



WHY YOUR ESTATE PLAN MIGHT NOT PROTECT YOUR LEGACY (AND HOW TO FIX IT)

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Understanding the Hidden Connection Between Estate Planning and Long-Term Care Costs

Picture this: You've spent decades building wealth, saved diligently, and created what you thought was a solid estate plan. Your will is updated, your beneficiaries are named, and you feel confident about leaving a meaningful legacy to your children. Then life throws you a curveball. A stroke, dementia, or simply the natural aging process requires long-term care.

Here's the shocking reality: The average nursing home in America costs over \$120,000 per year. That means your carefully saved \$500,000 retirement nest egg could vanish in just four years of care. Suddenly, the legacy you planned to leave your family has been consumed by care costs you never saw coming.

If this scenario makes your stomach drop, you're not alone. Most Americans have no idea how vulnerable their estates are to long-term care expenses. The good news? With proper planning, you can protect both your future care needs and your family's inheritance.

THE HIDDEN THREAT TO YOUR ESTATE

Let's start with some eye-opening numbers that might surprise you. According to recent studies, about 70% of people over age 65 will need some form of long-term care during their lifetime. Yet most people spend more time planning their annual vacation than they do preparing for this reality.

Think about it this way: If someone told you there was a 70% chance your house would flood, wouldn't you want flood insurance? Long-term care costs work the same way, except the "flood" can wash away decades of careful financial planning in just a few years.

The challenge goes deeper than just the high costs. Many families discover too late that their traditional estate planning documents – their wills, basic trusts, and beneficiary designations – offer no protection against long-term care expenses. It's like having a beautiful umbrella that only works in light rain, not during the financial hurricane that extended care can create.

Consider Sarah and Tom, a couple who thought they had everything figured out. They owned their home outright, had \$400,000 in retirement accounts, and felt secure. When Tom developed Alzheimer's disease at age 72, their financial foundation began cracking. After three years in memory care, their savings were nearly gone, and Sarah faced the terrifying prospect of losing their home to pay for Tom's continued care.

Stories like this play out in families across America every day. The tragedy isn't just the financial loss – it's that much of it could have been prevented with proper planning.

WHY MEDICARE WON'T SAVE YOU

Here's where many people get confused, and understandably so. Medicare is our country's health insurance program for seniors, so it should cover nursing home care, right? Unfortunately, that's one of the most dangerous misconceptions in retirement planning.

Think of Medicare like a skilled mechanic who only fixes certain types of problems. Medicare covers "skilled nursing care" – the kind you need right after a hospital stay when recovering from surgery or a serious illness. But most long-term care isn't skilled care at all. It's what experts call "custodial care" – help with daily activities like bathing, dressing, eating, and taking medications.

Here's the key distinction: Medicare covers care that helps you get better. It doesn't cover care that simply helps you live day to day with a chronic condition. And Medicare's skilled nursing coverage is strictly limited to 100 days per illness, with significant out-of-pocket costs starting on day 21.

To put this in perspective, imagine Medicare as a temporary bridge that gets you over a short river. It's not designed to support you during the long journey that chronic conditions like dementia, Parkinson's disease, or stroke recovery often require. For that longer journey, you need different tools entirely.

This is why so many families are caught off guard. They assume Medicare will handle nursing home costs the same way it covers hospital stays. By the time they discover the truth, it's often too late to implement protective strategies.

THE INTEGRATION CHALLENGE: WHY TRADITIONAL ESTATE PLANNING FALLS SHORT

Most people approach estate planning and long-term care planning as separate issues. They visit an attorney to draft a will and maybe set up a basic revocable trust. Separately, they might think about long-term care insurance or briefly consider what would happen if they needed extended care. But treating these as separate concerns is like trying to navigate with two different maps that don't show the same territory.

Modern estate planning must integrate both goals: protecting your assets during your lifetime and preserving wealth for your heirs. These objectives used to be simpler when people generally lived shorter lives and care was primarily provided by family members at home. Today's reality is

different. People live longer, families are often scattered geographically, and care has become increasingly complex and expensive.

Traditional estate planning tools like simple wills and basic revocable trusts offer no protection against long-term care costs. In fact, assets in a typical revocable trust are still considered “countable resources” when determining eligibility for government assistance programs. It’s like having a safe that protects your valuables from theft but not from fire.

This is where integrated planning becomes essential. You need strategies that can serve double duty – protecting assets from care costs while preserving your ability to pass wealth to your children and grandchildren.

SMART STRATEGIES FOR PROTECTION

The good news is that several customized strategies can help protect your estate from long-term care costs. Let’s explore the most effective approaches, keeping in mind that each family’s situation is unique.

Long-Term Care Insurance: Your Financial Bodyguard

Think of long-term care insurance like a bodyguard for your other assets. You pay premiums hoping you’ll never need protection, but if you do, it shields your savings, investments, and home from care costs.

Modern long-term care insurance has evolved significantly from the basic nursing home policies of the past. Today’s policies often cover care in your home, assisted living facilities, and nursing homes. Some even include benefits for informal care coordination and family caregiver training.

The key advantage is leverage. You might pay \$3,000 per year in premiums to protect \$500,000 in assets. If you never need care, you’ve spent money but protected your wealth. If you do need care, the insurance pays benefits that can preserve your estate for your family.

Medicaid Asset Protection Trusts: Planting Trees for Future Shade

Imagine you want shade in your backyard. You have two choices: buy a mature tree that costs thousands of dollars, or plant a sapling and wait for it to grow. Medicaid Asset Protection Trusts (MAPTs) work like that sapling – you need to plant them years before you need the shade.

A MAPT is essentially a special legal container that holds your assets. Once assets are properly placed in this trust, they’re no longer considered yours for Medicaid eligibility purposes. This means you can potentially qualify for government assistance with long-term care costs while still preserving wealth for your children.

The catch is timing. Federal law requires a five-year waiting period between when you transfer assets to the trust and when you can apply for Medicaid benefits. Transfer money today, and it won’t be protected until five years from now. This is why advance planning is so crucial.

Here's how it might work: John, age 60, places \$300,000 into a properly structured MAPT. Five years later, if John needs nursing home care, that \$300,000 won't be counted when determining his Medicaid eligibility. The money can remain protected for his children while Medicaid helps pay for his care.

Strategic Gifting: Sharing Wealth Before You Need To

Another approach involves giving money to your children or grandchildren before you need care. The strategy is simple in concept: if you don't own assets, they can't be used to pay for your care.

However, this approach requires careful navigation of gift tax rules and Medicaid regulations. The government allows you to give away a certain amount each year without tax consequences, and these gifts can reduce your "countable assets" for Medicaid purposes. But timing matters enormously.

Like MAPTs, strategic gifting is subject to Medicaid's five-year lookback period. Give away money today, and it might still count against you if you need Medicaid benefits within five years. But gifts made more than five years ago are generally protected.

Income vs. Asset Planning: Understanding the Difference

Here's a concept that confuses many people: Medicaid has both asset limits and income limits, and they work differently. You might have too much money in the bank to qualify for Medicaid, but your monthly income could be acceptable. Or you might have modest savings but receive too much monthly income from pensions and Social Security.

Understanding this distinction opens up additional planning opportunities. For example, certain types of annuities can convert countable assets into an income stream that might not disqualify you from Medicaid benefits. It's like converting a large pile of cash (which creates problems) into a monthly paycheck (which might be manageable).

STATE-BY-STATE VARIATIONS: WHY LOCATION MATTERS

Here's something that surprises many people: Medicaid rules vary significantly from state to state. It's like how driving laws change when you cross state lines – the basic concepts are similar, but important details differ.

Some states are more generous with asset protection strategies, while others have stricter rules. Some states allow certain types of trusts that others don't recognize. If you're considering a move in retirement, or if you have adult children in different states, these variations can significantly impact your planning.

This complexity is precisely why professional guidance becomes so valuable. An advisor who understands federal regulations and your specific state's rules can help you navigate these differences effectively.

WHEN TO START PLANNING: THE POWER OF TIME

If there's one message to take away from this article, it's this: time is your most powerful planning tool. Almost every protective strategy works better when implemented years before you need care.

Think about it like wearing a seatbelt. You put it on when you start the car, not when you see the accident coming. Similarly, asset protection strategies need to be in place before health issues arise or cognitive decline begins.

The five-year lookback period we mentioned earlier illustrates why timing matters so much. Start planning at age 60, and you have options. Wait until age 75 when health issues are already apparent, and many doors have already closed.

Early planning also allows for more sophisticated strategies. You might be able to combine long-term care insurance with asset protection trusts, or implement gifting strategies gradually over time. These approaches require years to fully implement, but can provide much more comprehensive protection.

FAMILY CONSIDERATIONS: PROTECTING EVERYONE YOU LOVE

Long-term care planning isn't just about the person who might need care – it affects the entire family. Spouses face particular challenges, as they need to balance supporting their partner's care needs while protecting their own financial security.

Fortunately, the law recognizes this challenge through “spousal impoverishment protection” rules. These regulations are designed to prevent a healthy spouse from becoming destitute while their partner receives Medicaid-funded care. A certain amount of income and assets can be preserved for the healthy spouse, but the rules are complex and the amounts are limited.

For adult children, watching parents spend down their life savings for care can be emotionally and financially devastating. Many adult children find themselves caught between wanting the best care for their parents and hoping to preserve some family wealth for future generations.

Proper planning can address both concerns. Strategies exist that can help ensure quality care while preserving at least a portion of family wealth. The key is starting these conversations early, when all family members can participate in planning decisions.

GETTING PROFESSIONAL HELP: WHY THIS ISN'T A DIY PROJECT

By now, you might be feeling a bit overwhelmed by the complexity of integrating estate planning with long-term care considerations. That's a completely normal reaction – these rules are complicated, they change regularly, and the stakes are high.

This is precisely why professional guidance becomes so valuable. Working with advisors who understand both estate planning and long-term care strategies can help you develop a comprehensive approach tailored to your specific situation.

At Palmer Wealth Group™, we've seen how proper integration of these planning areas can make the difference between a family losing their entire inheritance to care costs and preserving wealth across generations. Our experience has taught us that the best strategies often involve combining multiple approaches – perhaps some insurance, some asset protection, and some income planning – rather than relying on any single solution.

The consultation process typically begins with understanding your current financial situation, your family dynamics, and your goals for both your own care and your legacy. From there, we can model different scenarios and help you understand the potential outcomes of various strategies.

TAKING ACTION: YOUR NEXT STEPS

Understanding these concepts is the first step, but knowledge without action won't protect your estate. Here's how to begin taking control of your long-term care and estate planning:

Start by having honest conversations with your family about your concerns and goals. Discuss what quality of life means to each family member and how you might want to handle care decisions if they arise.

Next, take inventory of your current estate planning documents. When were they last updated? Do they include any provisions for long-term care costs or incapacity? Most basic estate plans don't address these issues at all.

Consider your current insurance coverage. Do you have long-term care insurance? If not, are you still healthy enough to qualify for coverage? Remember, you can't buy fire insurance while your house is burning.

Finally, seek professional guidance from advisors who understand the intersection of estate planning and long-term care needs. The complexity of current regulations makes this challenging to navigate alone, and mistakes can be costly.

The reality is that nursing home care costs represent one of the biggest threats to retirement security and family wealth in America today. These expenses can not only deplete lifetime savings but also trigger unexpected estate taxes for families who thought their wealth was below taxable thresholds. However, with proper planning that includes guidance from qualified professionals like an elder law attorney, these costs don't have to devastate your estate or derail your legacy goals.

The families who weather these challenges most successfully are those who plan ahead, understand their options, and work with experienced professionals to implement comprehensive strategies. Don't let your life's work disappear into care costs that could have been managed with proper planning.

Your legacy is too important to leave to chance. Take action now to protect both your future care needs and your family's inheritance.

Palmer Wealth Group is committed to helping families navigate the complex intersection of estate planning and long-term care needs. Contact us today to learn how we may be able to help develop strategies appropriate for your specific situation.

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