

Long-term Care Provision in the US

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Disclaimer: These are my own views and not those of the Federal Reserve Bank of Atlanta or the Federal Reserve System.

The need for long-term care in old-age is high

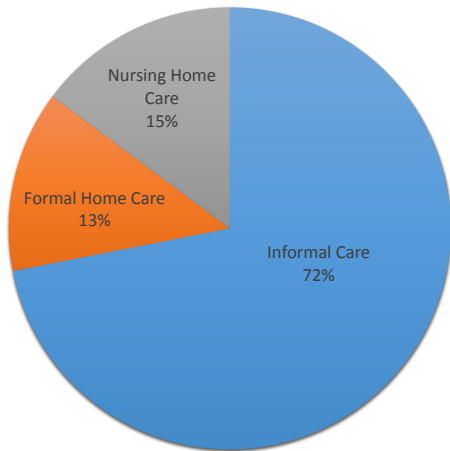
- 70% of Americans age 65 will need some type of long-term care before they die.
- 40% will likely have at least one nursing home stay.
- Of those who will need nursing home care:
 - 20% will need more than 3 years of care
 - 10% will need more than 5 years

The need for long-term care in old-age is high

- There is no universal LTC insurance program for US retirees.
 - One was proposed as part of the ACA but was deemed unsustainable.

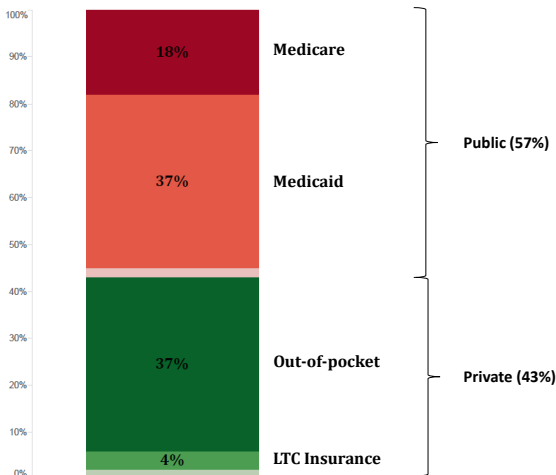
It's important to think about how your long-term care needs will be met before you reach retirement.

How do current retirees get LTC?



- Most receive informal care usually from a spouse or adult child.
- Rest receive formal care either at home or in a nursing home.

How is formal care financed?



- Most LTC is paid for by Medicaid or out-of-pocket.
- Typical to enter care as private payer and spend-down wealth to qualify for Medicaid.

What about private LTC insurance?

- Private long-term care insurance (LTCI) only covers 4% of LTC expenses.
- Only 13% of US retirees have this insurance.

Why don't Americans buy LTCI?

- **Medicaid crowds-out demand for private LTCI.**
Its secondary payer status means that LTCI payments just reduce Medicaid benefits. This lowers the value of LTCI for those with more moderate income and wealth.
- **Many Americans are denied coverage by LTCI providers.**
Roughly 38% of 55-65 year-olds are rejected by insurers.
- **For some, LTCI is either too expensive or too risky to purchase.**
Average premiums are around \$2000 a year. Contracts are long-term. Policies face the risk of rate hikes, coverage denials, and unintentional policy lapses.

Why don't Americans buy LTCI?

Market for private LTCI, if anything, is shrinking.

Why?

- The profitability of these types of products has been low since 2008.
- Insurers underestimated claims on early policies.

As a result, some insurers are cutting back offerings or exiting the market altogether.

Since there is no universal public LTC program and there are lots of problems with the private one:

Many are left with limited options for financing LTC costs other than to self-insure and pay out-of-pocket.

So it's important to plan for your LTC needs early:

- May need time to build savings.
- LTCI premiums and rejection rates rise quickly with age.

Who should be the most concerned about how they will pay for LTC?

- Wealthier individuals that are unlikely to be eligible for Medicaid.
- Individuals without a spouse or children to provide informal care.
- Women because they are 60% more likely to need nursing home care than men.
- Individuals who worry that their care needs will be a burden on their spouse or children.

Going forward...

Currently, no plan for a universal LTC program in the US.

However:

- New hybrid LTCI products are becoming available to better meet insurance needs.
 - Combine LTCI with life insurance or annuities.
- Medicaid is expanding coverage and use of formal home care to help keep people out of nursing homes as long as possible.

Going forward...

With population aging, the provision of LTC for retirees is likely to become an increasingly important issue in the US.