



# Security Matters

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## Nursing Home Use Expectations and Wealth Accumulation Among the Elderly

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*Practitioner applications provided by the Center for Financial Security, UW-Madison*

### Summary

For older adults in the U.S., long-term care involves a considerable amount of expenses. The use of nursing homes by older adults is a significant and important aspect of long-term care. Despite these high costs, only 10% of older adults have private long-term insurance, and one third of these long-term care expenses are paid out of pocket. This is due to Medicaid controlling a large portion of the market. The way long-term care costs are covered can create a dilemma for consumers. Some individuals may reduce wealth to be covered by Medicaid; others who expect to enter nursing homes focus on accumulating more wealth to cover costs.

Understanding how individual decisions regarding wealth accumulations respond to these competing incentives is important to evaluate income security during retirement, and to design effective policy. This study looks at the contributing factors to older adults' nursing home use expectations; whether or not individuals actually use a nursing home in the future; and the association between nursing home use expectations and older adults' decisions regarding wealth accumulation. This study uses data from the 1998 to 2016 Health and Retirement Study.

### Key Findings

- Older adults update their expectations for nursing home use in response to health shocks and other conditions.
- Older adults' expectations of using a nursing home or not accurately predict their actual nursing home use within five years.
- Older adults' nursing home use expectations are not directly related to whether they spend down or accumulate their wealth. This was true across the population, from high to low wealth households.

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- There are no major differences across different demographic groups such as gender, race, education, and other socio-economic factors, regarding the relationship between nursing home use expectations, actual nursing home use, and how individuals handle wealth accumulation.

## Practitioner Ideas

Individuals may have strong feelings about how they would like to receive care in their later years, though these expectations could change following a sudden health event. When individuals see themselves someday using a nursing home, then they are more likely to transition into a nursing home when they need additional care.

Financial counselors and coaches can consider the following, especially when working with older adults or individuals with disabilities:

- Discuss long-term care expenses as a part of estate planning. Estate planning is for all income levels and age groups. It involves organizing your finances, planning for changes in health, and determining preferences for a range of later life decisions.
- Ask clients about long-term care expectations for later in life. What options does your client see as practical or desirable? Have they had conversations about these preferences with significant others?
- Support client's preferences and values around planning for long-term care and related expenses. Clients may feel strongly about preserving wealth to pass down to others or about using their life savings to pay for their own nursing home care.
- Review options and provide resources related to long-term care expenses, including the role of Medicaid and long-term care insurance. Medicaid covers nursing home costs only for individuals with limited assets and restricts spending down assets to qualify for coverage.

Some financial practitioners specialize in working with older adults and will already be familiar with policies and resources related to long-term care planning. Financial counselors and coaches can also partner with organizations, such as aging resource centers, legal advocates, and state insurance commissioners, to direct individuals to trustworthy information to support their later-life preferences.

## Key Resources

### **Social Security Administration Medicaid Information**

<https://www.ssa.gov/disabilityresearch/wi/medicaid.htm>

### **National Association of Insurance Commissioners – Long-term Care Insurance**

<https://content.naic.org/consumer/long-term-care-insurance.htm>

### **U.S. Department of Health and Human Services – Administration for Community Living**

Aging and Disability Resource Centers: <https://acl.gov/programs/aging-and-disability-networks/aging-and-disability-resource-centers>

### **U.S. Department of Health and Human Services – National Institute on Aging**

Advance Care Planning: <https://www.nia.nih.gov/health/getting-your-affairs-order>

