

The Middle-Class Dilemma: Funding Long-Term Care Without Insurance

Admin User · December 5, 2025

Learn critical non-insurance strategies to preserve your wealth and avoid impoverishment when facing the high costs of long-term care.

By Michael W. Lynch

You're approaching retirement with a pile of wealth and an expectation that Social Security will be there as a foundation. You've crunched the numbers, educated yourself on proven income generation strategies from assets and you have a high degree of confidence that you're financially set. The main risk that lingers is the possibility of what I call paying rent in the wrong hotel for an extended period. I'm not talking about a late in life crisis and a Howard Hughes move into a fancy hotel suite. Nope. I'm talking about a shared room in a long-term care facility.

In part one of this series, I relied on a Center for Retirement Research at Boston College (CRR) [study](#) focusing on the actual and perceived risks of paying for health-related expenses in retirement.

I explored the likelihood of the risk, concluding that estimates seem high but no one really knows, based on publicly available data. At any rate, the only statistic that matters to you is if it happens to you and if so, what are the consequences.

I also looked to the private insurance industry for solutions. The conclusion here is that you're not likely to find an affordable, comprehensive insurance solution.

Finally, I focused on government programs and concluded that the ultimate price of near-total asset spend down may be unacceptable.

This piece will focus on the critical question you will eventually ask: What other non-insurance risk mitigation strategies can I use to preserve my wealth?

Move the Money

If private insurance is unaffordable and the price of government coverage is impoverishment, what are the alternatives?

Paying for long-term care is at once simple—the facilities want paying clients—and complex—we all have the right to a dignified end, financed and managed by the U.S. government and the state in which we live.

What non-insurance and non-investment strategies are effective? As someone who works in multiple states, I can confirm your answer will be highly dependent on the state in which you live. In some cases, it will even depend on the region in which you live. In Connecticut, for example, you can use assistance from a grandchild in addition to a child as a means to protect your house value from Medicaid reimbursement, depending on which courthouse you wind up in. The same federal and state laws, but different outcomes depending on the culture of the courthouse.

There's also the important nuance of how many assets you own and what kind of assets they are, for example, retirement plans, real estate or after-tax bank and investment accounts.

A Step Away from a Government Payday

A couple with \$100,000 of net worth, in my experience, has very little to worry about financially from long-term care. If they own a home that they want to protect against liquidation, they can easily protect it with a life use deed or a trust. These strategies, which should be undertaken with experienced legal assistance, essentially split the ownership of the asset between the right to live in the property, which you retain, and the right to the residual value, which you transfer to a person or a trust.

With \$100,000 of assets, they will be close to Medicaid eligibility in many jurisdictions (if married). I wouldn't see a large role for spending money on an insurance policy. Better to use that on vacations while healthy.

At the other end of the spectrum, a couple with \$5 million invested, regardless of real estate, can sleep easy as well. At 5%, those assets generate \$250,000 a year. Add in Social Security and this is enough income to finance a long-term stay regardless of length. This couple should be able to afford to transfer the risk to an insurance company if that's their preference. Given today's prices, however, they're likely to conclude, alone or with the help of a competent financial adviser, that they'd be better served by retaining the risk and making sure their assets are working for them at market rates.

The CRR study finds that two of three Americans are not worried about needing and paying

for long-term care services. Some respondents have the cash to pay, others are insured and others may not worry about such things. Some may know that they are already close to Medicaid eligibility. Or those who may be at risk of paying big bills have developed an asset protection plan.

Malcolm in the Middle

In a painful inversion of Aristotle's Golden Mean, long-term care financing is a potentially financially devastating problem for the American middle class. America's social safety net is not designed to prevent people from being poor. Rather, it protects them from the worst effects of it. In fact, the ticket to admission is often being poor, at least on paper. This is how our long-term care safety net, funded by Medicaid, is designed to operate. And Medicaid funds 61% of care.

Broke on Paper

The key to these strategies is to appear poor to the government. In other words, be legally poor, while still having access to funds or preserving money for loved ones. Here's where a good team of financial advisers can really earn its pay.

Again, I want to stress how important local rules are. You cannot assume something that worked for your friends in another state will work for you in your home state. But there's a menu of strategies from which to choose.

The value of houses can be preserved with trusts, life use deeds, outright gifts and children. Yes, kids can be useful here. Disabled children will preserve the house for their lifetime. Under federal law, if other children keep you from needing institutional care for two years, they too can inherit the house. You can even sell your house and purchase the right to live in theirs.

Speaking of kids, it's not typically a good strategy to give money to them in hopes of getting under Medicaid limits. You can, however, pay them to do the stuff that they should, in fact, be doing for free. Given the proliferation of home health care agencies and other support for the elderly, it's not hard to determine real market rates, create a care contract and spend the money.

There are trusts. These are not typically last-minute silver bullets. But if you create and fund them prior to need, they can preserve substantial assets. The assets they can own run the gamut from investments to annuities, real estate and, of course, life insurance.

Why life insurance? Because it creates money from thin air in a tax-efficient way, provided of course that required premiums were paid. This is a perfect combination to protect

wealth from a long-term care event.

By way of illustration, a person may be funding her high nursing home bill from IRA distributions (IRAs can't be moved to trusts without devastating income tax consequences). She's spent down her assets \$500,000 by her death. At that time, a \$500,000 life insurance policy in a properly structured trust could replace every dollar she spent.

The Lifeboat Drill

The main ingredients in any solid plan are time, trusts, family, money, a good planning team and the ability to make decisions and act quickly if the time comes.

Some of these strategies can and should be put in place well before any need is evident. They are part of a solid estate plan that includes tax-efficient asset protection, management and transfer. We put other strategies on standby. You spend time and money to create them in hopes that they will never be needed but they're akin to the lifeboat drills people must complete at the start of every cruise or the fire drills we did in school. The key is to understand where you need to go and who you'll be relying on if a crisis emerges. At that point, time will be of the essence, and you'll want to focus on the human needs of your loved ones, not the legal and financial details of complicated asset protection strategies.

Bottom Line

Planning for long-term care to accompany your aging is complex and highly situation-specific. There may be a right answer for you, but it won't come prepackaged, off the shelf from a financial supermarket. If you want to put a good plan in place for your family, it's going to take a bit of work and some creativity.

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