirement planning, funded ratio.

## SPEAKERS

Briana Corbin, Alex Murguia, Wade Pfau

### **Briana Corbin** 00:00

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### **Briana Corbin** 00:41

Long term care is one of the biggest financial risk in retirement and one of the least understood. In this episode, Wade and Alex break down what it is, what it costs, and how to start planning for it.

### **Alex Murguia** 00:55

Hello, everyone. Welcome to retire with style. I'm Alex, and I'm here with Wade Pfau, known to be my good buddy, and today we are talking about

### **Wade Pfau** 01:07

long term care. Hey, everyone,

### **Alex Murguia** 01:09

long term care and Wade, what great advice did you give me right before we started the episode? Just now?

### **Wade Pfau** 01:14

Well, I was gonna let you hit the record button to avoid the confusion of us both hitting it, and then it's starting and stopping, so just gotta be on the same page with everything. Yes, yes.

### **Alex Murguia** 01:28

Alrighty, man. Anything new happening since our last episode?

### **Wade Pfau** 01:33

Well, this is actually the week right now, as we're doing this with our retirement income challenges and ongoing event, and I'm predicting we're going to have probably four or 500 people. Well, we'll see if I'm right about that. But if you weren't part of the retirement income challenge this week, stay tuned, because we'll, we'll do another one later this year. So it's, it's a great opportunity to make sure you're on track with your financial plan.

**Alex Murguia 01:55**

Yeah, and that's where we broke out the the new and improved funded ratio tool to coincide with the Reese as well. So we're very excited about the tools that we have coming up for all of our members.

**Wade Pfau 02:07**

Yeah, yeah. And our 2026, tax map calculator is out now. And yeah, things are rolling.

**Alex Murguia 02:13**

Things are rolling. Train keeper rolling all night long. All right. Wade, so today, long term care, just as a general thing. I think this is something people realize what it is, but may not know what it is. So long term care, one on one, what is it? Yeah, yeah.

**Wade Pfau 02:32**

And just for the context, we're still in our series, going through the retirement planning guidebook third edition, and really providing an overview of what all is in there. And if you want to dig in for more details, it's the retirement planning guidebook. Long Term Care is chapter eight. That's what the third edition looks like if you're watching on YouTube now, what is long term care? So it's specifically if you have an event that lasts more than 100 days, to kind of distinguish it from short term care or some other particular type of care. But that's an important detail, because, to be very clear, Medicare does not pay for long term care, and that's one of the biggest confusions out there. And in our previous episode, when we talked about the like \$350,000 type health care estimate is what you might want to have at the start of retirement to cover retirement based health care needs that did not include long term care. So our previous episodes were on health care and retirement. Now we're talking about long term care, where your expenses related to long term care could range anywhere from zero to in some extreme cases, potentially with a long kind of dementia type experience, more than a million dollars. And we're really talking about like, what long term care is, how to plan for it, what it might cost, what options are available for receiving care, what options are available to fund care? Those are all the types of issues we want to talk about, because long term care, it's, it's the biggest spending shock retirees can face. It's part of those retirement risks. The risk is that you have to spend more than you anticipated because you had a long term care event that exceeded what your your planning might have entailed. In that regard, though, as well. How is long term care defined? And it's every if you will, talk about long term care insurance as well. And so when we get into the definition of long term care that's going to relate to how the insurance policy might define it, and usually it's if you need help with at least two of six activities of daily living. Those can vary a little bit from like different insurance policies, but the six activities of daily living that are usually listed is if you need help with bathing, with continents, which is related to using the toilet, addressing, eating, toileting and transferring, such as to or from a bed. Those are the six most common. And activities of daily living. And usually the two that people need help with first are going to generally be related to bathing and dressing. And if you have a certified physician or other qualified medical expert certify that you need help with at least two of these six activities

of daily living, that's usually what would trigger the ability to receive a long term care benefit, and so we can really use that as a definition for for long term care as well. No wait, I just

**Alex Murguia** 05:28

want to make a distinction. And maybe you would say, Oh no, that's covered under this rubric. But it seems these are like daily living skills, right? But I didn't hear you mention eating, like Cooking.

**Wade Pfau** 05:42

Cooking would relate to the eating, although, yeah, it may be harder to convince someone that, obviously, if you can't feed yourself, that would be definitely going to qualify. But if you have trouble cooking, that one might be harder to really say, Okay, this specifically qualifies you for the

**Alex Murguia** 06:02

long term care. How about if I have trouble eating your cooking?

**Wade Pfau** 06:06

Yeah, that's where the meal may not taste very good, but technically you could eat it, so you're out of luck.

**Alex Murguia** 06:16

All right. So it's for those and how is that assessment made?

**Wade Pfau** 06:21

Well, a qualified medical physician or other medical professional indicates that you have this trouble, that you need assistance, and therefore you have a qualifying long term care need. If you don't have any insurance or anything, this doesn't really matter at the end of the day, but that's just generally how we could define a long term care need. Okay?

**Alex Murguia** 06:48

And then based on these, I mean, these are things that are typical with aging. So I'm curious what your your take on this, but how likely are you to experience then a long term care event.

**Wade Pfau** 07:03

So we've got some good data on that. It doesn't get published every year, but I do talk about in the retirement planning guidebook, just data on the need for long term care. There's there's a simplified statistic that gets quoted in the media that like 70% of people will need long term care in their lifetime, but that's a bit of an exaggeration, and that really includes short term care in addition to long term care. But if we just look at we can make a distinction between who needs long term care support versus who has to pay for long term care support, because often the first providers of long term care would be friends and family in unpaid caregiver capacity, but just in terms of the need, this is data from the Department of Health and Human Services to estimate 49% of men who are turning 65 recently, 64% of Women will need some form of care over their lifetime. And for men, on average, they'll need help for two and a half years. For women, on average, it's 3.6 years and the percentage of the population needing support for more than five years, 18% of men, 26% of women. But again, a lot of that care would be from an unpaid caregiver, such as family or friends. If we look specifically just at who's going to need to pay for

long term care, the estimate is for people who are at least turning 65 for men, it's 39% for women, 51% and then the average duration of a long term care event where you have to pay. For men, the average is point six years, and for women, the average is one year, point and then only 3% of men and 6% of women are estimated to need to pay for care for more than five years.

**Alex Murguia 08:55**

What am I missing? I'm surprised that number is not higher. I would imagine someone listening in would be thinking, well, 100% of the people are eventually going to live long term care, absent those that die of like a sudden heart attack or, you know, some sort of quick event, if you will, but those that sort of age out effectively aren't, aren't you affected? Aren't you going to need long term, long term care? You know, long term care, it could be family, but it's still long term care.

**Wade Pfau 09:23**

A lot of people will end up dying before needing care. And then this is the specifically where you really have something that you need care for more than 100 days. So some of those cases, too might be picked up. You'd develop some issue, but then ultimately, you don't make it another 100 days. I guess that keeps you out of the statistics as well.

09:44

Okay, fair enough.

**Wade Pfau 09:46**

But, but yeah, 64% of women needing some form of care. Just 36% make it without a need.

**Alex Murguia 09:56**

Yeah, 36% make it without, without a need or without exceeding the 100. Days without,

**Wade Pfau 10:01**

without exceeding the 100 days, right?

**Alex Murguia 10:05**

Anything from there, that, from your research, or and the like that, what's out of the, you know, the two out of six? What are the ones that are the high on that list? Usually a picture of people of our listeners, thinking about their parents. You know, what are things they should be maybe keeping an eye out that will give them a clue. With regards to, okay, this is something that we need formal. We need to formalize this care, as opposed to just, you know, swinging by the house every once in a while.

**Wade Pfau 10:39**

Yeah, well, with the formal activities of daily living, it's usually dressing and bathing, where people develop problems first, but you might if you're kind of monitoring someone's situation. There's also incidental activities of daily living, things like paying bills or basic housekeeping, house cleaning, that might really become an issue that you can notice before it's clear that help is needed with the activities of daily living. If people are having trouble managing their finances or having trouble driving, having trouble cleaning the house, that's going to probably be a more

obvious indicator that you see before getting the chance to observe some of those activities of daily living. That's a

**Alex Murguia** 11:24

good point. I noticed, like with my parents, like the executive functioning abilities, really dropped off before, before just the basic living skills.

**Wade Pfau** 11:36

And for those incidental activities, things like the driving or maintaining the house or paying the bills that won't qualify you for long term care insurance benefits, usually, unless there is additional provisions that are dementia related. And then if you can somehow indicate that this is a qualifying condition, but that that may be less common for insurance policies, you have to read the fine print carefully there.

**Alex Murguia** 12:04

Okay, and let's say someone's thinking about this for themselves, or starting to think about this for their loved ones and the like, what's a bit of a softball. I know we had some questions lined up, but I don't know if you address it in the book, but at what age is there a sweet spot around what age to begin to think about this? And I want to follow that up with and once you're in that sort of zone, where can you go about getting it

**Wade Pfau** 12:37

well, if, if you're thinking about funding Long Term Care, that's a big, important part of any retirement planning process. So it's harder to talk about a sweet spot for ages, specifically for long term care insurance, they usually the advice is, by the time you get to your 50s, you really want to be thinking about it, because if you develop a condition, it might disqualify you from being eligible for long term care insurance, either traditional long term care insurance or life insurance that may include Long Term Care Benefits and so forth. So you want to get the protection in place before you need it, or you might otherwise not be eligible. So that's where 50s often gets thrown out. Is you want to be thinking about this by your 50s. Before your 50s, it's still a possibility to consider long term care insurance, but there may be other competing needs on your finances where just having life insurance to protect your family or having disability insurance can all be higher priorities than getting long term care insurance at younger ages. Okay, and where

13:44

can you get long term care? Yeah,

**Wade Pfau** 13:47

so how to, like, actually get help? So there's a continuum. It usually starts at home with that informal caregiving assistance from families and friends. The next step after that, people generally do want to stay in their home. And so another option that can be less expensive than some of these other options we'll discuss is, but still is getting more and more expensive each year, but having caregivers come to the home, so paid formal caregivers coming by the home to provide care as part of that process, too. There's adult daycare centers, and we had an episode with Jackie Smirka, who runs an adult daycare center in suburban Detroit. She provided a lot of great information that's to just help provide relief, especially if it's an informal caregiver, so that person can either go to work or to just have a break, taking the individual to an adult daycare

center so that they can spend the day doing activities and socializing with other people and things. That's part of that continuum when you're still staying at home. Then as you move up the continuum, assisted living facilities or. You still have some degree of independence, but really you're at the point it's harder and harder to stay with independent living at home, even with perhaps a full time caregiver. So you move to an assisted living facility and then further down the spectrum from there, at some point nursing homes, that might be what people usually think about as this is what long term care is all about. But nursing homes are really the final step in the process, and a lot of people might be able to have their long term care needs adequately provided for without ever needing to go to the nursing home. But the nursing home is for really when you need ongoing care and supervision and support beyond what even an assisted living facility can provide

**Alex Murguia 15:43**

and Wade for everyone, just listening to all these options in the book, do you detail these options a little bit more so people have a nice cheat sheet,

**Wade Pfau 15:51**

if you will? Yes. Yes. That's the chapter seven of the retirement planning guidebook is going into greater depth on what we're talking about in today's episode,

**Briana Corbin 15:59**

the retirement income challenge with retirement researcher has already started up, and we had a great first day yesterday, but if you missed your chance to take part, don't worry. You can join the Retirement Income Challenge waitlist so that you don't miss out next time and make sure that you're able to join Wade and Alex to sign up for the waitlist. Head over to retire with style comm slash waitlist. Again, that's retire with style.com/waitlist we'll see in the challenge next time, at least.

**Alex Murguia 16:29**

What about? What about couples? Let's say what. How often is it that one spouse takes care of the other one to their own detriment, and then they quickly both need long term care

**Wade Pfau 16:45**

that is common. And so this is really an issue that more often impacts women, with women tending to live longer than men and also often being younger than their spouses, that the wife is put into a position of being the informal caregiver for their husband, and then eventually the husband passes away, and the wife becomes a widow, and then when it's time for her to need care, there's no longer an informal caregiver available. And also the process of providing that care can be very stressful and can ultimately lead to a greater potential need. So informal caregivers sacrifice quite a bit, if it's still earlier in life that maybe an adult child is an informal caregiver that can really disrupt their career, maybe qualifying for their own social security benefits and things. But then when spouses are put into that role, it's often the women providing care for the husband, outliving the husband, and then having to pay for their own care, and perhaps after resources have been depleted for that person. Now, one other aspect for couples, when we listed the continuum of long term care options, there's also continuing care retirement communities, which can be expensive to move into. Can you, like,

**Alex Murguia 18:05**

identify that? Because I think that's important, and that's what a lot of folks, at least a lot of my family on my wife's side, have been going through, where it's the pre step, a preamble, if you will, to potentially having a nursing going to a nursing home, but the importance of choosing a continuing care facility before there's an actual need for long term care in terms of just being able to get into one, and the like, I think that whole process and dynamic is interesting.

**Wade Pfau 18:33**

Yeah, yeah. So this is like another senior housing option, where you move into a community before ever needing care. But then and there's different ways the contracts can be set up, in terms of how much is prepaid, or how much do you pay as needed for care. But within one broader community or neighborhood, you have all the levels of long term care available with the independent living, and then support at home, assisted living, nursing homes. It's all within one broader community, which can be important for spouses, because if one of the spouses needs to go to a nursing home, it will be a lot easier to visit that person when it's all part of the same general community, versus if the other spouse isn't necessarily able to drive in things, it could be a lot harder to have that ongoing interaction that would ultimately split up the couple in a way that you've got a better foundation to not be fully split up in that manner with with the continuing care retirement community, okay?

**Alex Murguia 19:39**

And so then, so you can get in, just in summary, they can get long term care through,

**Wade Pfau 19:50**

you mean, for the facilities, yeah, I'm just thinking of

**Alex Murguia 19:52**

people listening at the folks that are re that are listening in, just so they get, like, a list in their head, okay, I can obviously get in train, you know, I can get long term. Care, you know, informally, through loved ones, I can, you know, potentially go to a seat continuing care facility that then turns into a more significant Long Term Care solution,

**Wade Pfau 20:11**

etc, yeah, the continuing care retirement community, that would be an umbrella, a way to get all the different levels of care at one place. But then those levels of care, right, the informal caregiving at home from friends and family, formerly paid caregivers who come to your home to provide that care, assisted and then adult daycare centers are working in there, then assisted living, and then nursing homes. That's the spectrum of care that's available.

**Alex Murguia 20:42**

Okay, now let's talk about it from a spectrum of funding for long term care.

**Wade Pfau 20:50**

So there's generally four ways to fund long term care expenses. The first would be self funding, where you set aside enough reserve assets so that you've got the resources to pay the long term care bills as needed. You've got Medicaid. This is not Medicare, but Medicaid. Medicaid is once you've exhausted your resources, there's income and wealth levels, and it varies a bit from state to state, but once you're effectively deemed to be destitute, then you can use Medicaid to pay for long term care. There's also long term care insurance. There's the traditional long term

care insurance policies where you pay an ongoing monthly premium, usually the premium ends once you qualify for a need, and then the benefits would be paid out according to how the policy is designed. And then there's also the hybrid insurance approaches, which combine long term care benefits into either, more commonly, a life insurance policy, but sometimes also an annuity. And the way the annuity might work is the annuity pays out at a particular level, but if you qualify for a long term care need, it doubles the monthly benefit you receive something along those lines.

**Alex Murguia** 22:09

Okay, so with regards to it doubles and the like talking about monetary value, how much should people think about setting aside for long term care expenses.

**Wade Pfau** 22:22

Well, if, if they're going to self fund, I talk about a, like a long term care calculator in the book, and then also, like with our funded ratio, you kind of set up a contingency expense to be feel comfortable retiring. What would you like to be able to cover with respect to long term care, and that just means designing a scenario. I also talk about in the book. There's the Genworth does an annual cost of care survey, and maybe it's worth mentioning those numbers. So the survey was last conducted in 2024 on average in the country. They also show these numbers, state by state. But homemaker services, you're looking at this is annual numbers, 75,500 a year. Home health aide, 77,800 a year. Adult daycare centers average \$26,000 a year. Assisted living averages 70,800 a year, a nursing home in a semi private room, 111,300 a year in nursing home in a private room. 127,750 a year. Now those were 2024, numbers. We also have to deal with the the idea that long term care expenses are projected to rise faster than inflation. So if inflation, you're thinking might be two and a half to 3% you might want to be thinking about five or 6% as an inflation rate for long term care. Then the other aspect too is if you need long term care, a lot of the other parts of your budget are probably going to go away, especially if you move to a facility, then you no longer just the bills will include to pay for food and that sort of thing, so you wouldn't have your separate budget for Independent Living, plus your budget for the long term care so you can offset some of your other expenses. And then I walked through we created a long term care calculator where you enter this information. How old are you? What kind of event Do you want to plan for? So if I decide, well, I want to be able to pay for a nursing home between the ages of 93 and 95 what would the the annual outlay for that look like in terms of how much will you spend? What inflation rate Do you want to use for the long term care need? How much was your other expenses be offset if you have that long term care need, what's the inflation rate on your irregular budget? And then what's the discount rate? And that can help you then calculate a present value of kind of like we talked about last week with the fidelity estimate. So this is how much you want to set aside for. For healthcare and retirement? Well, going through this calculation would tell you this is how much you want to set aside for paying for a long term care contingency in retirement. And of course, it's impossible to plan for the worst case scenario and everything like if you're saying, Well, I want to pay for 10 years in a nursing home in case I have dementia, that could be a challenge, because that's going to be incredibly expensive. If you are self funding at some point, you might deplete your asset base, and then Medicaid becomes an option. But if otherwise, you're thinking about self funding in a manner that won't deplete all your resources, and realistically, you decide if I could pay for three years in a nursing home for myself, two years for a spouse, that's a pretty conservative scenario. That should be sufficient that I can't really plan for more than that, but I'll feel

comfortable if I could fund that. That's how to think about describing a long term care event for your plan got

**Alex Murguia** 25:56

you now you had said Medicaid and but earlier, you mentioned Medicare. Medicare does not cover

**Wade Pfau** 26:07

this, right? Medicaid is the health insurance for the indigent who do not have resources. Medicare is what we talked about last week, health insurance for Americans, usually age 65 and older. That's why

26:20

it's its own like and

**Wade Pfau** 26:22

Medicare does have something that looks a little bit like long term care, but it's under very specific circumstances, including a three night stay in a hospital, a condition that requires physical therapy or other type of care for up to 100 days. That's the scenario where Medicare might pay something, but it never pays for more than 100 days. And when we said at the beginning, like long term care is defined as 100 or more days, Medicare does not pay for long term care needs, you have to use this as a supplement. Medicare supplements do not pay. No I

**Alex Murguia** 26:59

don't mean a Medicare supplement in that kind of term, just mean as a compliment too, because with Medicare, you got the first 100 days with a long term care policy.

**Wade Pfau** 27:09

It's only the first 100 days under very limited circumstances, and it's for a specific medical condition that required a hospital stay if you're just having trouble bathing or dressing that wouldn't qualify for getting any benefits through Medicare, okay, but, but if you're using long term care insurance, there's going to be a period where, once you become eligible that you need care, you might have a 60 or 90 day waiting period where you're self funding and a longer waiting period could help reduce the costs of the insurance premiums. So you're looking for a good balance there. 60 or 90 days would be common where I'm going to self fund during this waiting period, and then the benefits kick in, and if it worked out that you have a condition that Medicare would pay for. Well, there's also issues with Medicare that you're really expected to recover, I believe, and that may not always be apparent, if you really do have a what's believed or deemed to be a permanent long term care need, okay? Yeah. I mean, if they're, if you're thinking about long term care insurance, there's all kinds of features about how the policies work. If you want to go through one, save that for another episode or Sure thing.

**Alex Murguia** 28:31

Yeah, let's do that. Okay, all right, everyone, welcome to the initial entry into long term care, and we'll catch you next week as we go into the features of long term care policies. All right, riveting, isn't it? Wade, yeah,

**Wade Pfau** 28:49

so yeah, let's stay tuned for more stuff.

**Alex Murguia** 28:53

All right. Catch you next week. Everyone on retire with style.

**Briana Corbin** 28:56

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