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Insurance for informal long-term care

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6th International Pension Research Association (IPRA) Conference
Pensions: Emerging from COVID-19 and beyond



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Insurance for informal long-term care

1. Why is LTC insurance and informal care relevant for pensions?
2. Exploring stated preferences for a long-term care insurance (LTCI) income product
3. Discussion and practical applications

Long term care risk impacts the effectiveness of pension provision

- Pension policy design considers longevity risk, market risk and inflation risk – **NOT long-term care (LTC) risk**
- LTC has **high prevalence** and potentially **high costs**
- People **self insure** for LTC → compromises financial wellbeing in retirement
 - **Reluctance to draw down** retirement savings and household assets (including housing assets via home equity release products)
 - **Reluctance to buy retirement insurance** products – annuities
- Preference for **ageing in place** using **informal care**
 - **Not covered** by typical LTC insurance → incentive to use formal care
 - **Significant costs** to informal carers: lower hours & income → smaller pensions
 - ABS. Survey of Disability, Ageing & Carers (2018) → Australia: 400,000 primary ‘informal’ carers of the elderly (10% of > 65 population); mostly spouses, daughters

Evidence of a strong motivation to continue to save/draw down slowly in retirement

| Saving/spending motive | |
|--------------------------------------|--|
| 1. Self gratification | Enjoy life now as well as later |
| 2. Future health, aged care expenses | Finance unforeseen health, aged care expenses |
| 3. Autonomy | Remain financially independent |
| 4. Security | Peace of mind |
| 5. Surviving spouse/partner | Enable spouse/partner to maintain living standard |
| 6. Other unforeseen expenses | Finance other unforeseen expenses |
| 7. Liquidity | Enough cash on hand at any time |
| 8. Life span risk | Not outlive wealth |
| 9. Political risk | Protection against change in Age Pension/super rules |
| 10. (Intended) bequest | Leave a bequest to a dependent or estate |

An alternative → flexible insurance for informal long-term care: a long-term care insurance (LTCI) income product

- Single premium at purchase; disability trigger → eg **2 ADLs, cognitively impaired**
- Pays **regular income** in period of need (whether care is paid for or not) → can be used to pay for formal **OR informal care** (discretion how to spend, including to reimburse informal carers)
- Potential to bundle with life annuities → enhance risk pooling
- Lifecycle models show access to long-term care income insurance welfare improving → Australia (*Wu et al, 2016*); China (*Wan et al, 2021*)
- An emerging product in the US: annuity with LTC rider – 80% new sales of LTC insurance (American Association for LTC Insurance, 2019)

We explored the stated demand for long-term care insurance (LTCI) income product

- **Key questions:**
 - ✓ Who would buy the LTCI income product, and how much?
 - ✓ Would access to LTC income insurance release precautionary savings for purchase of annuities, and for whom?
- **Sample of 1,000 Australians aged 55-64**, completed a sequence of online experimental tasks of retirement benefit choices – lifetime annuity, LTCI income product, investment account (phased withdrawal/account-based pension)
- **Collected personal information:** demographics, (objective/subjective) measures of exposure to risk, substitutes to LTC insurance, preferences, product knowledge & financial capability, self-assessed need for home/residential care, availability of low-level/high-level informal care.

Simplified the complex 3-way choice using a sequence of choice tasks: how much LTC income insurance would you prefer at different levels of annuitisation

Scenario 1: How much Aged Care Income would you prefer?

Hover your mouse over the blue text for more information on these products.

In this first scenario, you have:

- **Basic retirement income of \$22,000 per annum (CPI-indexed).** This is from the Age Pension.
- **Retirement savings of \$375,000**

The decision you have to make is as follows:

- **How much [Aged Care Income](#) (if any) do you want to buy?**

The balance of your retirement savings after buying the [Aged Care Income](#) will go into an [Account-Based Pension Product](#). Your basic retirement income (of \$22,000 per annum CPI-indexed) is **not** affected by your choice.

Using the slider below, show how much [Aged Care Income](#) you would like to **receive each year in the future**, in the event that you qualify.



You can position the slider anywhere on the line, but you need to move it at least once before you can continue.

The outcomes of your choice are summarised as follows:

1. Basic retirement income: **\$22,000**
2. [Aged Care Income](#) paid only if you suffer from either (or both) of the health conditions [1\)](#) or [2\)](#): **\$0**
3. [Account-Based Pension](#) balance: **\$375,000**



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Results: Who would buy LTC income insurance, and how much?

- **High stated demand**

- **Around 75%** of sample chose to purchase some LTCI income (at 2-3 times annuity income)

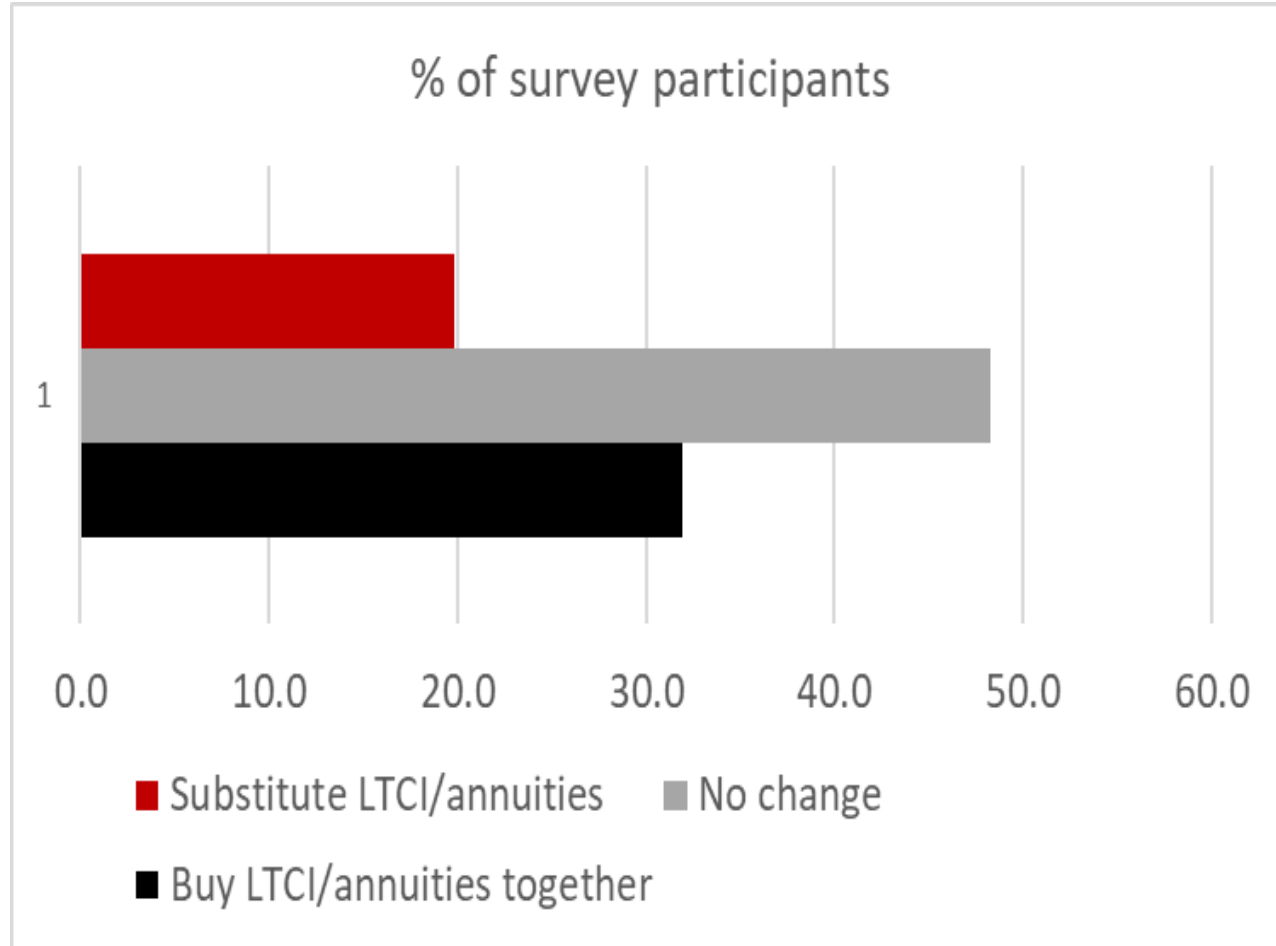
- **Access to and preference for informal care**

- **70% of sample reported access** to low-level informal care & 50% to high-level care
- **50% prefer to receive some or all high-level care from informal sources**

- **Regressions (yes/no; how much) - strong demand for LTCI income product for people who have access to and prefer informal LTC**

- Males & females who have access to high-level informal care demand **25-37%** more LTC income than those who do not
- Females, who expect to rely exclusively on high-level care from family members are willing to buy more income than males
- Females with children demand significantly more LTCI income (bequest intention, reduces demand) (but not for males)

Results: Would access to LTC income insurance release precautionary savings for purchase of annuities, and for whom?*Yes, for some*



- For a large minority (31.9%), LTCI income and annuities are complements → **access to LTCI insurance release precautionary savings**
- Regression analysis finds complementarity more likely for participants with **low perceived long-term care risk**
- Access to LTCI income product increases annuity demand by healthy → bundling LTCI & annuities to improve risk pooling (Brown & Warshawsky, 2013)

Discussion: LTCI income product can benefit financial wellbeing in retirement for seniors and their carers

- **Complementarity with informal care:** LTCI income product attracts people who prefer informal care and want to support/compensate carers, particularly females.
- **Complementarity with longevity insurance:** Access to LTCI income product allows release of precautionary savings set aside for future care costs (to purchase longevity insurance), particularly for those with perceived low LTC risk
- Larger potential market than existing LTC insurance products as includes those who prefer and have access to informal care

Discussion: Practical implications

- LTC income product provides income can cover costs of informal care but does not cover **catastrophic risk**
 - Suitable to supplement public systems which do provide cover → Australia: means tested public support + **lifetime cap** on individual contributions to care
- But must address **barriers to take-up**
 - Awareness, interest, capability, product distribution
- And encourage seniors to **spend** income payments
- And consider **cognitive decline** & elder abuse

Thank you

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