Demographic Trends and Demand for Long-Term Care Services

NAIC Public Hearing on Long-Term Care Insurance

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Overview

- How does an aging population fit into the ‘big picture’?

- What are the key demographic trends and how will they impact the demand for long-term care?

- What evolving consumer perspectives and revised expectations could mean for the life insurance industry (with a special focus on LTC insurance).
The ‘Big Picture’ – Past, Present, and Future

• Mid-2000’s:
  - Relatively strong economy.
  - Though interest rates were low by historical standards, yields were reasonable.
  - The oldest baby boomers were on the verge of retirement.
The ‘Big Picture’ – Past, Present, and Future (continued)

• 2007 to 2011:
  ➢ Financial collapse
  ➢ Housing bubble burst
  ➢ Great Recession
  ➢ Regulatory change
  ➢ Low interest rate environment
  ➢ Etc.
The ‘Big Picture’ – Past, Present, and Future (continued)

• Today:
  ➢ The economic recovery is sluggish.
  ➢ The housing market is slowly recovering.
  ➢ Government debt is high.
    ➢ Concern about public programs (Social Security, Medicare, Medicaid) and state pensions.
  ➢ Private sector (not just life insurers) still faces some regulatory uncertainty.
  ➢ Interest rates are at record lows, and will likely remain so for several more years.
  ➢ Possibility of inflation at some point in the future.
The ‘Big Picture’ – Past, Present, and Future (continued)

• Today (continued):
  ➢ The oldest baby boomers have reached ‘retirement age’.

• 2030:
  ➢ The youngest baby boomers will have reached ‘retirement age’.

• Despite fluctuations in the economy, demographic transition continues and will ultimately drive demand for retirement products, including LTC insurance.
Estimated Growth of the Elderly Population (percent)

- All Seniors 65 to 74: 79.2% to 120.1%
- 75 to 84: 80.7% to 86.9%
- 85 and over: 88.7% to 125.8%
- 85 and over: 231.1%

2010 to 2030 vs. 2010 to 2050
Percent of the US Population Over Age 65, 1900 to 2050

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Key Demographic Trends:

An increase in the number of seniors is a direct result of the ‘baby boom’ and will impact the demand for long-term care.

But, two related demographic changes may indirectly impact demand for long-term care:

1. Lower fertility
2. Greater longevity
**Long-Term Demographic Trends: Lower Fertility**

- Baby boomers tended to have smaller families.
  - In 1960, the average woman had 3.6 children.
  - In 2010, the average woman had 2.1 children.

- Low fertility eventually results in fewer working-age people per retiree.
  - In 1930, there were 10.3 working-age people per retiree.
  - In 1960 there were 5.6 working-age people per retiree.
  - In 2010 there were 4.6 working-age people per retiree.
  - *In 2030 there will be 2.8 working-age people per retiree.*
There will soon be a large decline in the number of working-age people per retiree.
Why is this a problem?

- Working-age people provide most of the tax revenue to fund Social Security, Medicare, Medicaid, etc.
- This will have implications for retirement income and long-term care:
  - Medicaid pays for 32.4% of LTC expenditures.
  - Medicare pays for 31.2% of LTC expenditures.
Long-Term Care Expenditures, 2011

- Medicare, 31.2%
- Medicaid, 32.4%
- Out-of-Pocket, 20.7%
- Private Insurance, 8.2%
- Other, 7.5%
Long-Term Demographic Trends: Lower Fertility (cont.)

Why is this a problem (cont.)?

- If there are relatively fewer caregivers the cost of LTC and medical care may increase more than anticipated.
  - Formal LTC – growing demand for caregivers will drive up cost.
  - ‘Informal’ LTC – unpaid care provided by family and friends.
Long-Term Demographic Trends: Lower Fertility (cont.)

- ‘Informal’ LTC – unpaid care provided by family, friends, and neighbors. Facts:
  - Societal and demographic changes have made informal care an increasingly less viable alternative.
  - ‘Informal’ LTC is usually not a good substitute for ‘formal’ LTC.
  - 15 million Americans provide unpaid care for a person with Alzheimer’s or dementia.
  - There is a very significant ‘hidden cost’.
    - 6% of caregivers quit work.
    - 10% cut back on work schedules.
    - 17% take a leave of absence.
    - 4% turn down promotions.
Informal care (continued)

- Women usually bear the greatest cost.
- 2 out of 3 unpaid caregivers for elderly adults are women, usually adult daughters.
- “women who help their parents over a two year period cut back their work hours by 367 hours per year, or 41% on average” (Johnson and Lo Sasso (2006)).
Long-Term Demographic Trends: Increased Longevity

• Longevity -- Boomers are living longer.

  • Since the 1960s, life expectancy among 65 year-olds increased by more than one year per decade
  • Rapid advances in medicine, more and better treatments.
  • Healthier living conditions, less smoking, more early screening, etc.
  • Most governments assume that the rate at which longevity increases will diminish.....but....
But...

- According to a recent study: “...progressive increases in ... life expectancy have generated a dramatic demographic transition in the U.S. Official government estimates may have inadvertently underestimated life expectancy...[T]his would have major policy implications.”

  Olshansky, Goldman, Zheng, and Rowe (2009)

- “…the first 150 year-old may already have been born....”

  Aubrey de Grey (Gerontologist)
But...

- "Members of the cohort born between 1980 and 1990 have a 50-50 chance of living to age 100."
  
  Robert Fogel  
  (Nobel Laureate in Economics)

- "Few governments ... adequately recognize longevity risk. Where they do, they find it is large. [I]f individuals live three years longer than expected – in line with underestimations in the past – the already large costs of aging could increase by another 50 percent...”

  International Monetary Fund (2012)
Long-Term Demographic Trends: Increased Longevity (cont.)

- Greater longevity may mean more years spent outside the labor force (i.e. longer retirement).
  - The length of retirement is determined both by longevity and the age at which seniors permanently leave the labor force.
  - Increased burden on public programs.
Long-Term Demographic Trends: Increased Longevity (cont.)

- People are living longer, but are they healthy? There are varying opinions – more research needed. But, some indicators of poor health are on the rise:
  - Limitations in ADLs increased 9% between 2000 and 2005 (Fuller-Thompson et al. (2009)).
  - 1988-1994: 41% of men over 75 and 43% of women were of a healthy weight.
  - 2005-2008: 28% of men over 75 and 36% of women were of a healthy weight.
  - 1988-1994: 24% of men over 75 and 41% of women had high cholesterol.
  - 2005-2008: 39% of men over 75 and 52% of women had high cholesterol.
  - During this time period, the incidence of diabetes increased from 20% to 27% among those 65 and over.
Long-Term Demographic Trends: Increased Longevity (cont.)

• If morbidity and disability increase along with longevity, then:
  • A larger percentage of seniors will need LTC.
  • The length of time receiving LTC may increase.
  • Cost of retirement may further increase.
  • Medicaid and Medicare may be further strained.
Long-Term Care FACTS:

• Currently, 70 percent of seniors will require some form of LTC, and 20 percent will require LTC for more than 5 years.

• The Federal Administration on Aging estimates that by 2020, 15 million seniors will require LTC, 50% more than today.

• Today, the median cost of a year-long stay in a nursing home is $78K for a semi-private room, and $87K for a private room.

• Assuming current LTC utilization rates and recent price increases: by 2020 the cost of a year-long stay in a nursing home will be at least $117K for a semi-private room, and $125K for a private room.

• Even if morbidity and disability do not increase with longevity, the aggregate cost of LTC will increase simply because there are more seniors.
Evolving Perspectives and Revised Expectations

• Perception about retirement and financial security have changed:

  • 1991: 34% expected to retire by age 65
  • 2011: 26% expect to retire by age 65.
  • 1991: 9% expected to retire by age 70.
  • 2011: 25% expect to retire by age 70.
  • 2001: 59% expected to have a ‘comfortable’ retirement.
  • 2012: 38% expect a ‘comfortable’ retirement.
Evolving Perspectives and Revised Expectations (cont.)

• Perception about retirement and financial security have changed (cont.):
  
  • Great concern that Social Security will not “be there for me”.
  
  • More seniors are remaining in the labor force. In 1987, 10.5% of 70 to 74 year-olds were in the labor force. In 2012, 19.9% are in the labor force.
  
  • More people may be ‘transition’ into retirement than before (i.e. ‘fourth pillar’).
What about Generation Y and Generation Z?

- **Generation Y:**
  - Born between 1982 and 2000 (age 12 to 30)
  - Will start to retire around 2047.

- **Generation Z:**
  - Born between early 1990s and 2010 (up to age 20)
  - Will start to retire around 2057.

- Experienced 5 years of difficult economic conditions.

- High cost of university education:
  - One year in a private university: $46,519
  - One year in a public university: $23,634
Evolving Perspectives and Revised Expectations (cont.)

What about Generation Y and Generation Z (cont.)?

- Bad job market
- Collapse of real estate market
- Witnessed retirement and LTC challenges faced by their parents/grandparents

Will Generation Y and Generation Z be:

- more ‘risk averse’ than their parents?
- ‘savers’?
- more likely to prepare for their own retirement?
- more like the ‘Silent Generation’ and/or the ‘Greatest Generation’?
- more inclined to purchase insurance products?
Conclusions

• Economic conditions may dictate short-term product trends, but demographics will dictate long-term product trends.

• An aging population, a declining number of working-age people per retiree, increasing longevity, and concern about public programs will drive demand for long-term care insurance over the long run.

• Perceptions and expectations have evolved and have become more realistic.

• Younger generations may be more aware of the need to plan for LTC needs and may be more risk averse.
THANK YOU!

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“If I had my way, I would write the word ‘Insure’ upon the door of every cottage and upon the blotting book of every public man…”

Winston Churchill, 1909
(in a speech advocating for public and private insurance)

*The views and opinions expressed in this presentation are those of the author/presenter and are not necessarily those of the American Council of Life insurers or its member companies.