SOCIETY OF ACTUARIES

Managing the Impact of Long-Term Care Needs and Expense on Retirement Security Monograph

Overview

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Risk is Opportunity.[sm]

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The Link Between Retirement And Long Term Care by Anna Rappaport

Long-Term Care help and services are important to many Americans. The existing provision of long-term care services in the United States is fragmented and many parts of the system are facing significant challenges. Circumstances requiring a long period of long-term care support can present a major problem for families and often lead to retirement insecurity for those who experience such episodes.

Seeking to better understand the link between long term care and its impact on retirement, the Society of Actuaries Committee on Post-Retirement Needs and Risks, working closely with the SOA Long Term Care Section, issued a call for papers: “Managing the Impact of Long-Term Care Needs and Expense on Retirement Security: A Holistic and Multi-Generational View.” These papers are published in this monograph.

This chapter provides an overview of the rationale for the project, provides a summary of key points, provides some basic background and discusses the topics and issues covered by these papers.

Why This Topic Is Important

Long-Term Care (LTC) expenses can be devastating to the retirement income and lifetime financial security plans of households as well as their family caregivers. Households manage this risk with a variety of approaches but few have a formal plan or insurance with their primary plan to rely on family and friends for care, and their last resort for protection is usually Medicaid. This lack of protection has put middle-class households at risk and has severely exacerbated household and societal challenges to a financially secure retirement through:

- The depletion of retirement assets due to long-term care expenses for many of the families who purchase services in response to a major long-term care event.
- The impact on the financial security of the surviving spouse.
- The added responsibility and financial burden placed on family members who care for their parents and loved ones.
- The cost of health and long-term care needs … these costs often outpace general inflation and/or the amount that individuals and families have budgeted.
- The effect of increased longevity on the likelihood of the need for care during retirement.
- The limited participation by middle-income earners in the private insurance market.
- The societal impact of an aging population on Medicare and Medicaid.

Linking To A National Discussion

This is a period of transition in the provision of support for long-term care services, and a period of searching for solutions. Experts generally agree that new solutions are needed. The Society of Actuaries’ “Land This Plane” project highlighted the need for new solutions. The Federal Commission on Long-Term Care in its work in 2013 agreed that the system is challenged, but with no consensus on solutions. The CLASS act, which proposed minimum amounts of support and was part of the Affordable Care Act, was never implemented. It is hoped that these papers will add to this discussion and further the consideration of new direction to meet these challenges.

Summary Of Retirement Planning And Long Term Care—Big Ideas

The following are some of our major findings:

Many people will need support. It is most often limited, but for some people it will be a very large amount and/or support will needed over a very long time. About 20 percent of the people reaching age 65 will need some support for five years or more.

The support from family is a huge issue—those with family support have much less need for securing support from the market. For many families, offering support is loving and important, but it can come with a large and often hidden cost to it.

Caregiving is a form of intergenerational transfer in some families. For caregiving family members, caregiving over a long time may mean giving up a job, or moving to part-time employment, and/or giving up a great deal of personal time. Some caregivers also spend considerable out-of-pocket dollars. The consequences of caregiving on the future retirement security of the caregiver are usually not considered.

In couples, the healthier member is likely to help the other member of the couple who needs help. LTC for the first member of the couple who needs help can be costly and can drain assets that would be available for the second member of the couple. Adequate survivor benefits are important to reduce the risk that LTC for the first to die will leave the survivor destitute. LTC insurance can also help protect the survivor.

Women on average live longer, are more likely to be the survivor, have longer expected periods of needing support and are more likely to be alone in old age. Structuring assets and income so that the survivor is protected is a huge issue.

LTC insurance is an important option to make funds available to buy market services when needed. This is particularly important for middle-class households. It is better to buy early when costs are lower and insurability is usually not an issue. The match between what people need and insurance is imperfect, and insurance is not always the best solution. This is an area where employers can help.

People without LTC insurance need greater assets in order to pay for a major LTC event should one occur. People who use their personal assets to pay for care are not subject to the requirements and restrictions in insurance policies.

Housing that offers some support is an excellent option for some households. There is a wide range of such housing options. Generally they have higher monthly costs than housing without support and some of these types of housing require an upfront payment. It is very desirable to have sufficient retirement funds so that such housing is a viable option to be considered when the need for help arises.

Systems of care management are evolving as are supports to assist people who wish to have care at home or in the community. Some of the evolution is focused on programs that use volunteer help and mutual support to enhance community-based options.

The worth of a current home can be viewed as a resource to pay for long term. Paying off a mortgage by retirement or early in retirement makes this a more viable option. However, housing assets are illiquid and depending on market conditions, it may be hard to sell housing when needed. Reverse mortgages offer an option for the use of housing values while remaining in the home.

A healthy lifestyle and other preventative measures are important to help to reduce the chance of needing LTC and the potential intensity of the care needed. However, this offers no guarantee that LTC will not be needed and needed for a long time.

Both physical and cognitive decline contribute to the need for LTC. Both can occur slowly or in sudden, large steps as a result of specific health events. One of the important personal planning issues is how to manage after decline occurs.

Medicaid offers the payment system of last resort. However, it requires spend down of assets for eligibility and the care options covered by Medicaid are limited. Some experts view Medicaid long term care benefits as a barrier to the purchase of private insurance and as a deterrent to better personal planning. Relying on Medicaid as a long-term solution is quite risky as the rules are restrictive, can change and these benefits are under great financial pressure.

In the current landscape, it is clear that these issues are complex and there are no simple solutions.

Setting The Stage: Current Situation

Sources of long-term care provision and funding: The majority of care is provided by family and friends on an informal basis. Only about 10 percent of the population has private long-term care insurance coverage and it is in a state of disarray, with many companies having exited the market and many more imposing rate increases because appropriate pricing of the coverage has been so difficult. Combination products that combine life insurance with long-term care benefits are growing in popularity. Medicaid is the largest funder of LTC, and these programs are under great financial pressure. Medicare funds a small amount of long-term care via its coverage of post-acute care (but this amount is much less than many people believe) and it is also under financial pressure.

The LTC that is provided by a variety of facilities and providers is financed as follows:

Table 1
Long-Term Care Financing

Source	%	Comments
Medicaid	62.2	Pays benefits to those with very low resources. Program varies by state and is under pressure due to state budgets. Medicaid spending for long-term care is heavily focused on nursing home care; home care and alternative programs under Medicaid are increasing.
Other public	4.6	Include Medicare, Veterans Administration and others.
Out-of-pocket	21.6	Many families spend down assets and then go on Medicaid; does not include value of informal care.
Other private	11.6	Insurance benefits are largest component of this source

Source: Federal Long Term Care Commission report.

The system for delivering care is fragmented and diverse, and includes home and community-based care. However, there is inadequate integration of family care with supplemental services in many situations. The financing numbers shown here do not include the "hidden costs" of family-provided care.

<u>Expected need for and spending on long-term services and supports (LTSS):</u> The majority of people reaching age 65 will need some support, but not over long periods of time. However, about 20 percent are expected to need some support for five years or more.

Table 2
Distribution of Population Reaching Age 65 by Expected Duration of Long-Term Services and Supports

Duration of Expected LTSS Need for Persons Turning 65	Percentage of Total
None	31%
Under 1 years	17
1-2 years	12
2-5 years	20
5+ years	20
Total	100%

Source: Federal Commission on Long-Term Care report

As indicated above, most care is provided by family or friends on an informal basis. Some households however spend a great deal of money on purchasing care. About 6 percent of households reaching age 65 are expected to spend $100,000 or more.

Table 3
Distribution of Population Reaching Age 65 by Expected Cost of Long-Term Services and Supports

Cost of Expected LTSS Need for Persons Turning 65	Percentage of Total
None	50%
Under $10,000	25
$10,000 - $25,000	7
$25,000 - $100,000	12
$100,000 or more	6
Total	100%

Note: The study from which this table appears uses underlying data from 1994 and the distribution percentages are based on a calculation of the present value of out-of-pocket costs. The table represents a wide variation in family needs. More recent spending data was unavailable.

Source: Federal Commission on Long-Term Care report

<u>Different degrees of support needed</u>: There is a wide variation in the amount of support needed. Health status and the need for support also change by age, increasing substantially after age 80. As shown below, the percentage of the population who are disabled increases by age group for the over age 65 group. By age 85, more than 50 percent of the population have at least a mild or moderate disability. (Stallard, 2008)

Table 4

1994 Unisex Population Distribution (%) by Age and Disability Group[1]

Attained Age	Disability Group: I. Non-disabled	II. Mild/ Moderate Disability	III. HIPAA ADL only	IV. HIPAA CI only	V. HIPAA ADL + CI	Total
1994						
All Ages	77.9	11.8	5.2	1.4	3.6	100.0
65-69	90.0	6.3	2.7	0.6	0.4	100.0
70-74	86.0	9.4	2.7	0.6	1.3	100.0
75-79	78.3	12.8	5.1	1.4	2.4	100.0
80-84	66.6	18.0	7.4	2.3	5.7	100.0
85-89	48.0	23.0	11.5	3.9	13.7	100.0
90-94	29.2	22.7	21.8	4.4	21.9	100.0
95-99	15.9	20.8	25.5	7.3	30.6	100.0
Age-Standardized	78.5	11.6	5.1	1.4	3.4	100.0

Note: Results for age 65+ were age-standardized to the pooled unisex population estimates for all years combined.

Source: Stallard, Eric, Estimates of the Incidence, Prevalence, Duration, Intensity, and Cost of Chronic Disability among the U.S. Elderly, paper presented at Living to 100, 2008 and published in SOA Monograph, Table 2. Table notes that author's calculations based on the 1984-1994 NLTCS.

Individuals in categories IV and V on this table would generally be considered to be benefit-eligible under LTC insurance whereas those in categories I and II would not and they would need to rely on informal care or pay for this care out of pocket. Those in category III may be benefit eligible and that would depend on the insurance policy definition, and whether the categorization used in the research aligned with current insurance policy provisions and practices.

<u>Experience with caregiving</u>: Many Americans have experience with caregiving. A May 2014 survey from the Associated Press and National Opinion Research Corporation (NORC) titled, "Long Term Care in America, Expectations and Reality," found that 60 percent of Americans over age 40 have experience with long-term care. Of this group:

- 73% only provided care,
- 17% provided and received care,
- 7% received care only, and
- 4% financially supported the provision of care.

The majority of the caregivers (57 percent) provided care to a parent. Eighty-three percent of the caregivers reported that they had a positive experience. Fifteen percent reported that they did not have a positive experience. Seventy-seven percent of the caregivers said that caregiving

[1] HIPAA ADL means disabled to the extent that the individual could qualify as a claimant on the basis of activities of daily living in a policy that meets the standards for long-term care insurance set forth in HIPAA. Group IV meets the standards in HIPAA with regard to Cognitive Impairment (CI) and Group V in Both. These are measures of severe disability and indications of eligibility as long-term care insurance claimants. HIPAA is U.S. federal legislation which defines the basis on which long-term care insurance policies can qualify for favorable tax treatment.

strengthened their relationships. Fifty-one percent said it caused stress in the family. (Associated Press - NORC, 2014)

Impact of caregiving on employers and workers: The act of caregiving has significant impact the caregivers, those requiring care and society as a whole. Long-term care costs overall do not include the cost for informal care, but in fact families and businesses are paying a price for such care. It has been estimated that individual caregivers for aging parents lose more than $300,000 over a lifetime, factoring in lost wages, savings and Social Security benefits, and that businesses lose more than $25 billion per year in lost productivity due to caregiving. (Timmermann, 2014) Caregiving can be a major strain on the families who provide care.

Impact on women: Women are more affected by caregiving than men and are more likely to be caregivers. They are also much more likely to take time out from work or shift to a part-time schedule in order to provide care. Job and career decisions are likely to adversely impact their retirement savings and security. Women have longer expected periods of disability than men. Eric Stallard has estimated life expectancies by health status and age: non-disabled, mild or moderate disability, and more severe disability. Although it is generally understood that women have longer life expectancies, this analysis shows that they also have longer periods of disability, and longer periods of serious disability, during that life expectancy.

Table 5
Life Expectancy by Age, Disability Group, and Gender

Age	Non-disabled	Mild or moderate disability	More severely disabled*	Total Life Expectancy
Males				
65	12.34	1.50	1.50	15.33
75	6.77	1.37	1.61	9.76
85	2.89	1.04	1.75	5.68
95	.81	.61	1.91	3.34
Females				
65	13.65	2.97	2.83	19.44
75	6.99	2.55	2.96	12.50
85	2.47	1.74	3.03	7.24
95	.52	.78	2.54	3.84

*More severely disabled includes those with ADL and Cognitive Impairments that would make them claim eligible under HIPAA qualified long-term care policies.

Source: Stallard, Eric, Estimates of the Incidence, Prevalence, Duration, Intensity, and Cost of Chronic Disability among the U.S. Elderly, paper presented at Living to 100, 2008 and published in SOA Monograph, Table 4.

Women are also more likely to be alone in old age. When all of these factors are considered together, the long-term care situation has the greatest impact on women.

General Options For Private Financing Long Term Services And Supports

Individuals have a number of options for financing long-term care. Vickie Bajtelsmit and Anna Rappaport in their paper that appears in this monograph entitled, “The Impact of Long Term

Care on Retirement Wealth Needs," offer a comparison of four methods of financing. The four options are insurance, personal savings, a continuing care retirement community with a life care contract, and housing equity. Their analysis demonstrates that none of the methods is a perfect match. The Bajtelsmit and Rappaport paper also provides results of stochastic modeling that show the impact of shocks, and how they can devastate retirement security. A key finding of that work is that a great deal more money is needed to be 95 percent sure versus 50 percent sure that there will be enough money for a secure retirement. Shocks are the biggest driver of the differences. Strategies that help improve the situation at the median often don't work in the event of shocks.

How Insurance Fits In

Insurance is suggested as an important method of private financing, but at present only about 10 percent of the U.S. population have long-term care insurance. Several of the papers in this monograph provide ideas for improving insurance solutions. Paul Forte suggests a new approach to insurance using an exchange; his approach is designed to fit the needs of middle income Americans, a market often underserved. He argues for Federal regulation and a new design for this system. Rachel Narva and her co-authors offer a regulatory and market overview of the existing insurance system. They contend that the product as currently designed does not meet the needs of consumers well. They provide their views of changes the existing product designs, etc. Kailan Shang and colleagues offer a different view of product design focused heavily on sharing of risk, particularly investment risk. Some of these ideas may greatly expand the number of people with insurance and others will not. The organizers of this call for papers hope that these ideas will generate more dialogue on the framework of the marketplace and design of the insurance products, leading to better solutions. Dr. Stephen Holland and his colleagues look at how the use of long-term care insurance benefits relate to health care and how the benefits reduce medical spending, particularly at the end of life.

Karl Polzer offers ideas for the integration of 401(k) plans and paying for long-term care. His policy recommendations provide for restructuring the 401(k) and IRA rules to allow 25 percent of account balances to be set aside for long-term care, with favorable tax treatment, and distribution requirements that fit with long-term care needs. The funds in the special account can be used to pay insurance premiums or to pay for long-term care expenses directly. The approach Polzer describes can be combined with any of the financing methods shown in the columns in the chart above. We hope that actuaries will consider this approach and use it to start a conversation about how to integrate retirement and long-term care financing.

John Cutler's paper looks even more broadly. What happens if these private and social insurance programs do not see major change? Where will individuals and society be in the near future? Among some surprising suggestions is that more is going on than we think; that we might actually be seeing long-term care changes underway but are happening in too incremental (and fragmented) ways to be obvious.

The Perspective Of The Individual And The Housing Component

Two papers in the monograph look at case study examples with regard to long-term care and housing choices. The paper by Steve Cooperstein describes a specific situation, and how a combination of an annuity, housing values, and long-term care insurance were melded to help finance the care. It provides an innovative success story. Sandra Timmermann also looks at the family and the role of the caregiver, as well as the impact on employers and their role in supporting family caregiving. The paper in the monograph by Anna Rappaport looks at several case studies and the choice of housing options, and provides insights into some of the challenges individuals have experienced and the solutions they have used. It provides insights into evaluating a range of housing choices, and discusses special issues where there is a large up-front payment. It also discusses some of the pros and cons of Continuing Care Retirement Communities. Rounding out the papers concerning housing, Barb Stucki explores how to better use home equity.

Summary And Next Steps

Some of the questions addressed by this effort include:

- How can individuals and families protect themselves from the expense of long-term care needs and avoid potential financial ruin should the expenses become exorbitant?
- How can long-term care advisors and their clients improve decision-making along with better ways to frame and communicate the challenges and potential solutions?
- Are there alternative product designs both private and public that can address the challenges many face? Are there alternative financing approaches?
- How can individuals and families finance their long term care needs while also addressing their basic retirement need to provide income and asset protection?

The papers in the monograph cover a variety of topics and should be helpful in thinking both about what individuals need to do today and about the structure of the long-term care system. The papers will be of interest to a range of audiences including individuals, advisors, financial service companies, and policymakers.

The organizers hope that this monograph will encourage further discussion of issues related to long-term care and retirement, and that products will evolve to meet changing needs.