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The Link Between Retirement and Long-Term Care: Differing Perspectives on Long-Term Care

News from the Sessions on Long-Term Care and Retirement Security held at the 2014 SOA Annual Meeting & Exhibit

by John Cutler

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 last year: "Managing the Impact of Long-Term Care Needs and Expense on Retirement Security: A Holistic and Multi-Generational View." These papers that were chosen were highlighted at the 2014 Society of Actuaries Annual Meeting. The materials for those sessions can be found at *https://www.soa.org/Professional-Development/Event-Calendar/2014/annual-meeting/Agenda-Day-4-and-Presentations.aspx.* Session recordings will also be available (no charge for SOA members) at the same link.

The goal of the discussion was to explore several aspects of the relationship between retirement security and long-term care, as well as offer ideas about improving long-term care financing and management. They have also been gathered and published in a monograph at *http://www.soa.org/Library/Monographs/Retirement-Systems/managing-impact-ltc/2014/mono-2014-managing-ltc.aspx*.

These papers add to the section's and others' ongoing discussions about the future of the long-term care system including the "Land This Plane" project. Some of the items of greatest focus are integration with retirement security, impact on the caregiver and family, and integration with housing.

This article previews some of the papers and issues covered in the monograph:

- The Impact of Long-Term Care Costs on Retirement Wealth Needs by Vickie Bajtelsmit and Anna Rappaport
- How American Society will Address LTC Risk, Financing and Retirement by John Cutler
- Financing Future LTSS and Long Life through more Flexible 401(k)s and IRAs by Karl Polzer
- Improving Retirement by Integrating Family, Friends, Housing and Support: Lessons Learned from Personal Experience by Anna Rappaport
- An Affordable Long-Term Care Solution through Risk Sharing by Kailan Shang, Hua Su, and Maggie Lin
- How Adequate is Long Term Care Protection in Developed Countries? by Doug Andrews
- Home Equity and At-Need Annuities-A Dynamic Long-Term Care Funding Duo by Steve Cooperstein
- The American Long Term Care Insurance Program (ALTCIP) by Paul Forte
- An Overview of the US LTC Insurance Market (Past and Present): The Economic Need for LTC Insurance, the History of LTC Regulation & Taxation, & the Development of LTC Product Design Features by Rachel Narva, Larry Rubin, et al.
- Home Equity: A Strategic Resource for Long-Term Services and Supports by Barb Stucki
- The 65+ Age Wave and the Caregiving Conundrum: The Often Forgotten Piece of the Long-Term Care Puzzle by Sandra Timmermann
- Long-Term Care Benefits May Reduce End-of-Life Medical Care Costs by Stephen K. Holland, Sharrilyn R. Evered, and Bruce A. Center.

Of note, the first five papers were awarded prizes by the Society of Actuaries Committee on Post-Retirement Needs and Risks.

WHERE WE ARE NOW

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; their primary plan is to rely on family and friends for care, and their last resort protection is usually Medicaid. This lack of protection has put middle

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John Cutler currently works both on long-term care insurance and related issues at the US Office of Personnel Management (OPM) as well as in the new health care reform office of National Healthcare Operations within OPM.

class households at risk and has severely exacerbated household and societal challenges to a financially secure retirement.

In spite of these risks, only about 10 percent of the population own private long-term care insurance (though more at ages over 65). Plus, many consider the market to be one in a state of disarray, with many companies having exited the market and many more imposing rate increases as experience has differed from pricing assumptions. Medicaid is the largest funder of formal programs, 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 much less than many people believe) and is also under financial pressure.

While some may see a struggling market, many alternative products have emerged and provide a clear sign of a maturing private insurance market. Families are increasingly making use of alternative products such as short-term care insurance and combination products. These combination products, which include both life and annuity products with either a long-term care or a chronic illness riders, have seen double digit growth in each of the last five years while individual long-term care products have seen declines.

Many Americans are involved in caregiving for parents and other older family members. The individual, business and societal costs of the care they provide usually are not factored in when the costs of the long-term care system are discussed. These costs can be very substantial and are generally not recognized in the long-term care discussion.

There is also a big move to try to keep more people in their homes longer, as most people would prefer. The societal resources to support it are often not available. The challenges related to aging in place and the strains it places are likely to grow as the population ages, and as there is greater emphasis on enabling people to remain in their homes. These issues are discussed by Sandra Timmermann in her paper, "The 65+ Age Wave and the Caregiving Conundrum: The Often Forgotten Piece of the Long-Term Care Puzzle."

GENERAL OPTIONS FOR PRIVATELY FINANCING LONG-TERM SERVICES AND SUPPORTS

Individuals have a number of options for financing long-term care. In their paper "The Impact of Long-Term Care on Retirement Wealth Needs" Vickie Bajtelsmit and Anna Rappaport offer a comparison of four methods of financing. The paper also provides results of modeling that show the impact of shocks and how they can devastate retirement security. The table found at the end of this article is from this excellent work.

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 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 structure and a new design for this system. Richard Narva and his co-authors offer a regulatory and market overview of the existing traditional private insurance system. They contend that the traditional product as currently designed does not meet the needs of consumers well. They provide their views of changes to the existing product. Kallan Shang and colleagues offer a different view of product design focused heavily on sharing of risk—particularly investment risk. Some of these ideas will greatly expand the number of people with insurance and others will not. We hope that these ideas will generate more dialogue on the design of the marketplace and 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 they reduce medical spending, particularly at the end of life.

Karl Polzer offers us 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 Polzer proposal can be combined with any of the financing methods shown in the columns in the chart on page 21. We hope that actuaries will consider this proposal 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 remain essentially unchanged? 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 too incremental (and fragmented) to be obvious.

Two papers look at case study examples with regard to long-term care and housing choices. The paper by Steve Cooperstein looks at 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 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 discusses some of the pros and cons of Continuing Care Retirement Communities. Barb Stucki explores how to better use home equity as a means of financing long-term care and she offers some innovative ideas.

SUMMARY

These papers 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. In addition, the Society of Actuaries and American Academy of Actuaries will host a round table session, including a discussion of several of these papers, at the National Academy of Social Insurance January program on Medicare and Medicaid. As January will also see the swearing in of a new Congress and we move to thinking of the 2016 elections, the interest in approaching solutions to our long-term care financing problems will be foremost on our mind. These papers in a small way kick that effort off. ■

COMPARISON OF PRIVATE FINANCING OPTIONS

	Insurance	Savings	CCRC[a] with a life care contract	Housing Equity
Prevalence	Less than 10 percent of care is paid for by private long-term care insurance.	About 15 percent of long-term care is paid for out of pocket. On average, older households have insufficient funds to cover the cost.	Low; limited to higher wealth households.	Low prevelence of reverse mortgages to pay for LTC.
When to do it	While still healthy enough to quailify for lower rates.	Throughout life.	Payment at time of entry and ongoing payments thereafter.	When funds are needed.
Constraints	Limited access after health deteriorates. LTC insurace may not cover all costs.	Requires long period of saving to accumulate sufficient savings.	Limited access after health deteriorates.	Insufficient home equity to finance care; illiquidity may make selling difficult.
Match of solution to care needs	Depends on contract terms, e.g., qualification for benefits, type of care covered, waiting periods, maximums.	Does not provide or finance care directly; difficult to estimate needs; savings may be insufficient; flexibility to use funds as needed.	Depends on contract terms and care available at CCRC chosen.	Does not provide or finance care directly; no guarantee that home equity will be sufficient to meet needs.
Risks	Insurance premiums may increase over time; expenses may exceed policy maximums if care required for extended periods.	Investment risk; potential for shortfall; difficulty of managing assets; savings may be depleted prior to needing care.	Monthly costs are likely to increase; CCRC could change management or go bankrupt; don't know if all needs will be covered.	Housing equity may be inadequate to meet needs, housing market risk, interest rate environment impact on reverse mortgage payouts.
Which household type should use this methond of financing?	Middle and upper middle income because they can afford premiums.	Higher income and net worth households; need to start early and be willing to take investment risk.	Higher net worth only because of the cost of buy in and regular payments.	Any households that own their home; lower risk for singles.
If no LTC costs incurred, what cost has been incurred?	Insurance premiums from date of purchase to death.	Nothing. All savings can be accessed for other purposes.	CCRC buy-in price, higher monthly living cost to cover premium for long-term care.	Nothing. Housing equity is still available to use for other purposes
Issues for surviving spouse	Reduces risk of asset depletion; insurance can be cheaper if bought for both spouses.	Healthy spouse may incur personal and financial costs to delay accessing paid care; survivor may have insufficient assets to meet own needs.	Security of being in the CCRC and of receiving care if needed; monthly charges higher than alternative housing; high cost for relocation if it becomes necessary.	Healthy spouse may incur personal and financial costs to delay accessing paid care; survivor may have insufficient assets to meet own needs.
Tax issues	Some long-term care insurance has tax advantages.	Most retirement saving is tax-deferred; wealth will be taxed on withdrawal.	Part of the buy-in price and monthly cost are deductible as insurance.	Gain on the sale of the house usually tax free.

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(Source: The Impact of Long-Term Care Costs on Retirement Wealth Needs, by Vickie Bajtelsmit and Anna Rappaport, 2014)