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WHAT RESOURCES DO RETIREES HAVE FOR LONG-TERM SERVICES & SUPPORTS?

By Anek Belbase, Anqi Chen, and Alicia H. Munnell*

Introduction

The potential need for long-term services and supports (LTSS) can be a significant source of anxiety for older workers, retirees, and their families. A central question driving this anxiety is whether the support that retirees might need can be met without exhausting their financial resources and family caregivers.

The first *brief* in this three-part series concluded that about 20 percent of retirees will escape the need for LTSS and 80 percent will need at least a year of part-time support – with around a quarter requiring full-time support for several years.[1] This *brief,* the second in the series, explores the extent to which retirees' financial and non-financial resources together could meet different levels of care needs.

The discussion proceeds as follows. The first section provides an overview of the types of care older adults typically receive. The second section explains the methodology for estimating the support that various family members and financial resources can provide. The third section describes the results, and reports that, at age 65, only about one-fifth of retirees have the family and financial resources to cover high intensity care for at least three years and about one-third do not have any resources at all. The remaining half of older adults lie somewhere in between. As one would expect, resources vary by marital status, education, and race. The concluding section looks ahead to the final *brief,* which will consider both the risk of needing support and the resources available to identify the types of people who are most likely to face unmet needs.

Background

The initial *brief* in the series examined the odds of a 65-year-old needing different levels of LTSS – minimal, moderate, and severe – based on both the intensity and duration of their needs (see Table 1 on the next page). Lifetime needs are based on an individual's most severe experience. That is, a woman who breaks her leg requiring minimal care in her 60s, then has a bout of cancer in her 70s requiring more than a year of support, and then develops dementia in her 80s requiring more than three years of care would be counted once and classified as having "severe" LTSS needs.

* The authors are all affiliated with the Center for Retirement Research at Boston College. Anek Belbase is a research fellow; Anqi Chen is a research economist and assistant director of savings research; and Alicia H. Munnell is the director and the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management. The authors would like to thank Patrick Hubbard for excellent research assistance and Christine Bishop and Gal Wettstein for helpful comments.

Table 1. Lifetime Probability of a 65-year-old Developing Minimal, Moderate, or Severe LTSS Needs

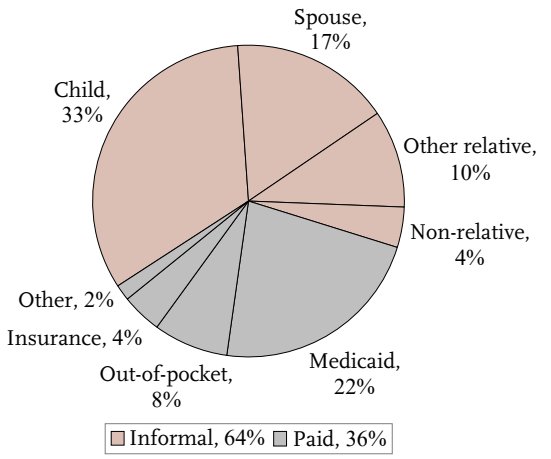
	Intensity			
Duration	None	Low	Medium	High
0-1 years	17%	8%	4%	12%
1-3 years		6	4	22
3+ years		4	2	22

Note: Numbers do not add to 100 due to rounding.
Source: Authors' calculations from *Health and Retirement Study* (HRS) (1998-2018).

The results show that roughly one-fifth of 65-year-olds will die without ever requiring LTSS and about one-quarter will have severe needs (see white and red shading in Table 1). In between these two extremes, 22 percent will experience minimal needs (gray shading) and 38 percent will experience moderate needs (pink shading).

Households can provide for these care needs in two ways (see Figure 1). The more common way is unpaid informal care provided by family members. The less common way is paid formal care, financed either out-of-pocket or through long-term-care insurance or Medicaid. As shown in Figure 1, the bulk of long-term care comes from family members.[2]

Figure 1. Percentage of Total Caregiving Hours Provided to Individuals Ages 65+, by Source



Sources: Authors' calculations from HRS (1998-2018) and Commission on Long-Term Care (2013).

Paid care, either at a long-term care facility or at home, can be an alternative to relying on family caregivers. Paid care can also be costly. Only 11 percent of adults over age 65 have long-term care insurance,[3] and Medicare covers only post-hospital nursing home care for up to 100 days and generally does not cover home care.[4] Medicaid does cover care in nursing homes, and some states offer home care coverage through their Medicaid programs. Medicaid, however, requires that people exhaust their assets to qualify for benefits.

These limitations on government support mean that people with LTSS needs must make tradeoffs when evaluating how to get help. Relying totally on family care can place an undue burden on caregivers, while moving to a nursing home involves a loss of independence. In addition to this fundamental tradeoff, middle-income retirees need to consider whether to spend down all their assets to qualify for Medicaid, and higher income retirees have to balance their desire to leave bequests with their care needs. To help retirees, family members, and policymakers evaluate these tradeoffs, we examine the resources people have available to handle different levels of care, should such needs arise.[5]

Methodology

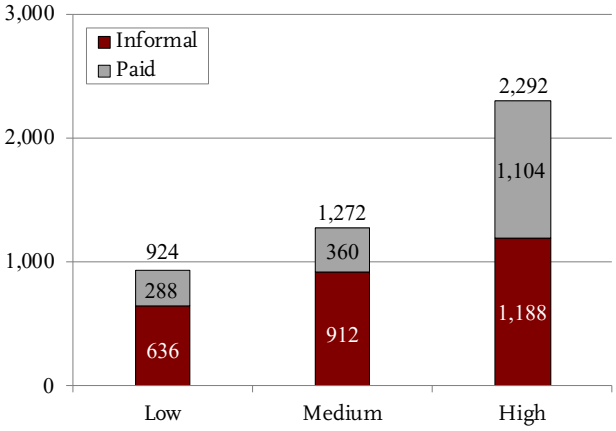
The goal is to calculate the percentage of individuals at age 65 who have the family and financial resources to cover the cost of minimal, moderate, and severe LTSS needs.[6] The focus is the hours of care that individuals could access through their own resources. Medicaid, which is important for those with little income and assets, will be deferred to the third *brief* when we identify people who are most at risk of facing unmet needs.

Determining the level of care needs that an individual can cover involves four steps. First, we calculate the total care hours required for each LTSS severity group. Second, we estimate the amount of unpaid care that family and friends could provide. Third, we calculate the amount of care that could be purchased with income and financial assets. Finally, we combine family care and financial resources and compare this total to care needs at each severity level. The following describes the process in more detail.

Total Hours of Care Needed

Care needs are measured along two dimensions: intensity and duration. The *Health and Retirement Study* (HRS) has information on the total hours per month of formal and informal care that respondents receive at each LTSS intensity level. As shown in Figure 2, informal family care is the major source of care for respondents of all intensities, and as expected, those with higher LTSS needs receive a greater share of hours through paid care.

Figure 2. Median Annual Hours of Total Care Received by Individuals 65+, by Type of Care and LTSS Intensity



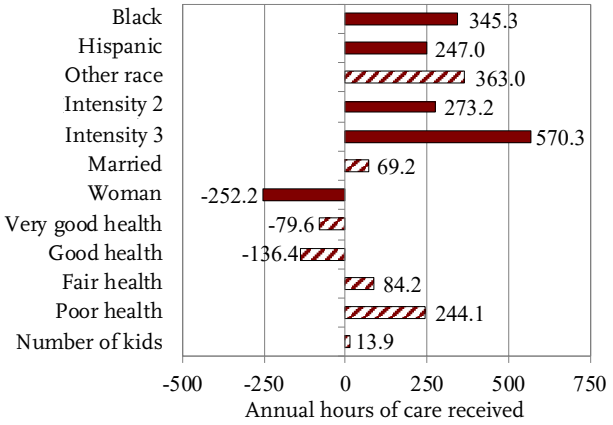
Source: Authors' calculations from HRS (1998-2018).

To determine the total number of hours of care needed, we multiply the median annual hours by the upper-bound years of care needed for the low and medium intensity levels and by the median years of care needed for the high intensity level. That is, we use the durations of 1 year for minimal care, 3 years for moderate care, and 5 years for severe care. Assuming that all needs are met, these totals will be compared with the individual's resources for LTSS care to evaluate preparedness for the different levels of care needs.

Informal Care

The next step is to estimate how much informal care 65-year-olds can expect to get from their family in the future under various circumstances. Since most 65-year-olds are still healthy and are not yet receiving care, we base our estimates on a regression for older individuals that relates their average annual hours of care received to their demographic and economic characteristics and to the intensity of their needs. Since the HRS does not have health information on caregivers other than the spouse, the regression uses data from the *National Health and Aging Trends* (NHATS) merged with the *National Survey of Caregivers* (NSOC).[7] The regression results are shown in Figure 3.[8] They indicate that Black and Hispanic individuals tend to receive more informal care, while women receive less and that worse health is associated with more care received.

Figure 3. Estimated Effect of Individual Characteristics on Annual Hours of Informal Care Received



Notes: The base case individual is white, Intensity 1, unmarried, male, and in excellent health. Solid bars are statistically significant. For full controls, see Appendix Table A1.
Sources: Authors' calculations from HRS (1998-2018); *National Health and Aging Trends Study* (NHATS) (2011, 2015, 2017); and *National Survey of Caregivers* (NSOC) (2011, 2015, 2017).

The demographic and health coefficients from the equation are then used to predict the access to care hours that will be available for 65-year-olds. Since we do not know which level of LTSS care these younger individuals will eventually need, we use the coefficients from older retirees for low, middle, or high intensity care. The three separate estimates of care hours (one for each intensity) are then combined with the hours that can be purchased using financial resources, described below, to determine what level of care needs the individual's resources can cover.

Financial Resources

While family members are important resources for older adults, many retirees supplement family care with paid care, especially those with serious limitations. Paid care can be provided either at home or in a senior care facility.[9] We estimate how much care individuals can purchase from their monthly income and from tapping their financial and 401(k)/IRA assets.

Income. The monthly income individuals could afford to spend on paid care is calculated by looking at the difference between stable retirement income (such as Social Security, pensions, or annuities) and necessary living expenses. Income values come from the HRS and necessary living expenses are defined as the median consumption by marital status and income tercile, using the 2017 *Consumption and Activities Mail Survey* (CAMS).[10] In the case of married couples, we assume that one-half of the unallocated income is available for each spouse.

The median hourly rate for a home health aide in 2018 was $22.[11] Using that rate, we calculate how many monthly hours of care older adults can purchase using just their unallocated retirement income (see Table 2). Low-income individuals would be able to cover only 82 hours of paid care per year, middle-income individuals could afford 300 hours a year, and high-income individuals could cover about 1,000 hours a year. When spouses die, household income will likely decrease more than expenses. Additionally, care provided in a senior care facility is typically more expensive than a home health aide, so the number of care hours from income is likely an upper bound.

Table 2. Annual Care Hours (at $22 per hour) Covered with Income for 65-Year-Olds, by Income Tercile

	Income tercile		
	Low	Medium	High
Income	$17,412	$30,096	$56,028
Consumption	15,612	23,496	33,300
Difference	1,800	6,600	22,728
Hours afforded	82	300	1,033

Sources: Authors' calculations from HRS (2018) and Genworth Financial, Inc. (2018).

Financial Wealth. In addition to income, older adults could also draw on financial assets to cover LTSS care. Information on household assets comes from the HRS and includes liquid assets, such as checking, savings, and brokerage accounts, as well as 401(k)/IRA balances. For married individuals, financial assets are divided by two. Applying the same $22 hourly rate for caregivers, we can convert financial assets into lifetime hours of care based on low, middle, and high intensity needs (see Table 3).

Table 3. Lifetime Hours of Care that Can Be Purchased with Financial Assets for 65-Year-Olds, by Income Tercile and Care Needs

	Income tercile		
	Low	Medium	High
Available assets	$3,000	$48,000	$192,000
Median hourly cost	$22	$22	$22
Hours afforded	136	2,182	8,727

Sources: Authors' calculations from HRS (2018) and Genworth Financial, Inc. (2018).

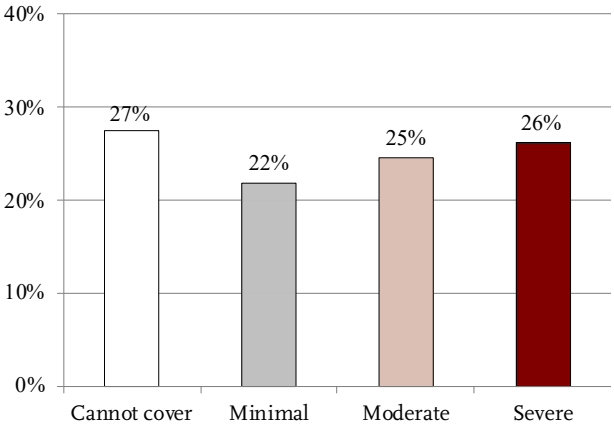
Determining Resources Available for Care

The amount of care that can be purchased from income and assets can be combined with available informal care to determine the total hours of care older adults can access. Adding up the total hours of care from income and assets is straightforward, but the number of hours of family care depends on the severity of the LTSS needs. For example, to determine if an individual has the resources for severe LTSS needs, we add the predicted number of family care hours available if the individual ends up with severe care needs to the number of paid hours the individual can afford with income and financial assets. If the total hours of paid and unpaid care are greater than or equal to the total hours required, this individual is said to have sufficient resources to cover severe care needs. This process is repeated for the other two severity groups to determine which resource group each retiree falls in.

Results

The results show that about a quarter of retirees can cover severe care needs for at least five years using income, financial assets, and informal caregivers. At the other extreme, about one-quarter of individuals cannot afford even minimal care needs. The remaining 47 percent of individuals lie somewhere in between (see Figure 4).

Figure 4. Percentage of 65-Year-Olds Who Can Cover Future Care, by Needs Level

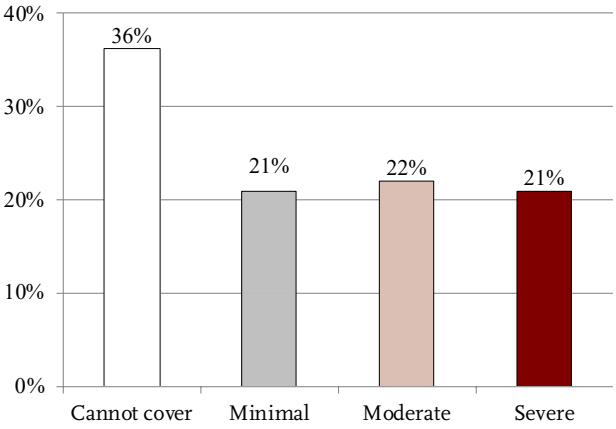


Source: Authors' calculations.

One could argue that our estimates overstate the resources available. Providing care, especially high intensity care over long periods, can have negative effects on the physical and emotional health of caregivers; and individuals may not be willing to deplete their entire financial reserves, leaving no buffer for emergencies.[12] Re-estimating available resources after considering the physical and emotional health of the caregiver and leaving retirees with 20 percent of their financial assets untouched shows that a much higher share of older adults will not be able to cover any LTSS care and a lower share will have enough resources for severe care (see Figure 5).[13] We consider the adjusted numbers our preferred estimates.

The adjusted estimates show that 36 percent of individuals do not have enough resources for even a year of minimal care, and only 21 percent could cover severe LTSS needs. These estimates, however, vary significantly across sociodemographic measures.

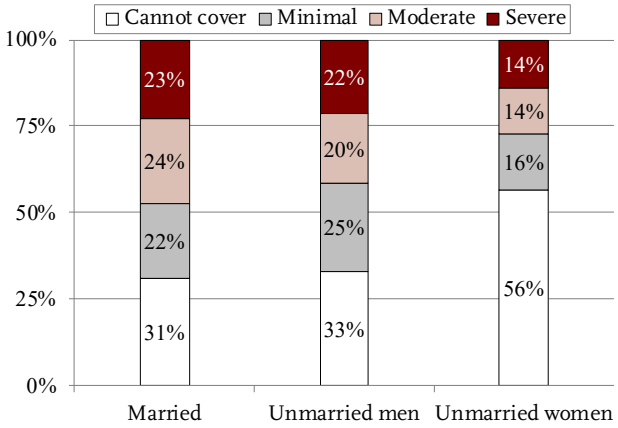
Figure 5. Percentage of 65-Year-Olds Who Can Cover Future Care Without Exhausting Resources, by Needs Level



Source: Authors' calculations.

Marital Status. Individuals who enter retirement married have the most resources to handle care needs, and women who enter retirement unmarried have the least. Only 31 percent of married individuals are unable to cover even minimal care while over half of unmarried women are unable to afford minimal care (see Figure 6). This finding is not surprising since married individuals tend to be wealthier and have a spouse to rely on for care.

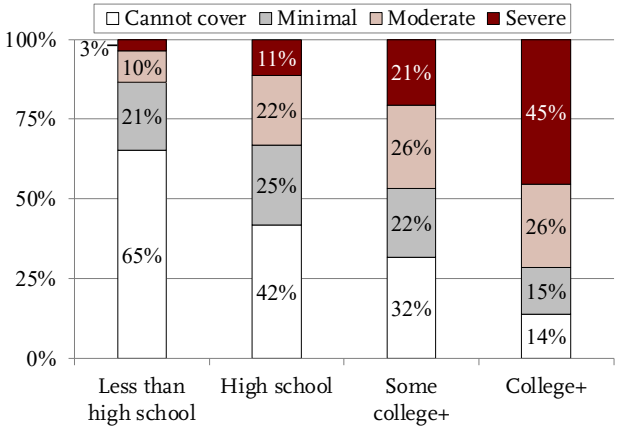
Figure 6. Percentage of 65-Year-Olds Who Can Cover Future Care Without Exhausting Resources, by Needs Level and Marital Status



Source: Authors' calculations.

Education. Clear patterns also exist by education – a good proxy for income.[14] Virtually no individual with less than a high school diploma has the resources for severe LTSS care, compared to 11 percent of high school graduates and 21 percent of those with some college (see Figure 7). College graduates fare much better, with about 45 percent able to cover even the most severe care needs. Similarly, 65 percent of those without a high school diploma have no resources for LTSS while only 14 percent of those with a college degree fall into that category.

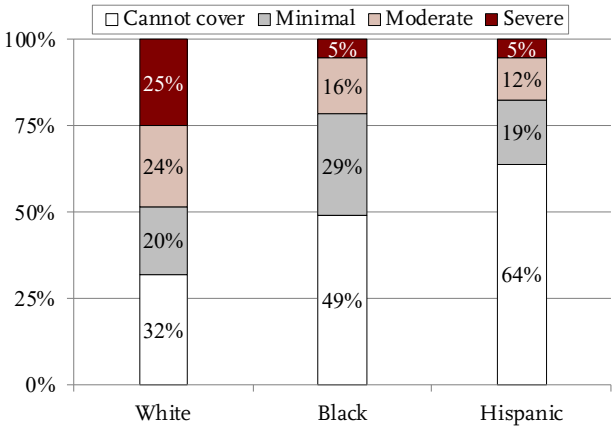
Figure 7. Percentage of 65-Year-Olds Who Can Cover Future Care Without Exhausting Resources, by Needs Level and Education



Source: Authors' calculations.

Race/Ethnicity. Only 5 percent of Black and Hispanic individuals have the ability to cover severe LTSS care, lagging behind 25 percent for white households (see Figure 8). However, a much higher share of Hispanics – nearly two-thirds – ends up in the group that cannot cover even a year of care, compared to about half of Blacks and one-third of white retirees.

Figure 8. Percentage of 65-Year-Olds Who Can Cover Future Care without Exhausting Resources, by Needs Level and Race



Source: Authors' calculations.

Conclusion

This *brief* – the second in a three-part series – examines the resources that 65-year-olds have for different LTSS care needs in the future. The analysis considers informal care from family members as well as paid care that can be bought using income and financial assets and categorizes older adults by their ability to afford minimal, moderate, and severe care needs. The results show that about one-third of retirees do not have the resources for even minimal care and only one-fifth can afford severe care. The pattern varies even more across sociodemographic groups. Married individuals, those with college or more, and whites have more resources for LTSS care needs.

The big question is whether the people who will need help are the same ones who have the resources. To answer that question, the next *brief* will compare people's likely care needs with their available resources for LTSS. This process will identify the individuals and groups who may end up with unmet needs and discuss how Medicaid plays a role.

Endnotes

1 For more details, see Belbase, Chen, and Munnell (2021).

2 Wolff et al. (2016).

3 Johnson (2016) and Cohen (2016).

4 While Medicare can cover up to 100 days of nursing home care, obtaining coverage for the full period is limited to situations in which skilled nursing care is required. With respect to home care, Medicare does not cover services related to a chronic functional need, though it can cover in-home services for a clinical need.

5 The first *brief* in this series evaluated the likelihood that individuals would require various levels of care. This *brief* looks solely at the resources individuals have, independent of their expected care needs. The third *brief* will bring these two factors together.

6 The focus is on estimating future care needs for 65-year-olds. Due to small sample sizes for this age group, the analysis augmented the sample by also incorporating data for individuals ages 66-69.

7 The analysis pools data from the 2011, 2015, and 2017 NHATS and NSOC. The latest year of each survey is 2017.

8 These results are robust to a variety of alternative specifications, including interactions between selected variables.

9 For simplicity, the analysis uses the hourly cost of home health care as the cost of any type of formal care, regardless of where the care is provided.

10 This definition follows Johnson and Wang (2017).

11 Genworth (2018).

12 Pinquart and Sorenson (2007); Seltzer and Li (2000); Schulz and Eden (2016); Schulz and Sherwood (2008); and Spillman et al. (2014).

13 Appendix Figure A1 shows how caregiver health relates to the number of care hours provided.

14 About 17 percent of our sample have less than a high school degree, 34 percent are high school graduates, 24 percent have some college and 26 percent have a college degree or more.

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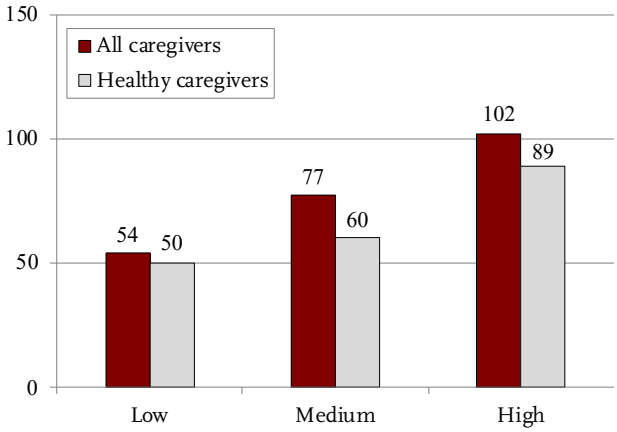
APPENDIX

Table A1. Regression of Informal Care Hours

Variables	(1) All	(2) Healthy caregivers
Ages 65-69	-18.50	-11.44
	(12.81)	(12.43)
Ages 70-74	-12.13	8.981
	(12.43)	(14.51)
Ages 75-79	-7.055	7.301
	(11.25)	(12.28)
Ages 80-84	-0.0715	5.602
	(11.22)	(11.49)
Ages 85-89	-7.947	3.911
	(10.85)	(11.84)
Ages 90-95	-8.298	-4.911
	(10.72)	(10.58)
Race: Black	28.77***	33.26***
	(6.496)	(7.160)
Race: Hispanic	20.59**	18.54
	(10.49)	(12.32)
Race: other	30.25	37.84
	(19.03)	(26.25)
Intensity: 2	22.77***	12.38*
	(6.440)	(7.275)
Intensity: 3	47.53***	42.21***
	(5.965)	(7.404)
Married	5.764	-0.227
	(6.300)	(7.167)
Gender: Woman	-21.02***	-28.55***
	(6.707)	(7.948)
Reported health: very good	-6.635	10.60
	(16.40)	(11.49)
Reported health: good	-11.37	6.729
	(15.28)	(8.968)
Reported health: fair	7.014	20.51**
	(15.34)	(9.654)
Reported health: poor	20.34	26.09**
	(16.68)	(12.06)
Number of kids	1.160	-0.722
	(1.262)	(1.364)
Constant	60.73***	44.15***
	(18.52)	(14.45)
Observations	2,708	1,647
R-squared	0.057	0.068

Note: * p<0.10, ** p<0.05, *** p<0.01.
Sources: Authors' calculations from NHATS and NSOC (2011, 2015, 2017).

Figure A1. Available Hours of Informal Care per Month from Informal Caregivers, by Intensity and Health of Caregiver



Source: Authors' calculations from NHATS and NSOC (2011, 2015, 2017).

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Contact Information

Center for Retirement Research
Boston College
Hovey House
140 Commonwealth Avenue
Chestnut Hill, MA 02467-3808
Phone: (617) 552-1762
Fax: (617) 552-0191
E-mail: crr@bc.edu
Website: https://crr.bc.edu

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