How Does LTCi Affect Families and the Economy?

By Xiwen Luo

Long-term care (LTC) is a significant financial risk as one ages, with approximately 56 percent of people in the US reaching 65 developing a disability serious enough to require long-term services and supports over their lifetimes (Johnson & Dey, 2022).Such care could include assistance with daily activities or severe cognitive impairment and one's need for care may last for many years.

Currently in the US, insurance coverage for LTC is lacking. While Medicare, the near-universal health insurance program for individuals age 65 and older, may help with rehabilitative needs after acute events such as hip fractures or strokes, it does not cover care needed for long periods of time due to chronic illnesses or disabilities. Medicaid, the public health insurance for people with limited incomes, covers long-term care, however, income and asset requirements must be met before the coverage can be applied, and individuals often face waiting lists to receive long-term care (Baicker et al., 2013). Private long-term care insurance (LTCi) is available, although fewer companies are selling these policies, and currently only 3-4% of people aged 50 and older have private LTCi coverage (Aleccia & Rau, 2023).

> Lack of widespread public coverage for LTC has left many American families two options: paying for care out of pocket or relying on unpaid caregivers who are often family members and friends.

Both options may result in considerable financial cost for the adults and their family. Americans spent over $58.1 billion out-of-pocket on home health care and nursing facilities in 2019 alone (CMS, 2021, p. 4). While family care is often unpaid, it may still come at a cost, including reduced job opportunities and earlier retirement for the caregivers, and increased stress and decreased time for leisure activities (Mandani et al., 2018; Mausbach, Harmell, Moore, & Chattillion, 2011). Understanding the impacts of LTCi is crucial for older adults and their families considering LTCi, and our study demonstrates how insurance decisions can have downstream effects on families.

THE STUDY

In the study titled "Family Spillovers and Long-Term Care Insurance," the authors looked at how having private long-term care insurance impacted American families (Coe, Goda, & Van Houtven, 2023). LTCi helps lower the cost of professional care when long-term care needs arise. The authors were curious about how this might affect families in terms of caregiving, employment, and where adult children choose to live in relation to their aging parents. To get towards causal estimates, they focused on the effects that emerged from differences in state tax policies towards long-term care insurance. Some states allow favorable tax treatment, either a deduction or a credit, if individuals purchased LTCi. This essentially lowers the price of the insurance product. Not surprisingly, states with favorable tax treatment have higher LTCi coverage amongst their residents.

They studied the mechanisms through which LTCi might impact families. One is that if insurance made it easier to afford professional care, older adults would rely less on family caregiving. By the same token, this could also mean that adult children would have more flexibility in their work and living arrangements, knowing that they could opt for professional care if a long-term care need arose.

The study produced very interesting findings. Although there was not an observed decrease in the use of family caregiving for older adults with private long-term care insurance, there was a change in expectations. Insurance led parents to be less likely to expect their adult children to provide caregiving in the future. They also found that parents signing up for insurance led their adult children to be much less likely to live with their parents.

Another significant finding from the study was that parents having insurance resulted in their adult children to be more likely to be working, either part-time or full-time. Translating this finding into simpler terms, having LTCi can improve the financial situation of the younger generation, even if the aging parents never end up needing long-term care. Further, widespread LTCi has the potential to influence both the workforce and economic growth.

WHAT THIS STUDY MEANS FOR LTC/LTCi PLANNING

Taking care of aging family members can be a fulfilling, yet time consuming, responsibility. Often, family and friends provide care for their loved ones without financial benefits. However, demographic shifts, such as shrinking family sizes, people living farther apart, more couples working full-time, and divorce rates on the rise, could change the ability to rely on this family support system in the future.

These shifts in demographics underscores the urgent need for alternatives to address the LTC needs of our ever-growing aging population. LTCi offers a cost-sharing mechanism for its beneficiaries so that they can afford an alternative to the traditional family care. However, it is critical to understand how LTCi affects both the beneficiaries and those who may provide care in the future.

> Findings indicate that having insurance did not reduce the amount of family care received during the study period, but it did change expectations about family care from their adult children.

This creates spillover effects for the adult children, who have more flexibility in how to address any future care needs of their parents.

Overall, this research suggests that having access to LTCi could offer more options for adult children of potential care recipients. This study contributes to our understanding of how insurance influences different aspects of family life in the US, including caregiving, work decisions, and where people live. The findings suggest that getting private LTCi can have downstream effects on families, even long before anyone is in need of care. This is important to consider when one compares the pros and cons of LTCi.

Every research study has limitations. One of the main limitations in this study is that the findings are most relevant for tax-paying families with higher incomes who could benefit from the state tax treatment for private long-term care insurance. More research is needed to understand whether the findings apply more broadly.

NOTE: The study discussed in this article—"Family spillovers and long-term care insurance" by Dr. Norma B. Coe, Dr. Gopi Shah Goda, and Dr. Courtney Harold Van Houtven—was originally published on the Journal of Health Economics. Read the full study here.

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