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# Flexible insurance for informal long-term care: A study of stated demand

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# Flexible insurance for informal long-term care: A study of stated demand

1. Background
2. Explore **stated preferences for a 'flexible' LTC (aged-care) insurance product** which pays disability-contingent income
3. Discussion

# Background: Stylized Facts

- People are **reluctant to draw down** retirement savings and other household assets (including housing) to finance retirement, prefer to **self-insure aged care costs**
  - **compromises financial wellbeing in retirement**
- Preference for **ageing in place** and **informal care**
  - ABS. Survey of Disability, Ageing & Carers (2018) → Australia: 400,000 primary ‘informal’ carers of the elderly (10% of > 65 population); mostly spouses, daughters
  - **compromises labour market participation & retirement savings of carers**
- **No private aged care (long-term care) insurance** in Australia → yet it could enhance the financing and sustainability of aged care

# A study of stated spending trajectories -> 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

# A long-term (aged) care insurance income product could be a solution

- Single premium at purchase (e.g. using super, housing assets including Pension Loans Scheme); disability trigger for payments → 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 (life care annuity) → enhance risk pooling
- Lifecycle models show access to long-term care (LTC) 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 a long-term care (LTC) insurance income product using an online experimental survey

- **Key questions:**
  - ✓ What is the stated demand? who would buy the product? and how much?
  - ✓ Would access to this LTC insurance release precautionary savings for purchase of longevity insurance (annuities)? and for whom?
- **Representative sample of 1,000 Australians aged 55-64**, completed a sequence of online experimental tasks of retirement benefit choices to determine most preferred allocation of retirement savings to: **lifetime annuity, aged care income insurance, account-based pension**
- **Collected personal information:** demographics, (objective/subjective) measures of exposure to risk, substitutes to aged-care insurance, preferences (risk, time, bequests), product knowledge & financial capability, self-assessed need for home/residential care, availability of low-level/high-level informal care.

# To enhance the effectiveness of online experimental design

- Informed participants of aged care risks & costs and incentivised participants to learn about the retirement insurance products

## Aged-care expenses

The chance of needing aged care varies from person to person, depending on your health and medical history. However, **three out of every five** of us will need some form of care during our lives, mostly at older ages.



Women are more likely to need care than men.

People's needs for assistance can range from help with checking blood pressure, managing medicines, or daily activities like bathing and dressing. Costs can run from **less than \$1,000 a year for basic home support**, to **around \$65,000 a year for residential aged care**.

- Only 5% of participants found the survey 'mostly/completely confusing'

# Simplified the 3-product allocation using a sequence of choice tasks: How much aged care income insurance would you prefer (at different levels of annuitisation), then most preferred

## 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

## Summary statistics indicate high stated demand for long-term care income insurance

- **Around 75%** of sample chose to purchase some long-term care income insurance
- Median income chosen (when require LTC) was **\$45K pa**
- **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**

## Regression models to estimate 1) probability of purchase of long-term care income, and 2) amount purchased

Objective measures of exposure to LTC risk mostly **not significantly** associated with either probability of purchase or amount

Dep. variable	Pr. Purchase LTC income			Log amount LTC income		
	Sample	Males	Females	Sample	Males	Females
Female	-	-	-	-0.448**	-	-
Age	-	-	-	-	-	-
Health state (1)						
2	-	-	-	-	-	-
3	-	-	-	-	-	-
4	-	-	-	-	-	+0.337***
Current smoker	-	-	-	-0.315***	-	-0.494**
Received care	-	-	-	-	-	0.420**

## Association between subjective measures of exposure to LTC risk association and probability of purchase or amount is **mixed**

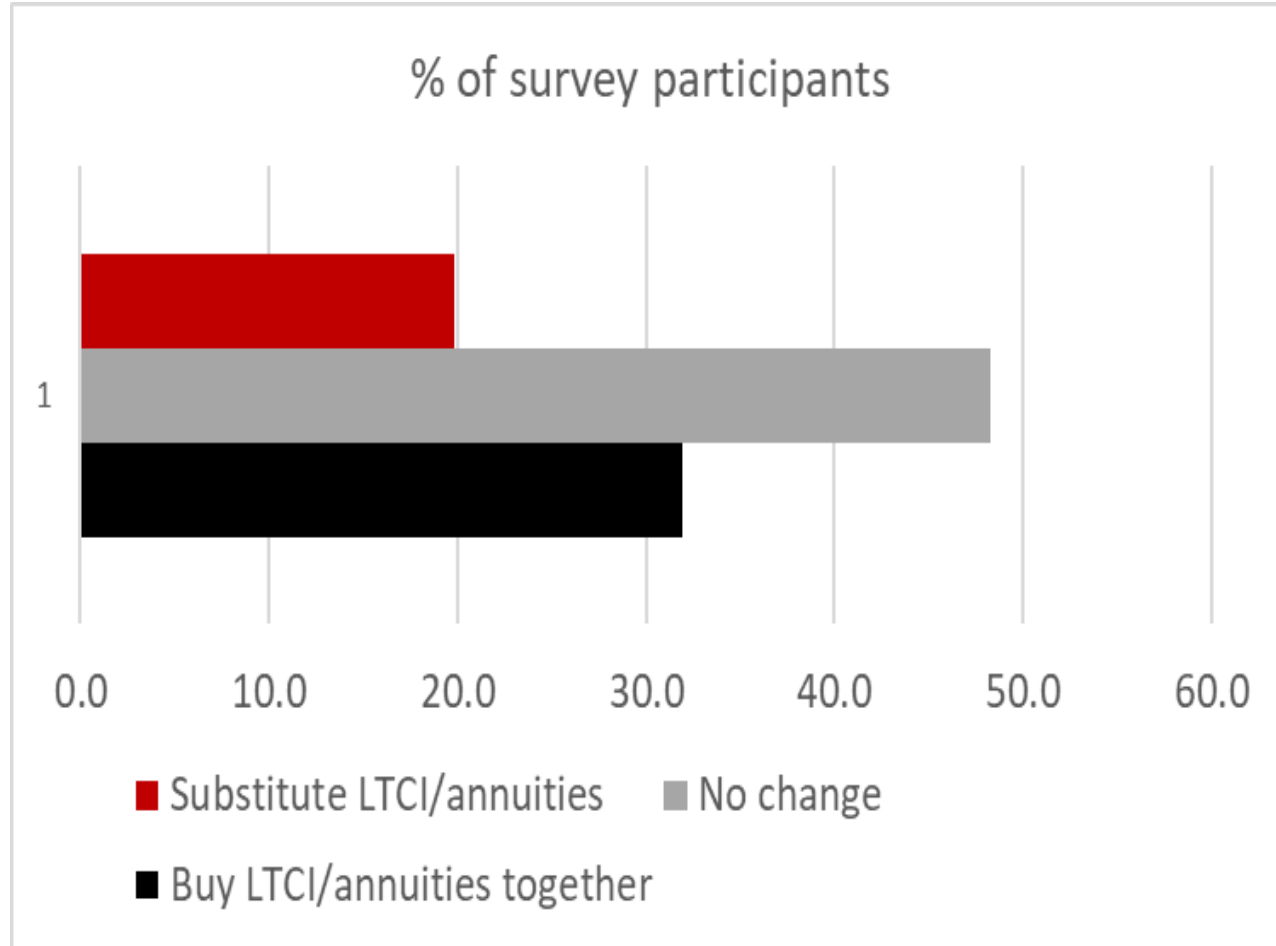
Dep. variable	Pr. Purchase LTC income			Log amount LTC income		
	Sample	Males	Females	Sample	Males	Females
<b>Subj Life Expectancy</b>	-	-0.035*	-	-	0.011*	-
<b>Chance needing home care</b>						
Lower than average	0.512*	-	-	-	-	-
Higher than average	-	-	-	-0.339**	-	-
<b>Chance needing residential care</b>						
Lower than average	-0.875***	-1.048**	-0.851*	-	-	-
Higher than average	5.527***	+∞***	3.691**	0.591***	0.712**	-
<b>Awareness of LTC risk</b>						
Set aside money	-	-	-	0.327***	0.452***	-0.282**

Strong stated demand from those who have access to and preference for informal care: Males & females who have access to high-level informal care demand 25-37% more aged care income than those who do not

Dep. variable	Pr. Purchase LTC income			Log amount LTC income		
	Sample	Males	Females	Sample	Males	Females
<b>Availability of (low level) informal care</b>						
Informal care only	-	-	-	-	-0.302**	-
Informal care + other sources	-	-	-0.847*	-0.188*	-	-
<b>Availability of (high level) informal care</b>						
Informal care only	0.887***	1.331***	-	<b>0.284***</b>	<b>0.252*</b>	<b>0.373**</b>
Informal care + other sources	-	-	-	0.227**	-	<b>0.364**</b>
No. children	-	-	-	-	-	<b>0.108***</b>
Chance \$100K bequest	-	-	-0.001**	-	-	<b>-0.003**</b>



# Would access to aged care income insurance release precautionary savings for purchase of annuities, and for whom? .....*Yes, for some*



- For a large minority (32%), aged care income insurance and annuities are complements → **access to aged care/LTC insurance release precautionary savings**
- Regression analysis finds complementarity more likely for participants with **low perceived aged care risk**
- Access to aged care income insurance increases annuity demand by healthy → bundling aged care insurance & annuities improves risk pooling (Brown & Warshawsky, 2013; Sherris & Wei, 2021)

## Discussion: Multiple benefits of LTC income insurance

- **Strong stated demand** for LTC income insurance from people **who prefer informal care** and want to compensate carers, particularly females
- Access to LTC income insurance allows **release of precautionary savings set aside for future care costs** (to purchase longevity insurance), particularly for those with low perceived LTC risk
- **Larger potential market** than expense-reimbursement products offered overseas – as includes those who prefer and have access to informal care
- Potential private insurance product to **support sustainable aged-care financing**

## Discussion: Practical implications

- Long-term care income insurance only partially covers costs → suitable in combination with public financing
- **Behavioural barriers** to drawdown of assets at retirement (super, housing, financial assets) to fund purchase price
- **Barriers to take-up** of unfamiliar products
  - Lack of awareness and product understanding, product distribution
- Seniors may need to be encouraged to **spend** income payments
- Efficacy of providing income to people with **cognitive limitations**

Thank you

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