THE LINK BETWEEN RETIREMENT AND LONG-TERM CARE: JOIN US AT THE 2014 SOA ANNUAL MEETING

By Anna M. Rappaport and John Cutler

Anna M. Rappaport, FSA, MAAA is an actuary, consultant, author, and speaker, and is a nationally and internationally recognized expert on the impact of change on retirement systems and workforce issues. She can be reached at *anna@annarappaport.com.*

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

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 and the conference sessions devoted to them will be presented on Wednesday, October 29, at the SOA annual meeting in a three series session. We explore several aspects of the relationship between retirement security and long-term care (LTC), and will offer ideas about making the LTC financing and management better. It is possible to attend these sessions and register for one day only. They will also be published in a monograph to be issued in the next few months.

This article previews some of the papers and issues to be covered.

WHY THIS IS IMPORTANT

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

- The depletion of retirement assets due to LTC expenses for many of the families who purchase services in response to a major LTC 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 LTC needs—these costs often outpace general inflation and/or the amount that individuals and families have planned.
- 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.

CURRENT SITUATION

Only about 10 percent of the population own private LTC insurance and it is in a state of disarray, with many companies having exited the market and many more imposing rate increases because pricing has been so difficult. Medicaid is the largest funder of formal programs, and these programs are under great financial pressure. Medicare funds a small amount of LTC via its coverage of post-acute care (but much less than many people believe) and is also under financial pressure.

GENERAL OPTIONS FOR PRIVATE FINANCING LONG TERM SERVICES AND SUPPORTS

Individuals have a number of options for financing LTC. Vickie Bajtelsmit and Anna Rappaport in their paper "The Impact of Long Term Care on Retirement Wealth Needs" offer a comparison of four methods of financing. The paper by Bajtelsmit and Rappaport paper also provides results of modeling that show the impact of shocks, and how they can devastate retirement security.

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 LTC insurance. Several of the papers provide ideas for improving insurance solutions. Paul Forte suggests a new approach to

Comparison of Private Financing Options for Long-Term Care

	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 qualify 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.

[a] *Continuing Care Retirement Community*

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. Richard Narva and his 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. 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 LTC 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 LTC. His policy recommendations provide for restructuring the 401(k) and IRA rules to allow 25 percent of account balances to be set aside for LTC, with favorable tax treatment, and distribution requirements that fit with LTC needs. The funds in the special account can be used to pay insurance premiums or to pay for LTC expenses directly. The Polzer proposal can be combined with any of the financing methods shown in the columns in the chart above. We hope that actuaries will consider this proposal and use it to start a conversation about how to integrate retirement and LTC 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 LTC changes underway but too incremental (and fragmented) to be obvious.

THE PERSPECTIVE OF THE INDIVIDUAL AND THE HOUSING COMPONENT

Two papers look at case study examples with regard to LTC 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 also explores how to better use home equity.

SUMMARY

Some of the questions addressed by this effort include:

- How can individuals and families protect themselves from the expense of LTC needs?

- How can they protect against financial ruin from the exorbitant expenses associated with LTC needs?

- How can LTC 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 these challenges? Are there alternative financing approaches?

- How can individuals and families finance care needs while addressing their basic retirement risks to provide income and asset protection?

A very nice variety of papers will be in the monograph. They 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 LTC system. The papers will be of interest to a range of audiences including individuals, advisors, financial service companies, and policymakers. We encourage you to come to the annual meeting sessions and participate in the discussion. For those who can't attend the meeting, the monograph will be available in the next few months. ■