Income and Wealth of Older Adults Needing Long-Term Services and Supports

Statement of

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Chairman Chernof, Vice Chairman Warshawsky, and members of the Commission, thank you for the opportunity to testify today about income and wealth shortfalls for older Americans with disabilities, especially those who eventually receive nursing home care paid at least in part by Medicaid. I am a senior fellow in the Urban Institute's Income and Benefits Policy Center, where I direct the program on retirement policy. I specialize in the health and income security of older Americans, and much of my research focuses on long-term services and supports, how families pay for them, and the implications for taxpayers.

As you know, the prospect of becoming disabled and needing expensive long-term care is perhaps the most significant risk facing older Americans. One estimate indicates that 7 in 10 Americans who survive to age 65 will eventually need long-term services and supports, and 1 in 5 will need help for five or more years (Kemper, Komisar, and Alecxih 2005). Most will receive informal help from family and friends, but increasing numbers of older Americans will receive home care from paid helpers, and many will end up in nursing homes. Despite long-term declines in nursing home admission rates (Bishop 1999), a recent study concluded that the chances of receiving nursing home care at some point after age 50 still exceeds 50 percent (Hurd, Michaud, and Rohwedder forthcoming).

Long-term care costs are prohibitive. The latest estimates from the 2012 MetLife Mature Market survey indicate that a year of nursing home care in a semi-private room now averages about $80,000 nationwide, with average costs as much as 75 percent higher in certain parts of the country (MetLife Mature Market Institute 2012).

The United States lacks a system to adequately finance these costs. Standard health insurance plans do not cover long-term care, and Medicare covers long-term care only in special circumstances. Only about 12 percent of adults ages 65 and older have private long-term care insurance (Johnson and Park 2011), and there are signs that this private market is shrinking.

As a result, many long-term care recipients, especially those with extended nursing home stays, end up going on Medicaid. The Kaiser Commission on Medicaid and the Uninsured (2013) estimates that Medicaid covers 41 percent of the nation's long-term care costs, costing taxpayers about $140 billion in 2010. As the population ages and long-term care costs rise, there is growing concern that Medicaid will increasingly strain federal and state budgets. And Medicaid does not work particularly well for beneficiaries, because they must turn over nearly all of their income and wealth to the program.

As the focus on Medicaid intensifies, questions grow about exactly who receives help from the program in later life. Has the program morphed into a middle-class entitlement for nursing home care? How many people, who would otherwise end up on Medicaid when institutionalized, could be encouraged to save for their future long-term care needs, either by purchasing private insurance or investing in some type of individual account?

I have been examining the income and wealth trajectories of older adults who end up in nursing homes. My principal conclusion is that most older people who receive Medicaid-financed nursing home care have low incomes and very little wealth, not only while they are in the program but also for at least a decade before they enter a nursing home. These results suggest

that efforts to promote individual saving for long-term care, while laudable, may not move many people off Medicaid or save the program much money, because most Medicaid nursing home residents never had the means to save much in the first place. These findings thus underscore the importance of Medicaid for some of the nation's most vulnerable citizens.

My recent research findings are based on my analysis of the Health and Retirement Study (HRS), conducted by the Survey Research Center at the University of Michigan with primary funding from the National Institute on Aging. The HRS has been tracking older Americans since 1992 and 1993, generally asking respondents every other year about their health and disability status, receipt and financing of long-term care, and household income and wealth (as well as many other topics). The most recent data currently available were collected in 2010.[1]

I will begin my testimony by comparing household income and wealth in 2010 for Americans with and without disabilities. I compare financial status for these two groups when they are in their seventies, and then again nearly two decades earlier when they are in their fifties, before any of them had developed disabilities. The next section examines how household income and wealth varies by future nursing home care, comparing financial status for those who eventually receive at least some Medicaid-financed care and those who never go on Medicaid. All financial amounts are reported in 2012 constant dollars, as adjusted by the change in the consumer price index. The final section presents some caveats and discusses some policy implications of these findings.

Current Financial Status of Older Americans with Disabilities

In 2010, only about a fifth of adults ages 65 and older living in the community (not in nursing homes) reported any difficulty because of a health or memory problem with any of the following six activities of daily living (ADLs): getting in and out of bed, using the toilet (including getting up and down), bathing or showering, dressing (including putting on socks and shoes), walking across a room, and eating (such as cutting up food). Eleven percent reported difficulty with two or more ADLs. These rates count only limitations expected to last at least three months. Disability rates are higher among community-dwelling adults ages 80 and older, a third of whom reported at least one ADL limitation in 2010, and a fifth of whom reported two or more limitations.

Older Americans with disabilities receive substantially less income than those without disabilities. In 2009, the average per capita household income, for adults ages 65 and older who were living in the community and reported difficulty with at least two ADLs, reached $29,400 when expressed in 2012 constant dollars (table 1).[2] By contrast, per capita household income averaged $44,900—about 65 percent more—for their counterparts who did not report any ADL limitations. Half of older community-dwelling older adults with two or more ADL limitations reported per capita household incomes below $18,200—the median, or 50th percentile of the distribution—and a quarter reported incomes below $11,000—the 25th percentile of the

[1] For more information on the HRS, see Survey Research Center (2013).
[2] For married adults, per capita household income equals total household income divided by two.

distribution. Only a quarter reported incomes in excess of $33,700, and a tenth reported incomes in excess of $56,600.

Table 1. Annual Per Capita Household Income of Adults Ages 65 and Older Living in the Community by Disability Status, 2009 (in 2012 Constant Dollars)

	No ADL limitations	Two or more ADL limitations
Average value	44,909	29,399
Percentiles of the income distribution		
10th	9,966	7,063
25th	16,053	11,019
50th (median)	27,236	18,206
75th	49,740	33,711
90th	93,022	56,596
Number of observations	*7,675*	*1,538*

Source: Author's computations from the Health and Retirement Study.
Note: For married adults, per capita income equals total household income divided by two. Activities of daily living include walking across a room, getting in and out of bed, dressing, eating, bathing, and toileting. Respondents are considered to have a limitation if they report any difficulty with these activities.

Older adults with disabilities also hold relatively little wealth. In 2010, household wealth for adults ages 65 and older living in the community averaged $309,800 (expressed in 2012 constant dollars) for those reporting two or more ADL limitations, compared with $590,600 for those reporting no limitations (table 2).

Table 2. Average Household Wealth of Adults Ages 65 and Older Living in the Community by Disability Status, 2010 (in 2012 Constant Dollars)

	No ADL Limitations	Two or More ADL Limitations
Home equity	173,920	94,843
Financial assets	183,161	109,120
Other wealth	233,561	105,795
Total	590,642	309,758
Number of observations	*8,017*	*1,564*

Source: Author's computations from the Health and Retirement Study.
Note: Activities of daily living include walking across a room, getting in and out of bed, dressing, eating, bathing, and toileting. Respondents are considered to have a limitation if they report any difficulty with these activities.

Table 3. Distribution of Household Wealth of Adults Ages 65 and Older Living in the Community by Disability Status, 2010 (in 2012 Constant Dollars)

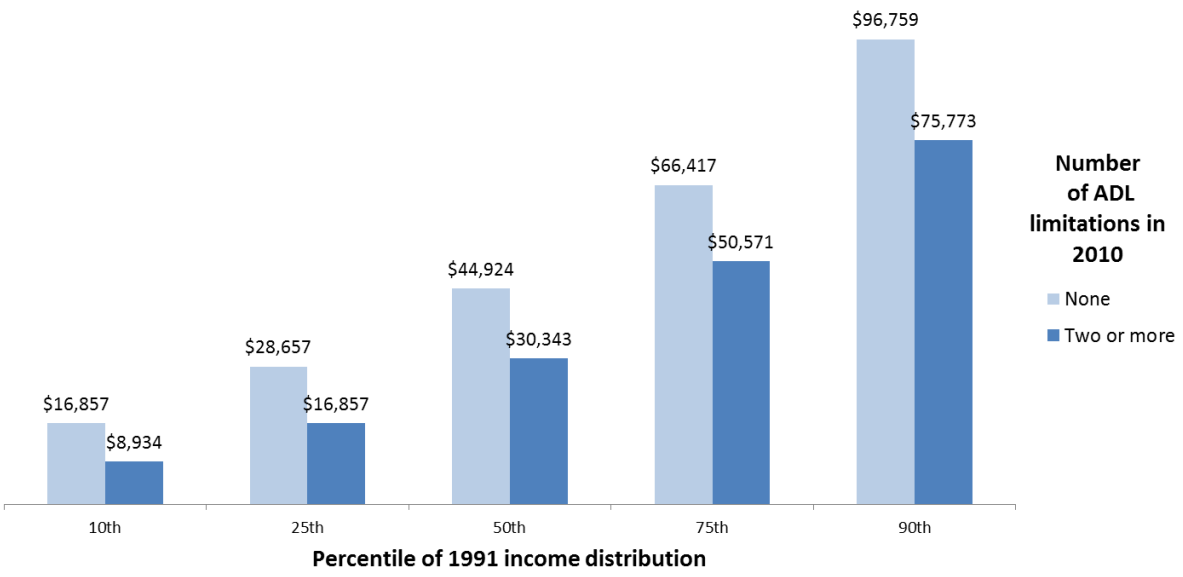
	Total household wealth		Nonhousing wealth	
Percentiles of the income distribution	**No ADL limitations**	**Two or more ADL limitations**	**No ADL limitations**	**Two or more ADL limitations**
10th	7,656	0	842	-369
25th	90,024	2,632	15,478	106
50th (median)	280,601	65,280	115,820	12,635
75th	680,182	294,816	438,854	132,141
90th	1,316,140	757,255	1,007,640	550,434
Number of observations	*8,017*	*1,564*	*8,017*	*1,564*

Source: Author's computations from the Health and Retirement Study.
Note: Activities of daily living include walking across a room, getting in and out of bed, dressing, eating, bathing, and toileting. Respondents are considered to have a limitation if they report any difficulty with these activities.

Because household wealth is unevenly distributed across the population, with households near the top of the asset distribution holding many times as much wealth as those in the middle, average wealth values do not provide much information about the holdings of typical households. Table 3 shows how the distribution of household wealth varies by disability for older adults living in the community. Median total household wealth was just $65,300 in 2010, for adults ages 65 and older with two or more ADL limitations, compared with $280,600 for those with no limitations. A tenth of older adults with disabilities held no wealth at all, and a quarter held no more than $2,600.

It can be difficult to tap into home equity to cover the cost of long-term services and supports and other living expenses, and states do not always pursue beneficiaries' housing wealth when trying to recoup some of the cost of Medicaid-financed nursing homes. Consequently, nonhousing wealth—defined as total household wealth excluding the value of home equity—is another useful metric of financial well-being. As shown in table 3, few older adults with disabilities have access to much nonhousing wealth. In 2010, half held less than $12,600 in nonhousing wealth and a quarter held less than $106. Only a quarter held more than $132,100, and a tenth held more than $550,400. By contrast, half of community-dwelling adults ages 65 and older with no ADL limitations held more than $115,800, and a quarter held more than $438,900.

Figure 1. Annual Distribution of Per Capita Houshold Income in 1991 among Adults Ages 51 to 59, by 2010 Disability Status (2012 Constant Dollars)



Source: Author's computations from the Health and Retirement Study.
Note: Estimates are restricted to adults ages 51 to 59 in 1991 who did not then describe themselves as fully or partially retired, did not then have any limitations with activities of daily living (ADLs), and were still living in the community (not in nursing homes) in 2010. The sample includes 2,529 respondents with no ADL limitations in 2010 and 275 respondents with two or more limitations.

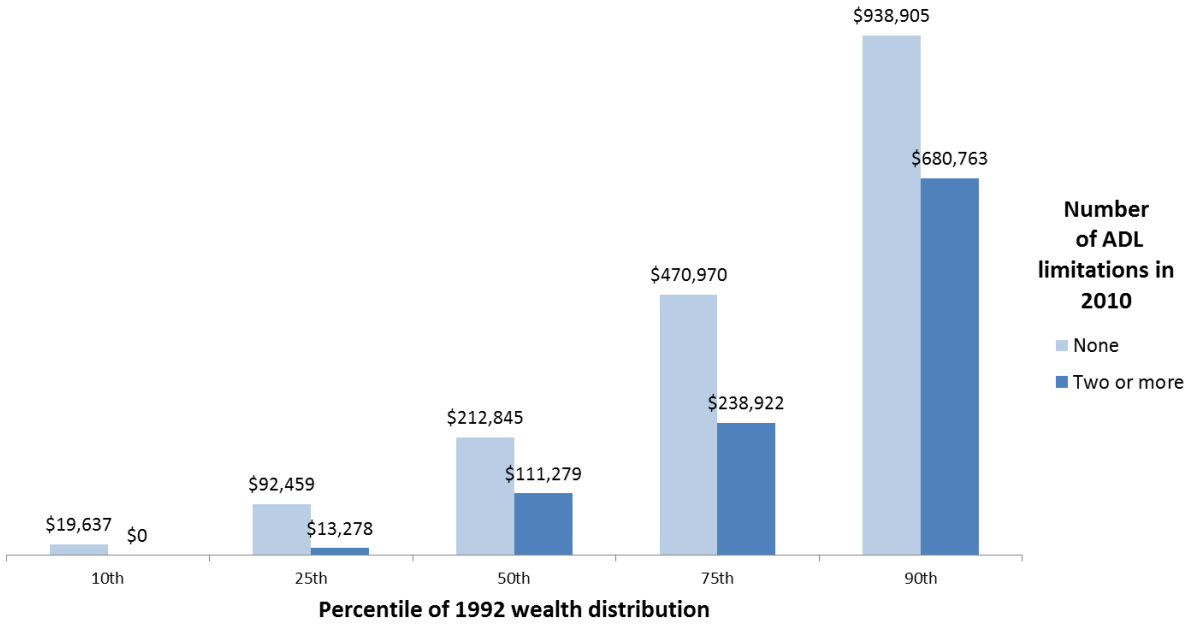
Midlife Financial Status among Those Who Develop Disabilities in Later Life

The limited income and wealth of older adults with disabilities suggests that few can afford to spend much out of pocket on long-term services and supports. However, financial shortfalls in later life may reflect long-term care expenses and are not necessarily reliable indicators of lifetime economic status or the ability to have saved earlier in life for future care needs. Moreover, some older adults with disabilities might have recently transferred assets to family members to qualify for Medicaid. To improve our understanding of the potential capacity of adults to save for future spending on long-term services and supports, the analyses described in this section examine income and wealth for people in their fifties in the early 1990s, and compares financial well-being for those who develop disabilities by their seventies and those who do not. Estimates are restricted to those who reported no ADL limitations in their fifties and were not yet retired at that time, so that the analyses do not confound the financial effects of retirement with the effects of future disabilities.

Adults who develop disabilities in their seventies received substantially less income in their fifties than those who remain disability-free. Median per capita household income in 1991 among adults ages 51 to 59 who did not report any ADL limitations in 2010 (when they were ages 70 to 78) exceeded by nearly 50 percent the median income received by their counterparts who reported two or more ADL limitations in 2010 (figure 1). Half of those who went on to

develop disabilities received less than $30,300 in per capita household income when in their fifties (expressed in 2102 constant dollars); a quarter received less than $16,900. Only a quarter of adults who developed disabilities by their seventies received more than $50,600 in their fifties. A tenth were relatively well-off, with annual per capita household incomes in excess of $75,800.

Figure 2. Distribution of Total Household Wealth in 1992 among Adults Ages 52 to 60, by 2010 Disability Status (2012 Constant Dollars)

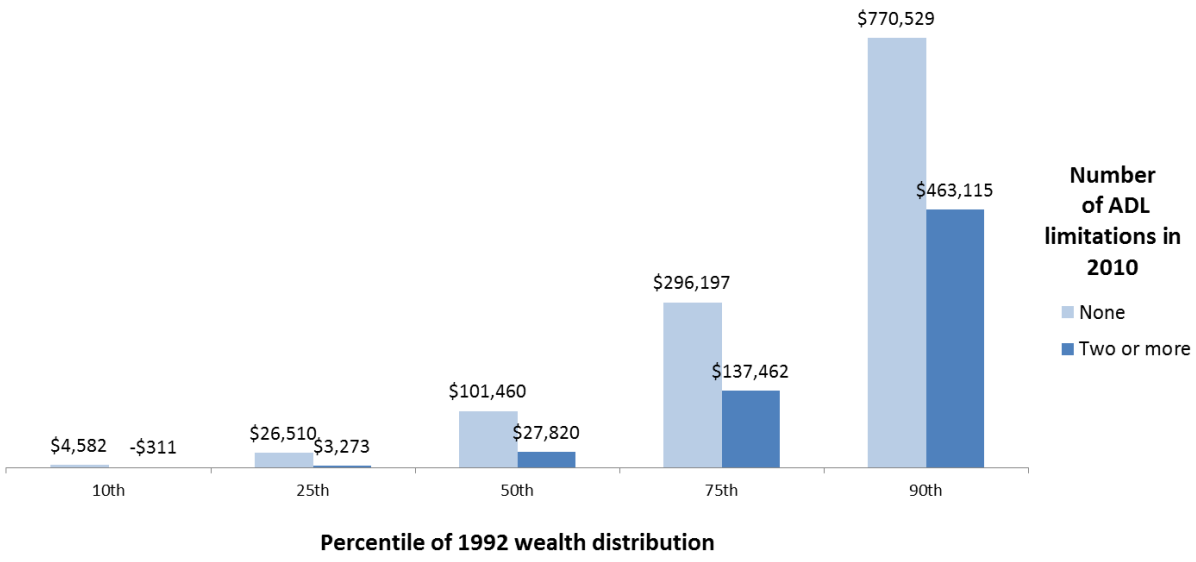


Source: Author's computations from the Health and Retirement Study.
Note: Estimates are restricted to adults ages 52 to 60 in 1992 who did not then describe themselves as fully or partially retired, did not then have any limitations with activities of daily living (ADLs), and were still living in the community (not in nursing homes) in 2010. The sample includes 2,529 respondents with no ADL limitations in 2010 and 275 respondents with two or more limitations.

Disability-related disparities in household wealth are even more stark than disparities in household income. Median household wealth in 1992 for adults ages 52 to 60 was nearly twice as high for those who did not develop any disabilities by ages 70 to 78 than those who developed two or more ADL limitations (figure 2). Total household wealth did not exceed $13,300 for one in four of those who became disabled. Half of those who became disabled held less than $111,300, and three-quarters held less than $238,900. Household wealth approached $700,000 or more for only 1 in 10 adults in their fifties who became disabled by their seventies.

Most adults with disabilities in their seventies held very little wealth outside of their homes when they were in their fifties, before developing disabilities. Nonhousing wealth in 1992 at ages 52 to 60 did not exceed $27,800 for half of those who reported two or more ADL limitations in 2010; a quarter held no more than $3,300 in nonhousing wealth (figure 3). Only one in four held more than $137,500. As with other indicators of financial status, 1 in 10 of those who developed disabilities by their seventies had accumulated substantial nonhousing wealth (more than $463,000) by their fifties.

Figure 3. Distribution of Nonhousing Wealth in 1992 among Adults Ages 52 to 60, by 2010 Disability Status (2012 Constant Dollars)



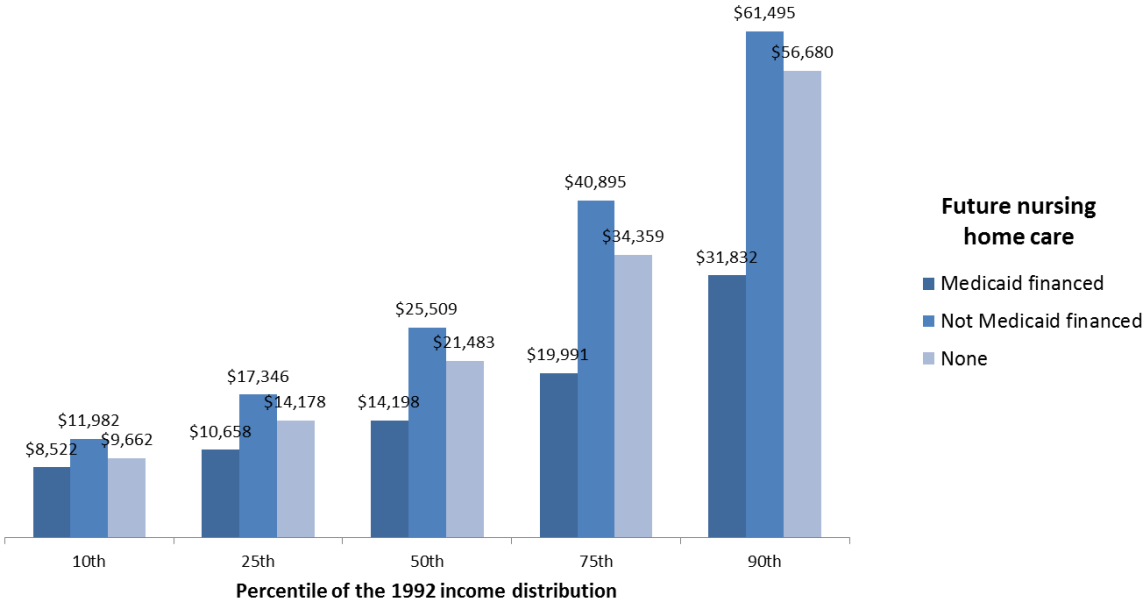
Source: Author's computations from the Health and Retirement Study.
Note: Estimates are restricted to adults ages 52 to 60 in 1992 who did not then describe themselves as fully or partially retired, did not then have any limitations with activities of daily living, and were still living in the community (not in nursing homes) in 2010. The sample includes 2,529 respondents with no ADL limitations in 2010 and 275 respondents with two or more limitations.

Financial Status of Older Americans Receiving Nursing Home Care

As with most of those who develop disabilities at older ages, most of those who receive Medicaid-financed nursing home care had relatively little income and held relatively little wealth in the years before they entered a nursing home. The analysis in this section follows a sample of HRS respondents for up to 17 years, from 1993 until 2010. The respondents were ages 70 to 75 in 1993, when all were living in the community, and survivors were ages 87 to 92 in 2010. The analysis compares 1992 income and 1993 wealth for those who received some Medicaid-financed nursing home care over the period, those who received some nursing home care but were never covered by Medicaid, and those who never received nursing home care.

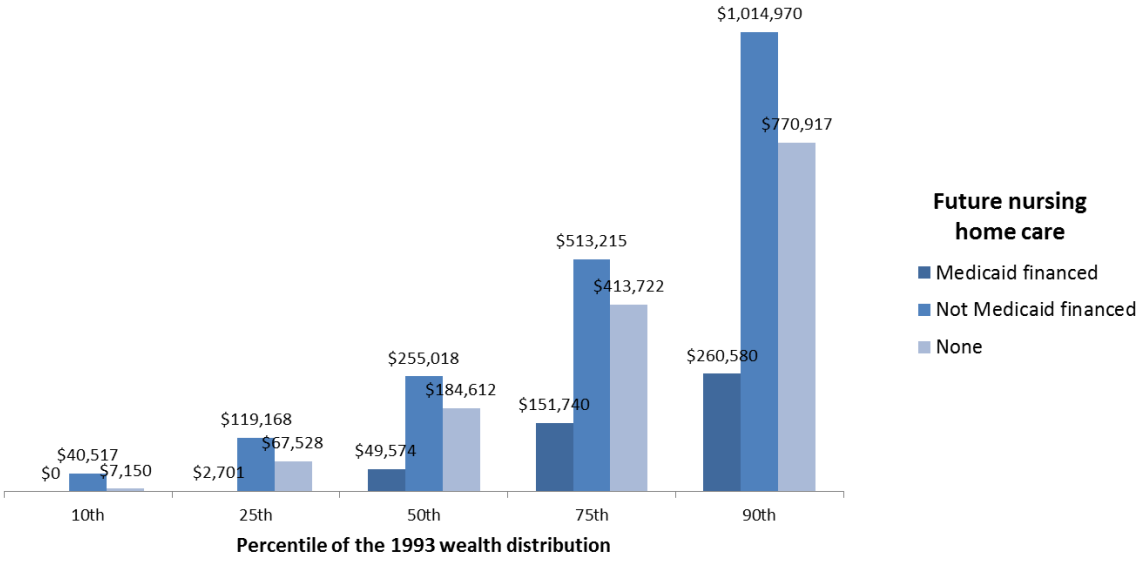
Adults who eventually obtained nursing home care paid at least in part by Medicaid received substantially less income before they entered a nursing home than those who never entered a nursing home and those who obtained nursing home care that was never paid by Medicaid. Median annual per capita household income in 1992 was about $14,200 (in 2012 constant dollars) for those who eventually received Medicaid-financed nursing home care, compared with $21,500 for those who never received nursing home care and $25,500 for those who received nursing home care but were never covered by Medicaid (figure 4). Only a quarter of those who eventually obtained Medicaid-financed nursing home care received annual per capita income in excess of $20,000, and only a tenth received income in excess of $31,800.

Figure 4. Distribution of Annual Per Capita Household Income in 1992 for Adults Ages 69 to 74, by Future Nursing Home Care (2012 Constant Dollars)



Source: Author's computations from the Health and Retirement Study.
Note: Estimates are restricted to adults ages 69 to 74 in 1992 who were living in the community (not in nursing homes) in 1993. Nursing home care is observed from 1994 to 2010. The sample includes 409 respondents who received Medicaid-financed nursing home care, 790 respondents who received nursing home care but were never covered by Medicaid, and 1,967 respondents who never reported nursing home care.

Figure 5. Distribution of Total Household Wealth in 1993 for Adults Ages 70 to 75, by Future Nursing Home Care (2012 Constant Dollars)

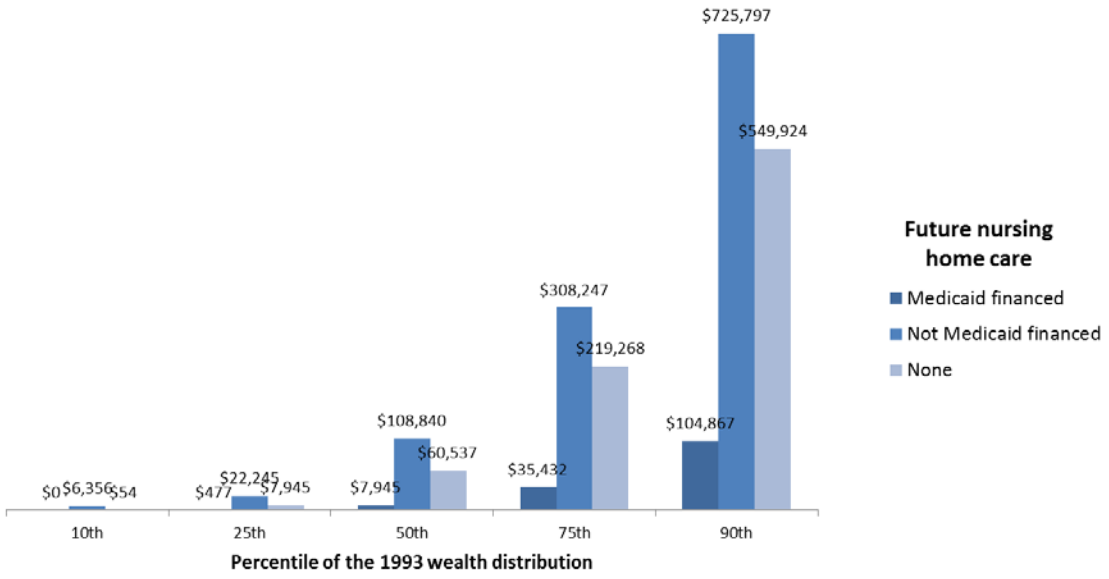


Source: Author's computations from the Health and Retirement Study.
Note: Estimates are restricted to adults ages 70 to 75 in 1993 who were then iving in the community (not in nursing homes). Nursing home care is observed from 1994 to 2010. The sample includes 409 respondents who received Medicaid-financed nursing home care, 790 respondents who received nursing home care but were never covered by Medicaid, and 1,967 respondents who never reported nursing home care.

Household wealth varies sharply by future nursing home care. Among community-dwelling adults ages 70 to 75 who eventually entered nursing homes, the median household wealth for those who never received Medicaid was more than five times as high as for those whose nursing home care was at least partly paid by Medicaid ($255,000 versus $49,600, figure 5). Median wealth for those who never entered nursing homes was more than three times as high as for those who received Medicaid-financed care. A quarter of those who later received Medicaid-financed nursing home care held less than $2,700 in total household wealth at ages 70 to 75, while only a quarter held more than $151,700 in total household wealth and 1 in 10 held more than $260,600.

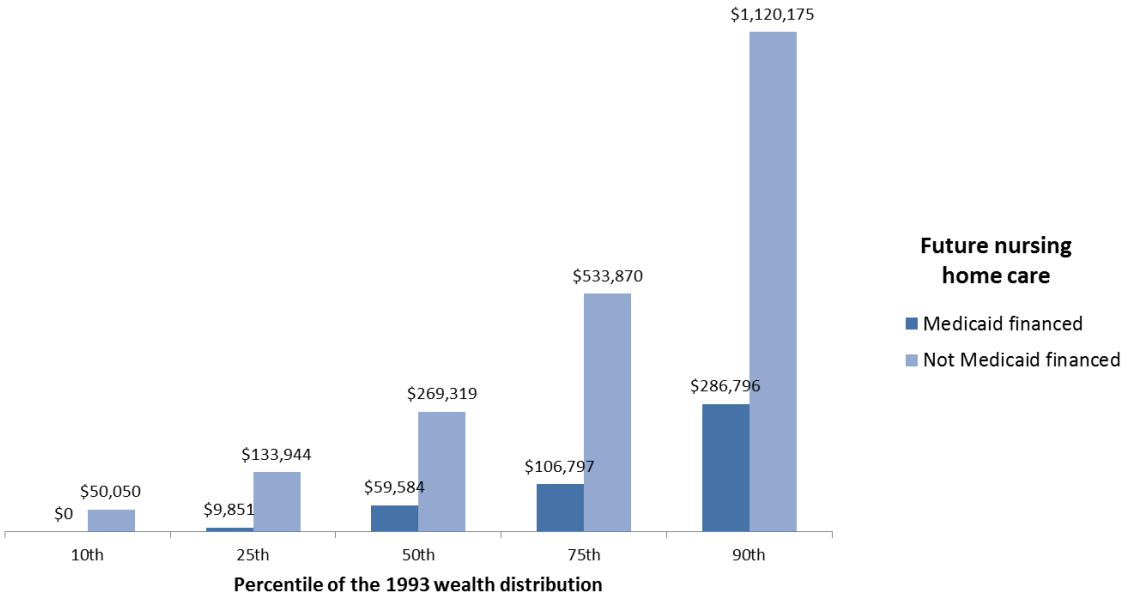
The wealth shortfall for older adults who eventually receive Medicaid-financed nursing home care becomes even more apparent when home equity is excluded from the measure. In 1993, half of community-dwelling adults ages 70 to 75 who received Medicaid-financed nursing home care by 2010 held less than $7,900 in nonhousing wealth (figure 6). Only a quarter held more than $35,400, and only a tenth held more than $104,900. Median nonhousing wealth was more than 13 times as high for those who eventually received nursing home care but were never covered by Medicaid as for those who received Medicaid-financed care. Median nonhousing wealth was more than seven times as for those who never entered nursing homes as for those who received Medicaid-financed nursing home care.

Figure 6. Distribution of Nonhousing Wealth in 1993 for Adults Ages 70 to 75, by Future Nursing Home Care (2012 Constant Dollars)



Source: Author's computations from the Health and Retirement Study.
Note: Estimates are restricted to adults ages 70 to 75 in 1993 who were then iving in the community (not in nursing homes). Nursing home care is observed from 1994 to 2010. The sample includes 409 respondents who received Medicaid-financed nursing home care, 790 respondents who received nursing home care but were never covered by Medicaid, and 1,967 respondents who never reported nursing home care.

Figure 7. Distribution of Total Household Wealth in 1993 for Adults Ages 70 to 75 Who First Entered a Nursing Home in 2003 or Later, by Medicaid Coverage (2012 Constant Dollars)

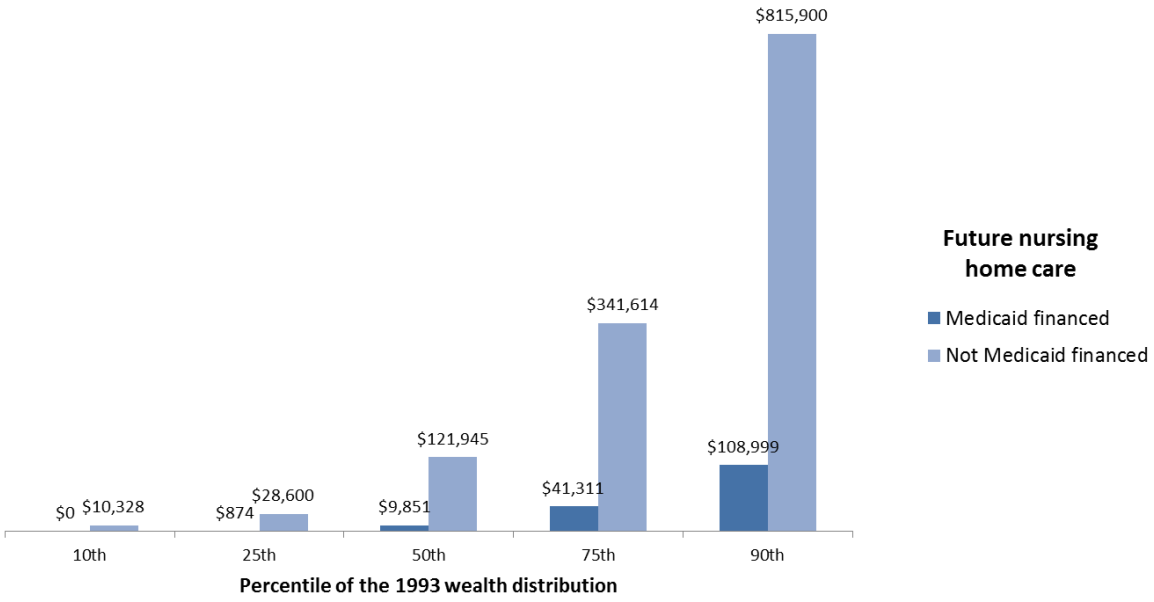


Source: Author's computations from the Health and Retirement Study.
Note: Estimates are restricted to adults ages 70 to 75 in 1993 who were then iving in the community (not in nursing homes) who first entered a nursing home between 2003 and 2010. The sample includes 204 respondents whose nursing home stays were at least partially paid by Medicaid and 506 respondents who were never covered by Medicaid.

About half of our 1993 sample of adults ages 70 to 75 who eventually received Medicaid-financed nursing home care entered a nursing home within 10 years. Some of these people may have spent much of their wealth on paid home care, and some may have transferred some of their assets out of their own name to qualify for Medicaid because they expected to need nursing home care soon.

To account for these possibilities, figure 7 examines household wealth in 1993 for community-dwelling adults ages 70 to 75 who did not enter nursing homes until 2003 or later (at least 10 years in the future). Even among members of this group, who seem less likely to have been able to anticipate their future nursing home admissions and may have spent less on other care and medical expenses than those who entered nursing homes sooner, very few of those whose eventual nursing home stays were at least partly paid by Medicaid had accumulated much wealth. Half had less than $59,600 in total household wealth in 1993, and a quarter had less than $9,900. Only 10 percent had more than $286,800. Their nonhousing wealth levels were even lower. Only half had more than $9,900 in nonhousing wealth in 1993, only a quarter had more than $41,300, and only one-tenth had more than $109,000 (figure 8). Household wealth levels were consistently much higher among those whose nursing home stays were not covered at all by Medicaid.

Figure 8. Distribution of Nonhousing Wealth in 1993 for Adults Ages 70 to 75 Who First Entered a Nursing Home in 2003 or Later, by Medicaid Coverage (2012 Constant Dollars)



Source: Author's computations from the Health and Retirement Study.
Note: Estimates are restricted to adults ages 70 to 75 in 1993 who were then iving in the community (not in nursing homes) who first entered a nursing home between 2003 and 2010. The sample includes 204 respondents whose nursing home stays were at least partially paid by Medicaid and 506 respondents who were never covered by Medicaid.

Policy Implications and Caveats

Very few older adults with disabilities have much income and wealth, and few had many financial resources earlier in life before they became disabled. Only about half of adults with disabilities in their seventies received annual per capita incomes in excess of $30,000 when they were in their fifties and were not disabled; only a quarter received more than about $50,000. Most older people who received Medicaid-financed nursing home care had very little wealth long before they received care. Only about a quarter held more than $100,000 in total household wealth 10 years before they were admitted to a nursing home, and only about 10 percent held more than $100,000 in nonhousing wealth. Consequently, it seems unlikely that efforts to promote individual savings for long-term care, such as by purchasing individual long-term care or setting aside funds in other savings vehicles, would move many people off Medicaid or reduce program costs because most Medicaid nursing home residents never had the means to save much.

It is worth noting some of the limitations of this research. For example, income, wealth, and Medicaid coverage are all reported by older respondents themselves or their proxies (usually their spouses or adult children), and the information they provide is not always accurate. The sample of older adults with disabilities on which the analyses are based is relatively small, which

limits confidence in the estimates. Additionally, we observe Medicaid coverage only through ages 87 to 92, and some people do not receive Medicaid-financed nursing home care until even older ages. Those who do not obtain Medicaid coverage until they reach their nineties may have had more wealth when younger than those who obtain coverage sooner.

Despite these caveats, it is clear that Medicaid provides a vital safety net for older adults with disabilities. Most older adults who end up on the program would never have been able to earn enough income or accumulate enough wealth to cover their nursing home costs. It seems likely that Medicaid will continue to play an important role in long-term care financing as long as those with long-term care needs are disproportionately those with limited financial resources

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