

# Long-term Care Provision in the US

Karen A. Kopeccky  
Federal Reserve Bank of Atlanta

US-Japan Now — Economic Impacts of Aging  
March 7, 2016

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

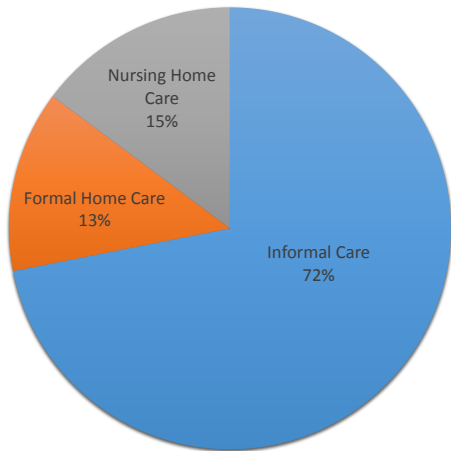
- 70% of Americans age 65 will need some type of long-term care before they die.
- 40% will likely have at least one nursing home stay.
- Of those who will need nursing home care:
  - 20% will need more than 3 years of care
  - 10% will need more than 5 years

# 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.

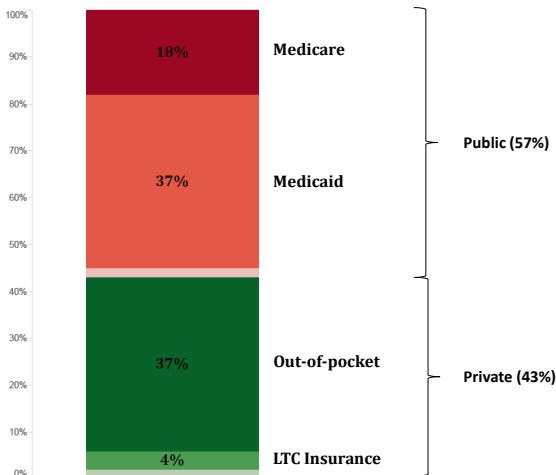
It's important to think about how your long-term care needs will be met before you reach retirement.

# 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.



# Bottom-line

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.