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Can Aging Baby Boomers Avoid the Nursing Home?

Long-Term Care Insurance for 'Aging in Place'

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Long-Term Care Insurance
for 'Aging in Place'

Barbara R. Stucki, Ph.D.
and
Janemarie Mulvey, Ph.D.

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Rose, a 68-year-old widow, led an active life until her stroke. Although she now needs assistance with daily activities, she continues to live at home with daily visits from a home health aide and weekly housekeeping services. Her daughter comes to help after work and often takes Rose shopping or to visit friends on weekends.

Tom is 80 and his Alzheimer's disease is getting worse. His wife Alma is also in poor health and wants to move to an assisted living facility. But they have exhausted their retirement savings over many years to pay for Tom's care at home. Having no other options, Tom—and eventually Alma—must enter a nursing home under the Medicaid program.

Access to long-term care services can profoundly affect the quality of life for older Americans, as growing numbers of middle-income families have come to realize. Many baby boomers, concerned about impoverishment and institutionalization in old age, are starting to look for new ways to ensure their retirement security. Careful planning is needed to make resources cover the costs for Americans to "age in place"—whether at home or in the home-like setting of an assisted living facility.

This report examines the promise and challenges of aging in place as an alternative to nursing home care. While this new approach to disability holds much hope for the future, it is an ideal that many will find hard to achieve. When the last of the baby boomers reach age 65 in 2030, the number of severely impaired elders at risk of institutionalization could almost double to 6 million. At the same time, rising longevity will make it harder for baby boomers to predict the availability of family support. To enhance their ability to age in place and avoid overwhelming their caregivers, aging baby boomers will need to supplement help from family and friends with paid long-term care in the home and community.

But analysis shows that at current rates, the cost of services such as personal care, adult day care, and assisted living could quadruple by 2030. Total national expenditures for services that promote aging in place are projected to reach $193 billion in those 30 years. Out-of-pocket costs will also climb, by 369 percent to $112 billion.

Relying on government to pay for these services is risky, because public programs restrict the number of clients they serve in the home and community and set strict eligibility requirements for middle-income elders. For example, only about one in three severely impaired elders receive help with daily activities from a home health aide through Medicare. The Department of Veterans Affairs provides service at home or in the community for only 2 percent of veterans who need long-term care. And Medicaid pays the cost of care for just 7 percent of residents in assisted living facilities.

Long-term care insurance can make these services affordable to middle-income families. Consumer out-of-pocket costs for services that promote aging in place could decline 51 percent ($57 billion) by 2030 if private insurance coverage becomes more widespread.

Private insurance can also help solve the growing problem of public financing for long-term care. Insurance benefits for services at home or in an assisted living facility help strengthen family support systems, and can postpone or eliminate the need for nursing home care. This helps save taxes spent on long-term care in two ways:

- **Reducing Medicaid nursing home expenditures.** Medicaid could save over $11 billion in 2030 if private insurance coverage for home and community services reduces the number of middle-income baby boomers eligible for public funds on entering a nursing home. Total reductions in Medicaid payments, including $28 billion in savings from insured nursing home residents who would otherwise "spend down" their assets, could reach $40 billion—almost 30 percent of Medicaid nursing home expenditures projected for 2030.

- **Increasing general tax revenues, by returning caregivers to work.** The government could earn an additional $8 billion in 2030 tax revenues if caregivers for severely impaired elders were able to return to work because of services paid by private insurance—over $5 billion from those not forced to leave the work force prematurely, and $2.6 billion from those not needing to retire early.

Long-term care insurance is essential to retirement planning. In an uncertain world, a severe medical condition may make nursing home care unavoidable. But with private insurance, nursing home costs are covered along with a full range of other long-term care options. A comprehensive policy will pay for services that reduce the risk of institutionalization—allowing Americans to live in their home and community as long as possible.

In some ways, the notion of aging in place represents a new way of achieving an old-fashioned ideal. The concept builds on the traditions of family support that have sustained older people for generations.

Promises of Aging in Place

Long-term care is a very personal issue that touches deeply held visions of who we are and our life goals as we age. How we manage our long-term care needs also reflects long-standing cultural traditions and beliefs about our relationships with family and friends.

It's comforting to think there will be loving caregivers available when we need help with everyday chores. But who can we rely on to aid us with intimate aspects of personal care? Who will be available if we need constant supervision because of Alzheimer's disease? Will there be enough help for us to remain at home, or will we have to move to a nursing home?

Baby boomers (born between 1946 and 1964) are beginning to think about their future long-term care needs as they approach retirement. Having cared for their aging parents, many realize that the nursing home is appropriate only for people who require specialized medical care or round-the-clock supervision. Instead, today's caregivers are looking for alternatives that will enhance the physical, emotional, and social well-being of those who primarily need assistance with personal care and other daily activities. Aging baby boomers are also less willing to change their living arrangements for the sake of adapting to a chronic condition—they would rather continue living in their homes or a home-like setting for as long as possible. Baby boomers' growing desire for choice coupled with their individualism is forcing the nation to rethink long-held notions of aging and dependence.

One new approach, called aging in place, promotes independent living. This type of long-term care strengthens the family support system and enables older people, through home modifications and services, to live in their home. It helps assure that older people will not have to move from their community despite declining mental and physical abilities. Services that support aging in place include personal attendants, homemakers, home health aides, adult day care, and assisted living facilities. Services such as nursing and rehabilitation therapies in the home, which treat people for medical conditions rather than help them cope with daily living, are excluded from this study's definition of aging in place.

In some ways, the notion of aging in place represents a new way of achieving an old-fashioned ideal. The concept builds on the traditions of family support that have sustained older people for generations. The vast majority of frail, elderly people currently receive long-term care at home or in community settings. Over two-thirds of older Americans who need help with activities of daily living rely solely on family and friends.[1] More than 70 percent of people with Alzheimer's disease live at home and receive most of the assistance they need (75 percent) from unpaid caregivers.[2]

Family members
who aid older people
with a severe disability
also face a higher risk
of serious illness and
mortality themselves.

Growing Risk of Institutionalization

Baby boomers are expected to live longer than any preceding generation and could place high demands on family caregivers. Age alone does not cause disability, but over time people are increasingly likely to develop chronic conditions that limit their ability to live independently. Risk for nursing home placement is greatest among older people who require substantial assistance due to a severe physical or mental impairment.

Over 3.3 million Americans age 65 and older currently have a severe impairment (Figure 1). This population includes 1.8 million elders living in the community who need help with two or more activities of daily living (such as bathing, dressing, eating, transferring from bed to a chair, or toileting), or supervision due to a cognitive impairment such as Alzheimer's disease. An additional 1.5 million receive care in a nursing home.

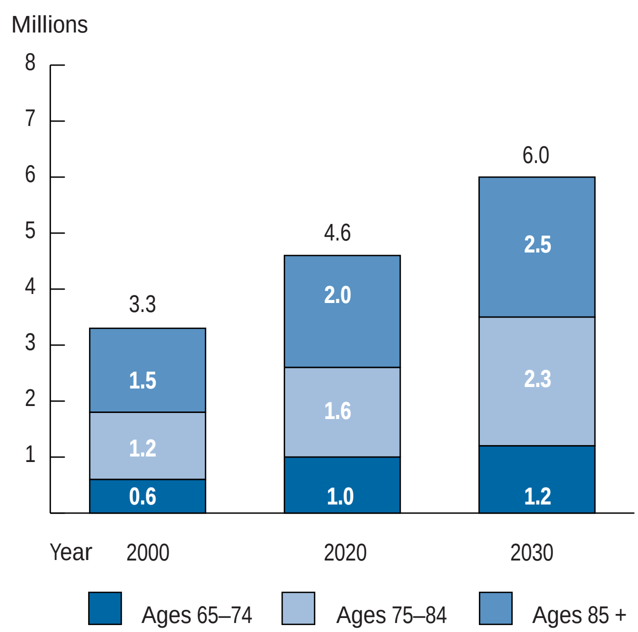
The likelihood of physical or mental impairment varies by gender as well as age. Among women, the proportion who become severely disabled rises from about 3 percent among those ages 65 to 74 to more than 38 percent of those 85 and older (Figure 2). The chance of becoming severely impaired is somewhat lower among men—about one in four for men age 85 and up.

Relying solely on family support to delay or avoid institutionalization can be risky for these elders. Helping someone with a severe impairment at home can overwhelm an older spouse or children. These caregivers average nearly 57 hours per week—about eight hours a day—in providing help (Figure 3). Three out of four report having to give up vacations, hobbies, or their own activities due to caregiving. In 1996, 2.9 million American households provided such a high level of assistance.[3]

Family members who aid older people with a severe disability also face a higher risk of serious illness and mortality themselves. About one in three people with high caregiving demands experience physical or mental health problems due to caregiving.[4] More than half of this group finds

Figure 1

Severely Impaired Persons Needing Assistance, by Age, 2000 to 2030



Source: American Council of Life Insurers

Note: Severe impairment means living in the community with either moderate to severe cognitive impairment or needing help with two or more activities of daily living, or living in a nursing home.

caregiving emotionally stressful. Older caregivers who experience strain are 63 percent more likely to die than those whose spouse was not disabled.[5]

When families can no longer provide support, the risk of institutionalization rises significantly. A government study found up to half (48 percent) of nursing home residents did not need the intensive medical care provided by nursing homes.[6] Many severely impaired residents likely could maintain their independence if they received adequate long-term care services in the home.

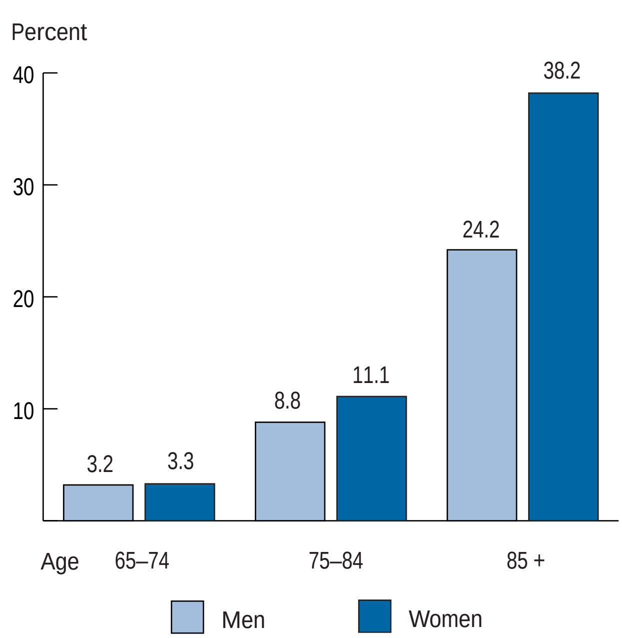
Figure 4 shows the increasing risk for nursing home placement with age and impairment. The likelihood of institutionalization is similar for men and women who live to advanced old age. About 62 percent of severely impaired women 85 and older are in a nursing home, as are 58 percent of severely impaired men in this age group.

Baby boomers hoping to avoid the nursing home face other, unique challenges. About one in five women ages 35 to 44 were childless in 1995.[7] Those lacking both family support and adequate financial resources to pay for services at home or in an assisted living facility are in danger of nursing home placement.

High divorce rates among baby boomers may also limit access to family caregiving. A recent study found that divorced parents are less likely to receive long-term care assistance from their adult children than widowed elders.[8] Single, elderly fathers who have been divorced are least likely to get help from their children. Even remarriage can make

Figure 2

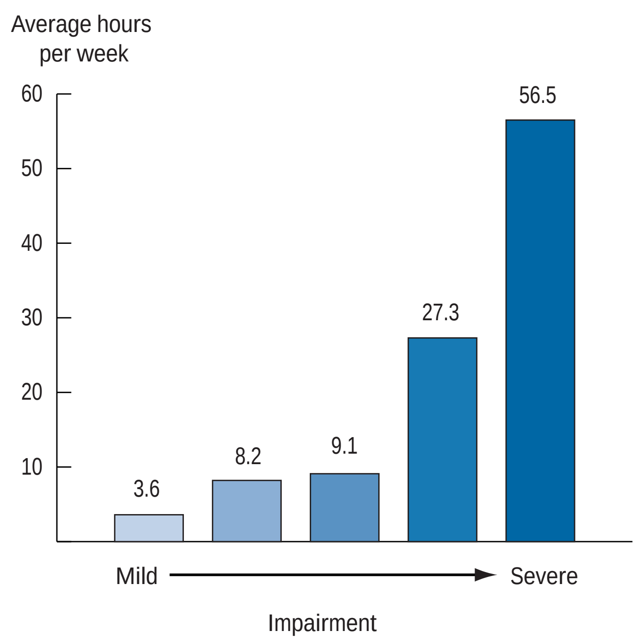
Likelihood of Becoming Severely Impaired, by Age and Gender



Source: American Council of Life Insurers

Figure 3

Help Provided by Family and Friends to Impaired Persons Needing Assistance, 1996



Source: National Alliance for Caregiving and AARP, *Family Caregiving in the U.S.*

aging in place more difficult. About 30 percent of older people who have only stepchildren receive help with daily activities from a child, in contrast to 68 percent of elders with biological children.

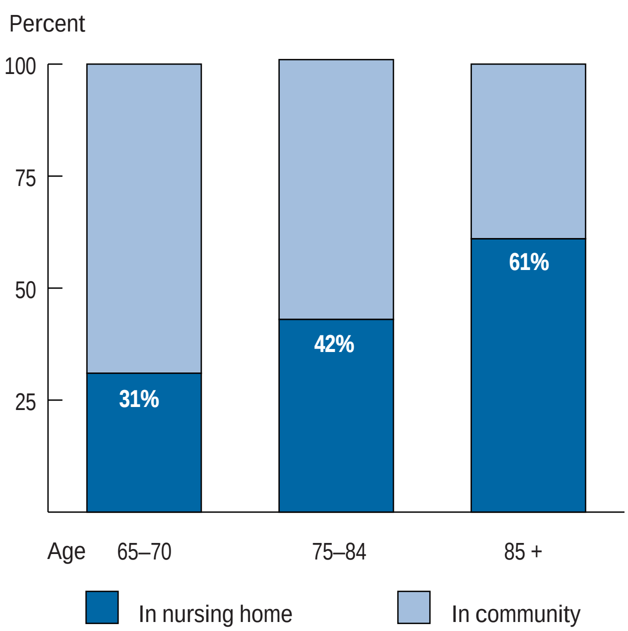
Rising Longevity, Reduced Security

Most baby boomers find it hard to imagine having difficulty participating in community life or requiring assistance with basic daily activities. Nonetheless, the likelihood of needing long-term care due to a severe impairment is growing due to rising life expectancy.

By 2030, when the last of the baby boomers are retiring, the number of people 65 and older will have doubled to 70 million. Those 85 and older—the most likely to become severely impaired—represent the fastest-growing segment of the older population. Over 40 percent of people who live to age 65 will live to 90 by the middle of this century, compared to 25 percent in 1980.[9] As the chances of living to advanced old age climb, the number of elders with a severe impairment will also mount, from 3.3 million to 6 million within the next 30 years.

Figure 4

Where Severely Impaired Older People Receive Assistance, by Age



Source: American Council of Life Insurers

Duration of impairment is likely to increase as life expectancy rises. This will place a growing burden on family caregivers who already spend an average 4.5 years assisting impaired elders in the community.[10] Caring for mentally impaired, elderly baby boomers will be particularly challenging, because people with Alzheimer's disease today may live eight to more than 20 years with declining cognitive function.[11]

Longevity also makes it harder to predict the availability of adequate family support. In the future, a 95-year-old baby boomer may be relying on a 90-year-old spouse or 70-year-old daughter for assistance.

Yet medical and technological breakthroughs hold great promise. Exercise and preventive health measures may further delay the onset of chronic illness. And some demographic studies suggest that the rate of disability among older people has been declining in recent years.[12]

But many elderly baby boomers may not be able to afford innovative medical treatments that help reduce the effects of chronic conditions. Prescription drugs already are expensive, and Medicare does not cover these costs. The number of employers offering retiree health coverage is declining, so fewer baby boomers will have prescription drug and other medical benefits from this source.[13]

One reason middle-income elders end their days in a nursing home is because they run out of resources to continue living in the community with a severe disability. This problem will grow as older Americans rely more on long-term care services to age in place. Between 1989 to 1994, the average hours of paid help used by impaired elders rose 37 percent, from nine to 13 hours per week.[14] At assisted living facilities, the length of stay averaged 2.6 years in 1997.[15] Without adequate family support, older Americans' need for paid services increases the risk they will impoverish themselves in the community. When they run out of funds, middle-income elders must turn to the government, which primarily pays for institutional care.

Services at home can involve assistance with activities of daily living from a personal care attendant or home health aide, as well as help with homemaking and chores.

As life expectancy—and the risk of impairment—rises, outliving retirement income is a growing concern. At the same time, a more mobile work force and a changing retirement system are giving baby boomers fewer guarantees for a secure retirement. Only 20 percent of this generation is very confident they will have enough money to live comfortably throughout retirement.[16] Social Security also may be a less reliable source of income. Without changes to this program, by 2036 the federal government will be unable to pay beneficiaries the full amount of retirement benefits to which they are entitled.[17] Social Security reforms may limit future payments to middle-income retirees.

Private long-term care insurance offers middle-income families an essential source of funding for long-term care. This coverage helps to keep retirement income intact and enables severely impaired elders to stay in the community. Policies typically pay for services for those who need help with two or more activities of daily living or require supervision due to severe cognitive impairment, such as Alzheimer's disease.

Services: Support for Aging in Place

Numerous types of long-term care services help people with severe impairments retain their ability to live in the community. Services at home can involve assistance with activities of daily living from a personal care attendant or home health aide, as well as help with homemaking and chores. Interest also is rising in the use of personal assistive devices and technology integrated into homes. Home modifications, from inexpensive grab bars to renovations for wheelchair access, can remove the environmental barriers that threaten independence and increase caregiver burden. About 40 percent of caregivers have modified their homes to help people cope with Alzheimer's disease.[18]

Adult day care centers provide social, medical, and rehabilitative services to people with physical and mental limitations. This type of service helps keep people with Alzheimer's disease in the community. It also gives severely impaired elders a place to go while their caregivers are working.

Assisted living facilities are another attractive alternative, providing substantial assistance or supervision for over 1 million Americans in 1998.[19] These home-like environments typically offer a continuum of care, including help with personal care, medication management, housekeeping services, meals, social activities, and transportation. As residents become more impaired, they receive more assistance.

The cost of paid services varies depending on the type and intensity of care as well as geographic location. Home health aides typically charge $61 per visit (Table 1). A severely impaired person could expect to pay over $15,000 annually for an aide to visit daily. Adult day care is available on weekdays and currently averages $50 per day. Assisted living costs range from about $25,300 annually for basic living expenses to $36,000 or more for those with substantial long-term care needs.

Table 1

Cost of Services: Aging in Place vs. Institution, 2000 and 2030

	Year		
		Nominal	Constant
	2000	2030	2030
Home care			
Adult day care			
per day	$50	$220	$120
per year	12,981	56,100	31,500
Homemaker			
per visit	58	250	140
per year	15,110	65,300	36, 700
Home health aide			
per visit	61	260	150
per year	15,743	68,000	38,200
Assisted living			
per year	25,300	109,300	61,400
Nursing home			
per year	44,100	190,600	107,000

Source: American Council of Life Insurers

Note: Per-year calculations for a homemaker or home health aide assume five visits per week .

People who can afford these services receive help in the setting of their choice. Buyers of comprehensive long-term care insurance gain access to a wide array of services that help them age in place, or receive skilled care in a nursing home as required. Policies typically cover home health aides and homemakers, and the cost of assisted living. Private insurance may also pay for respite care or home modifications. Some policies offer training for family caregivers, while others allow policyholders to pay family caregivers.

More than 70 percent of policyholders now receiving benefits find that their long-term care insurance policy pays all of the costs of services they need, new evidence shows.[20] These benefits are reducing the burden on family caregivers, especially adult children. About two in three caregivers report that having long-term care insurance benefits available has reduced their level of stress.

Unpaid caregiving by family and friends for severely impaired elders is often overlooked....If taxpayers had to pick up this cost... it would more than double current national expenditures

Cost: The Hidden Barrier

In 2000, U.S. expenditures are expected to reach $41 billion for long-term care that promotes aging in place, including assisted living facilities (Figure 5). Yet expenditures for these services are dwarfed by payments for institutional care. About $86 billion will be spent in 2000 on caring for the elderly in nursing homes.[21]

Most U.S. expenditures for services at home and in the community (58 percent) are paid by consumers. The $24 billion that individuals will spend in 2000 includes out-of-pocket payments for assisted living facilities. The cost of helping an older relative with severe disabilities at home is particularly high for caregivers—an average $357 per month in 1996.[22] The Alzheimer's Association estimates it currently costs up to $174,000 to pay for long-term care over the lifetime of a person with this disease.[23]

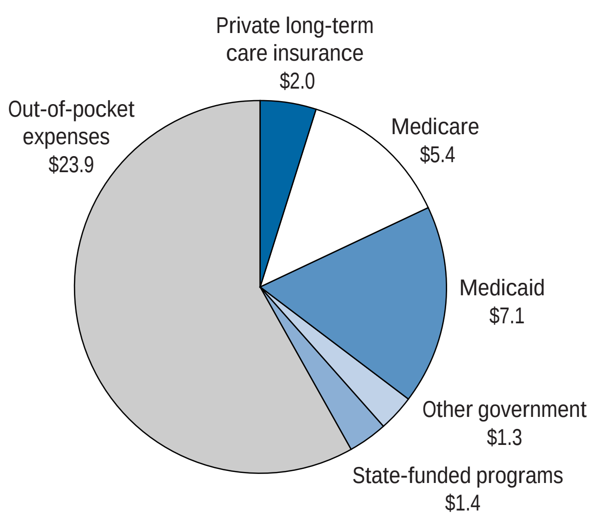
No single public program dominates government spending for services that promote aging in place. In 2000, Medicaid expenditures to help the aged with long-term care at home and in the community are projected to reach $7.1 billion. Medicare will spend an estimated $5.4 billion on home health aides to provide non-medical care to elderly beneficiaries. And state long-term care payments for seniors outside the nursing home could reach $1.4 billion. In total, public programs will fund about 37 percent of national expenditures for services that promote aging in place in 2000.

Private long-term care insurance currently pays about 5 percent of national expenditures for services in the home and community. This percentage may underestimate private-sector contributions, because only a small portion of insurance benefits are paid directly to service providers at the request of policyholders or their caregivers. Insurance payments typically reimburse policyholders for their out-of-pocket expenses.

Unpaid caregiving by family and friends for severely impaired elders is often overlooked. The value of this assistance, estimated at about $71 billion for 1997, is excluded from data in

Figure 5

Sources of Payment for Long-Term Care Services for People Aging in Place, 2000



Total expenditures = $41.2 billion

Source: American Council of Life Insurers

Note: Medicare expenditures exclude payments for nursing care and rehabilitation therapies at home; other government expenditures include payments by the Department of Veterans Affairs, the Older Americans Act, and the Social Services Block Grant program.

Figure 5.[24] If consumers and taxpayers had to pick up this cost because of family caregiver burnout, it would more than double current national expenditures for long-term care in the home and community.

Working caregivers have additional, hidden expenses. About 40 percent of people who help a severely impaired older person are employed full or part time.[25] Nearly two-thirds have adjusted their work schedule, 26 percent taken a leave of absence, and 10 percent turned down a promotion because of their caregiving responsibilities.

Also missing from national statistics is the cost to caregivers when they give up work to provide assistance. In 1996, one out of three caregivers to a severely impaired elder reported having to quit employment altogether.[26] It cost the typical working caregiver (a woman in her mid-40s earning an average $24,000 per year) about $109 per day in lost wages and health benefits to provide full-time care at home in 2000 (Figure 6). Families may become more reluctant to keep a severely impaired elder at home when the true cost of family assistance can be almost as high as care in a nursing home.

Home Care and Assisted Living Expenditures To Climb

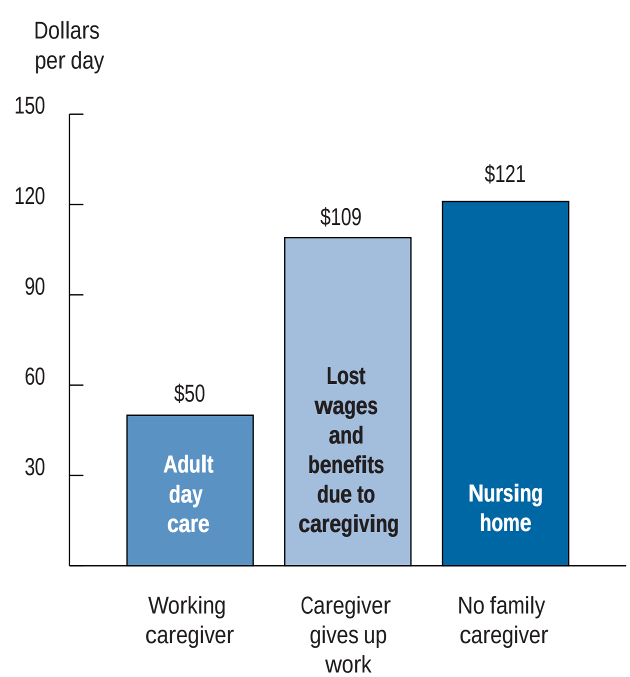
Long-term care expenditures will grow considerably as the large baby-boom population ages. Total national payments for long-term care at home or in an assisted living facility are projected to more than quadruple to $193 billion by 2030 (Figure 7). Out-of-pocket costs also will soar, by 369 percent to $112 billion.

Meanwhile, the cost of individual services will rise. In 2030, a visit from a home health aide could average $260 (Table 1). Payments for adult day care could rise to $220 per day. An annual stay in an assisted living facility could start at $109,300. While substantial, these costs would still be less than the average annual cost of nursing home care in 2030—$190,600.

Because of rising costs and growing demand, publicly funded care at home for middle-income individuals may continue to erode in the next 30 years. Medicare payments to home health care providers were capped under the Balanced Budget Act of 1997. Hardest hit by these budget cuts

Figure 6

Daily Cost of Assisting a Severely Impaired Person, by Role of Caregiver, 2000



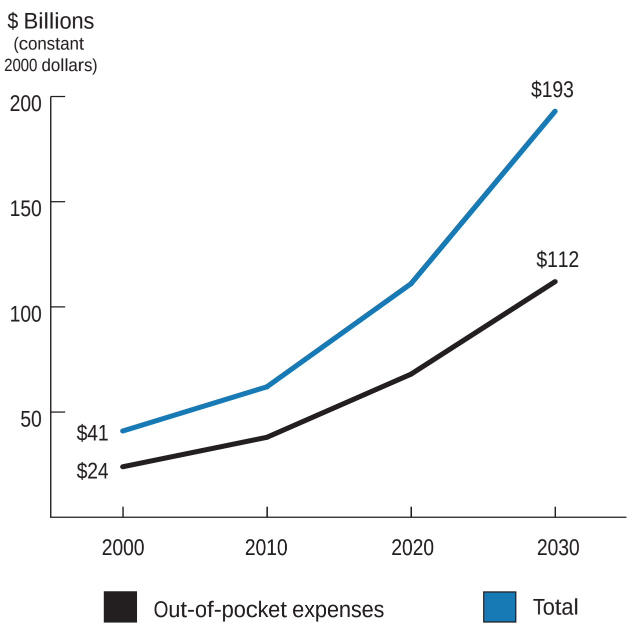
Source: American Council of Life Insurers

are severely impaired beneficiaries who need many hours of assistance.

Baby boomers cannot look to the Medicaid program to expand public coverage for services that promote aging in place. The annual cost of Medicaid expenditures for nursing home care alone could increase 360 percent to $134 billion by 2030.[27] Just to pay for existing government programs, legislators may soon face such difficult decisions as cutting mandated benefits or raising taxes. Home and community-based long-term care services are available as a state option under Medicaid, and their support may be reduced or eliminated as state long-term care expenditures continue to rise.

Figure 7

Cost of Long-Term Care Services That Help Americans Age in Place, 2000 to 2030



Source: American Council of Life Insurers

Without substantial changes to public long-term care financing, baby boomers must be prepared to give up their independence if they plan to rely on the government.

Limitations of Government Programs

When middle-income families turn to public long-term care programs to pay for services that promote aging in place, they face many obstacles. Unlike nursing home care, which is covered primarily under Medicaid, the public system for long-term care in the home and community is fragmented. Middle-income Americans who expect to rely on the government for these services must consider:

- What programs are available in my state?
- Will I have a choice of services in the home and community?
- Are there waiting lists and will others have priority over me?
- Will I have to impoverish myself to qualify for services?

Medicare primarily pays for medical care (hospitals and physicians) needed by older people. This program also offers some care in the community, including home health care and rehabilitation services. However, Medicare does not cover long-term care for people who need only personal assistance or homemaker services to help them age in place. To qualify for the home health benefit, a person must require skilled nursing care or the services of a physical, occupational, or speech therapist. Because of these restrictions, only 36 percent of severely impaired elders received help from a homemaker or home health aide through Medicare in 1996.[28]

Veterans' need for long-term care is great because many are elderly or disabled. Yet the likelihood of obtaining help from the Department of Veterans Affairs (VA) is small. VA offers long-term care primarily to veterans whose disability is related to their military service. If funds are available, services may be allocated to other veterans too poor to pay for nursing home care. Few veterans obtain needed long-term care outside an institution. In 1997, about 2 percent of eligible veterans (5,900) received help at home or in an adult day-care center.[29]

Federally funded long-term care outside the nursing home is offered primarily through Medicaid, Title III of the Older Americans Act, and the Social Services Block Grant program. Beneficiaries may receive homemaker services, home-delivered meals, home modifications, emergency response, transportation, personal care services, adult day care, respite care, and handyman services. Eligibility requirements vary considerably, but due to limited funding, these programs typically serve older people in financial need. Most states also use general revenues to pay for long-term care outside the nursing home for elders ineligible for Medicaid.

Medicaid-funded services in the home and community vary considerably among the states. For example, 28 states reimbursed services in assisted living or board-and-care facilities under Medicaid in 1998.[30] These programs paid for the care of about 40,000 beneficiaries, about half of whom were in one state (North Carolina). Poor, severely impaired elders may also receive community-based care through innovative programs such as the Program for All-Inclusive Care for the Elderly (PACE), available in 13 states and serving about 6,000 clients.[31]

States may choose to provide assistance under Personal Care and Home and Community-Based Waiver programs. The Personal Care program helps Medicaid-eligible people with activities of daily living. Most states use Medicaid waivers for home and community care to help older people at risk of institutionalization. Federal regulations strictly limit the number of people who may be served under waiver programs in each state, and waiting lists are common.

Private insurance helps baby boomers avoid the uncertainty of publicly funded care and remain independent of government aid.

To qualify for these waiver programs, a person must be so severely impaired as to meet the health and functional eligibility criteria for nursing home admission set by each state. Income restrictions also vary by state, but those not in financial need usually must impoverish themselves paying for care to become eligible. Moreover, assets—such as IRA and other retirement savings—typically cannot exceed $2,000 for individual Medicaid waiver recipients or $3,000 for couples.

Such restricted public programs leave most middle-income families unprotected against the potentially high cost of services that promote aging in place. In contrast, because of government programs' bias toward institutional long-term care, nearly 772,000 older nursing home residents received Medicaid coverage for their care in 1995.[32] Without substantial changes to public long- term care financing, baby boomers must be prepared to give up their independence if they plan to rely on the government.

Solution: Private Long-Term Care Insurance

Middle-income baby boomers will find that to successfully age in place, they must use their retirement savings to pay for long-term care services in their home or an assisted living facility. Many will face potentially catastrophic costs that could lead to impoverishment and the need to use Medicaid-funded nursing home care.

There is another option. Buyers of private long-term care insurance receive benefits that pay for a wide array of services enabling them to age in place. About half of policyholders currently receiving benefits report they would have to move to a nursing home without their insurance benefits.[33] Private insurance also helps baby boomers avoid the uncertainty of publicly funded care and remain independent of government aid.

Consumers can select policies paying benefits for two to six years, or for the policyholder's lifetime. Policies may pool benefit dollars into a total "pot" from which a policyholder can pay for different types of services. Some companies combine benefits for both spouses into one joint policy that covers care for the spouse who becomes impaired first, then makes remaining funds available for the second spouse. Consumers also can pay for services that promote aging in place with payments from life insurance policies that offer accelerated benefits.

These choices provide flexibility to deal with long-term care whenever and however the need may arise. With private insurance, baby boomers can keep a substantial portion of their retirement funds invested in the stock market without fear of disrupting their long-range financial plans should long-term care be needed. Older people whose main asset is the equity in their homes can use insurance benefits to pay for services without having to refinance or sell their house, or reduce their lifestyle.

How much a person pays for comprehensive coverage depends in part on the age at which they buy long-term care insurance. The earlier that policies are purchased, the lower the premiums. Today's 45-year-old pays about $644 a year for a long-term care policy that includes three years of assistance in the home, the community, an assisted living facility, or a nursing home (Table 2). This premium includes the cost of compound inflation protection of 5 percent per year. A 65-year-old would have to pay about $1,830 per year out-of-pocket for the same three-year coverage. Consumers typically pay premiums annually until they need care, although some policies now offer the option

Table 2

Average Annual Premiums for Long-Term Care Insurance

Age	3-year policy	6-year policy
35–39	$411	$531
40–44	541	723
45–49	644	857
50–54	693	1,035
55–59	911	1,364
60–64	1.272	1,909
65–69	1,830	2,735
70–74	2,756	4,129
75 +	5,133	7,274

Source: American Council of Life Insurers

Note: Premiums are a composite of those offered by four, large long-term care insurance companies. Actual policies may vary by company.

of paying higher premiums over a shorter time (usually one to 10 years).

Purchasing long-term care insurance at a younger age provides immediate protection in case of an accident or illness. Since insurance companies check the health status of a potential buyer, delaying the purchase of coverage may increase the risk of uninsurability due to deteriorating health. A growing number of working-age people are able to purchase a policy through their employer, frequently without medical underwriting.

Comprehensive long-term care insurance costs more than a basic policy for nursing home care. Nonetheless, this type of coverage is affordable for a large portion of middle-income families. About 75 percent of those 35 to 39 years old could afford a policy if they spend 2 percent or less of their income on private insurance (Table 3). Under these criteria, 52 percent of people in this age group would be able to afford a six-year policy. Among those ages 50 to 54, almost 44 percent could afford a six-year policy.

Table 3
Affordability of Long-Term Care

Age	3-year benefit*	6-year benefit*
35–39	75.5	52.4
40–44	61.4	35.4
45–49	76.8	57.0
50–54	66.3	43.6
55–59	61.9	39.3
60–64	79.3	61.0
65+	25.4	13.3
Total	59.9	39.8

Source: American Council of Life Insurers

Notes: Percentages are based on the average price for a policy sold by four, large long-term care companies. Actual prices will vary. See methodology for income standard.

* Policies cover $100 daily benefit, 100% home health care, 100% nursing home coverage. They have a 90-day elimination period and 5% compound inflation protection.

Reduced Consumer Expenditures

How much will baby boomers save if they purchase a long-term care insurance policy? ACLI examined long-term care expenditures under two alternative scenarios:

- Current financing trends continue.
- Purchases of long-term care insurance increase.

The objective of ACLI's analysis was to determine how much private long-term care insurance would offset purchasers' future out-of-pocket costs for long-term care services that promote aging in place. First, it was determined who among future users of services in the home and community could afford to purchase comprehensive long-term care insurance today. Long-term care policies in the analysis incorporated coverage for either three or six years of benefits (both home care and nursing home care), and included compound inflation protection of 5 percent a year. Individuals purchased the policy they were most able to afford.

The results show private insurance will be an important source of funding for services that promote aging in place and can substantially reduce out-of-pocket expenditures for individuals (Figure 8). Assuming three-fourths of the purchasers retain their policies for 30 years, the share of home and community long-term care expenditures paid by private insurance increases from 5 percent today to 34 percent in 2030. Costs paid out-of-pocket by individuals could decline from 58 percent to 29 percent. Total out-of-pocket expenditures for services that promote aging in place could be held to about $55 billion in 2030, for a savings of $57 billion (Figure 9). Under this scenario of higher purchases, half of consumers' out-of-pocket costs could be saved by increased ownership of long-term care insurance.

Savings in Government Expenditures

Aging of the baby boom generation will increasingly pressure federal and state budgets. Huge shortfalls are anticipated in Social Security and Medicare budgets in 2030 and beyond because of baby boomers' retirement. Medicaid nursing home expenditures are expected to quadruple during the same period, jeopardizing the safety net for the poor.

Private long-term care insurance brings additional funds into the system, helping to ensure public funding will be adequate to continue providing the services needed by poor, severely impaired older people. Increased purchasing of long-term care insurance could improve the government's balance sheet in two ways:

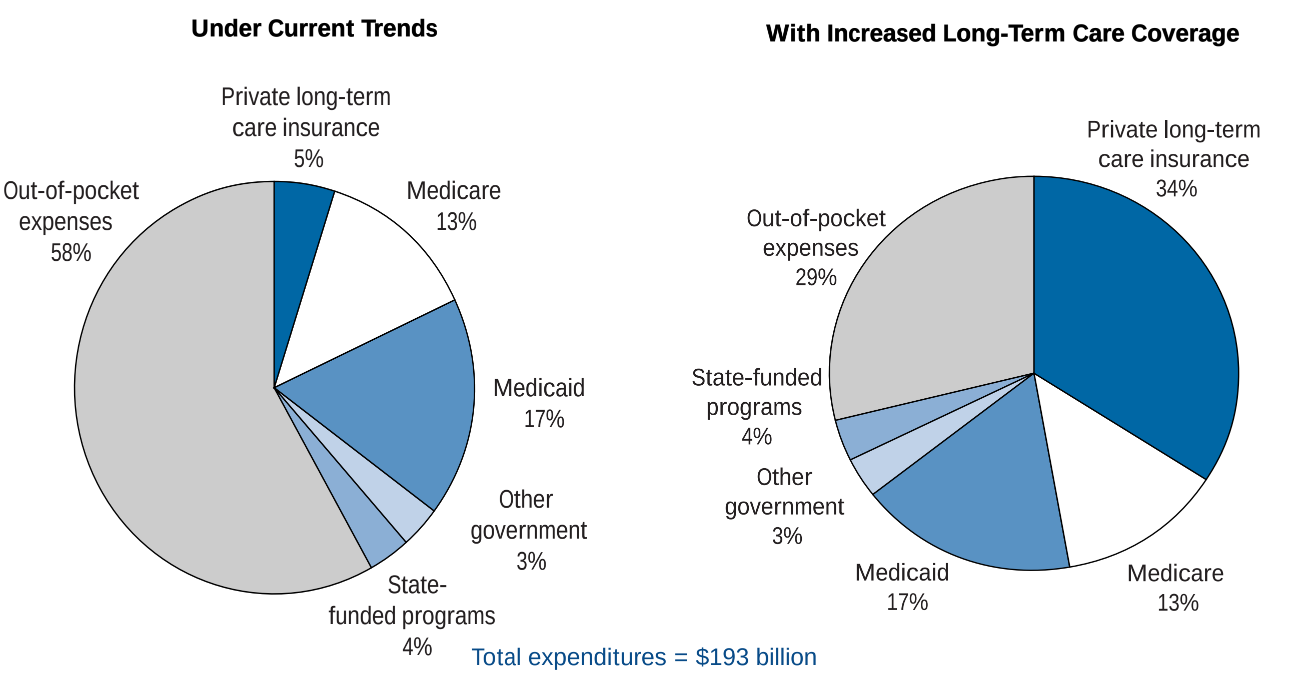
1. **Reduce government expenditures for Medicaid.** Direct savings from long-term care insurance for Medicaid's home and community-based expenditures will be small, largely because these beneficiaries are poor and could not afford to purchase long-term care insurance. However, Medicaid's largest cost burden is nursing home care. Private insurance for help at home and in assisted living facilities has the potential to reduce Medicaid's nursing home expenditures by:

- Reducing the number of Americans who are institutionalized.

The high cost of services for aging in place can exhaust the retirement savings of older,

Figure 8

Sources for Financing Long-Term Care Services for Persons Aging in Place, 2030



Source: American Council of Life Insurers

Note: Note: Medicare expenditures exclude payments for nursing care and rehabilitation therapies at home; other government expenditures include payments by the Department of Veterans Affairs, the Older Americans Act, and the Social Services Block Grant program.

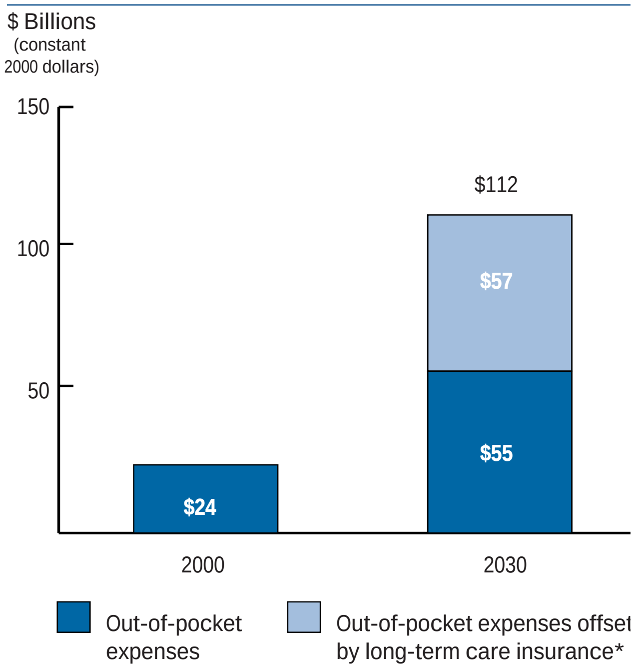
middle-income Americans, who may then need to enter a nursing home under the Medicaid program. The risk of impoverishment in the community is significant. In 1996, about 21 percent of nursing home residents older than 65 who qualified for Medicaid upon admission had incomes above 200 percent of the poverty level.[34]

This group—severely impaired elders who are not poor but have depleted their assets—are immediately eligible for Medicaid because their incomes, after paying nursing home expenses, meet the state's "medically needy" income standard.[35] States with medically needy or other special eligibility programs make it easier for middle-income elders to qualify for Medicaid in the nursing home.

Long-term care insurance benefits for home and community services could reduce the number of these elders who turn to Medicaid because they no longer can afford help in the community. If substantial numbers of baby boomers purchase private insurance, public payments for middle-income elders eligible for Medicaid on entering a nursing home could decline by 9 percent in 2030. Under this scenario, Medicaid savings could reach over $11 billion of the program's total nursing home expenditures in 2030.

Figure 9

Impact of Private Insurance on Out-of-Pocket Expenses for Aging-in-Place Services, 2000 and 2030



Source: American Council of Life Insurers

*Estimated

- Reducing Medicaid's nursing home expenditures directly.

Some middle-income elders enter the nursing home as private, paying patients and "spend down" to become eligible for Medicaid assistance. An earlier ACLI study found long-term care insurance would reduce Medicaid nursing home expenditures by 21 percent in 2030 for these elderly residents, who would otherwise impoverish themselves paying for institutional care—saving Medicaid $28 billion.[36]

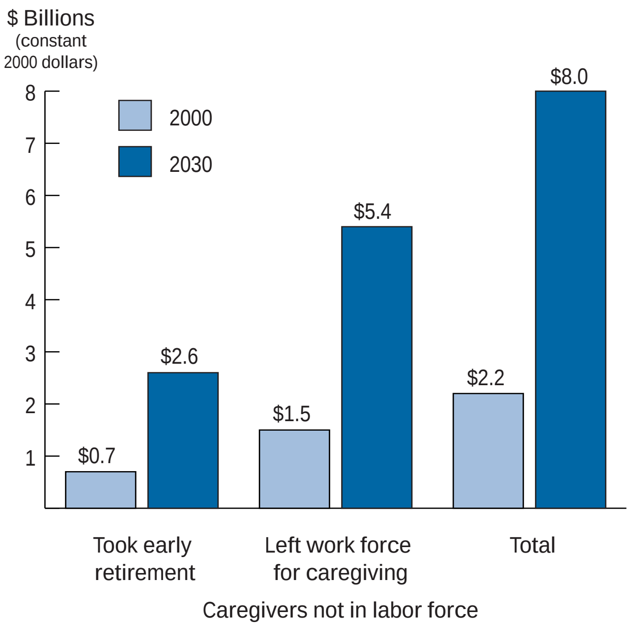
Combining these two sources of private insurance payments, total nursing home savings from long-term care insurance could reach $40 billion—about 30 percent of the Medicaid budget for institutional care in 2030.

2. Increase the government's general tax revenues.

General tax revenues would rise if more people buy long-term care insurance, allowing caregivers to return to work. Currently, 31 percent of caregivers quit work to care for an older person with a severe impairment. If they were able to return to work because of services paid by private insurance, the government could earn an additional $8 billion in 2030 tax revenues (Figure 10). Over $5 billion of these revenues would be from people not forced to leave the work force prematurely, while $2.6 billion would come from those no longer needing to retire early.

Figure 10

Income Tax Revenue Lost Because of Family Caregivers Leaving Work Force, 2000 and 2030



Source: American Council of Life Insurers

Aging baby boomers

who plan ahead

for their long-term care needs

can potentially postpone

or avoid institutionalization.

In the United States, the way in which an older person's long-term care needs are met does not depend solely on health and functional status. Under the current system, access to services in the home and community is also influenced by the location of a person's hometown, his or her economic situation, and the availability of family support. Most Americans find their ability to maintain an independent lifestyle and choice declines as the likelihood of disability increases with age.

At greatest risk for nursing home placement are middle-income individuals ineligible for government home and community-based long-term care programs and unable to afford services that promote aging in place. These services, while cost-effective, can be expensive. For the severely impaired, unanticipated long-term care costs can disrupt retirement plans, burden family caregivers, and increase the likelihood of institutionalization.

Policy-makers have been aware of the problems facing older Americans for many years. The fear of substantial increases in demand for services in the home and community has kept legislators from making major changes to the way government delivers long-term care. As a result, federal and state funds pay only a small proportion of national expenditures for services that promote aging in place. Many innovative public programs already limit costs by restricting the number of clients served, using waiting lists, or requiring participants to meet strict eligibility requirements. With baby boomers' retirement looming, expanding these public programs to cover additional long-term care outside the nursing home will be very expensive.

Future government spending to help middle-income baby boomers age in place also remains uncertain. The traditional role of public long-term care programs is to provide a safety net for the poor. Their scope has recently expanded somewhat to cover the care of people impoverished by nursing home costs. Nonetheless, many policy-makers continue to be reluctant to use limited taxpayer dollars to pay for those who can prepare for their retirement needs. For middle-income families, the likelihood of receiving government-funded care at home or in an assisted living facility remains small.

This study shows that private long-term care insurance can play an increasingly important role in ensuring quality of life for middle-income elders with a severe impairment. If a substantial number of baby boomers purchase long-term care insurance, consumer out-of-pocket costs for services that promote aging in place could decline 51 percent by 2030. With private insurance strengthening family support systems, savings in Medicaid nursing home expenditures could reach 30 percent.

Aging baby boomers who plan ahead for their long-term care needs can potentially postpone or avoid institutionalization. Long-term care insurance offers choice and security for middle-income Americans who want to age in place.

Estimates of severely impaired older people in the community were derived from calculations by the Lewin Group using the 1994 National Health Interview Survey of Disability, and data on the prevalence of moderate-to-severe Alzheimer's disease from the U.S. General Accounting Office.[37] Nursing home population data is from the 1996 nursing home component of MEPS.[38] Forecasts of the total number of severely impaired elders were based on current incidence rates and projected using population estimates from the Social Security Administration, based on its Intermediate Scenario.

Information on national expenditures for services that promote aging in place in 2000 used Congressional Budget Office (CBO) estimates based on National Health Accounts of the Health Care Financing Administration.[39] CBO estimates for long-term care services provided in the home were expanded to include payments to assisted living facilities. Estimated expenditures for assisted living were based on a 1998 survey of the industry's size by the National Academy of State Health Policy as well as revenue estimates for assisted living from the American Seniors Housing Association.[40] Since non-medical long-term care is this study's focus, CBO estimates of Medicare expenditures for services in the home were reduced to include only payments for home health aides.[41]

Veterans' long-term care benefits included adult day health care, contract adult day health care, contract home health care, and homemaker/ home health aide services; expenditures for home and community-based care under the Older Americans Act; and Social Services Block Grant payments to elderly beneficiaries. State expenditure estimates were calculated using data from an AARP survey of state programs.[42]

Calculations of affordability were derived from simulations using the U.S. Commerce Department's March 1996 Supplement to the Current Population Survey, with income projected to 2000. Affordability was determined based on share of income, using criteria similar to those used by Joshua Weiner.[43] Under these assumptions, affordability is defined as spending no more than 2 percent of income on insurance for ages 35–44, 3 percent for ages 45–54, 4 percent for ages 55–59, 5 percent for ages 60–64, and 10 percent for age 65 and older. People with incomes below the Supplemental Security Income (SSI) income standard were excluded, since they would be eligible for Medicaid. Individuals' ages were projected to 2030. The distribution of long-term care insurance purchasers was assumed not to vary between those who eventually used services and those who did not.

Reductions to Medicaid nursing home expenditures in 2030 were calculated using data from a previous ACLI study.[44] The proportion of elders eligible for Medicaid on nursing home admission who could afford private insurance was calculated with unpublished data from the 1996 MEPS nursing home component, using the same affordability criteria and assuming 75 percent of policyholders retain coverage for 30 years.[45]

Average premiums for long-term care insurance were derived from products offered by four insurance companies. Policies provide a $100-per-day benefit for care at home, in an assisted living facility, or in a nursing home, and include 5 percent compound inflation protection. The four insurers represented about 32 percent of the private long-term care insurance market in 1998.

All forecasts of expenditures are in 2000 dollars unless otherwise noted.

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45. See note 34.

Barbara R. Stucki, Ph.D., is a senior policy analyst for the American Council of Life Insurers (ACLI), where she focuses on long-term care and disability income insurance issues. She recently co-authored the study "Who Will Pay for the Baby-Boomers' Long-Term Care Needs?" Dr. Stucki also is vice president of the Long-Term Care Insurance Educational Foundation. She has served on government and private-sector panels on public policy for financing long-term care. Prior to joining ACLI, Dr. Stucki was a long-term care policy analyst for AARP. She has a doctorate from Northwestern University, Chicago.

Janemarie Mulvey, Ph.D., former director of economic research at ACLI, is a senior retirement research associate at Watson Wyatt Worldwide, working on pension benefit research and retirement security issues. Prior to joining ACLI, she was an economist at the Urban Institute, where she co-authored a book with Marilyn Moon, *Entitlements and the Elderly: Protecting Promises and Recognizing Realities.* Previously, Dr. Mulvey was a senior analyst at the Public Policy Institute of AARP. She has a doctorate from George Mason University, Fairfax, Va.