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The Financial Burden Of Paid Home Care On Older Adults: Oldest And Sickest Are Least Likely To Have Enough Income

ABSTRACT Paid home care can significantly improve the lives of older adults with disabilities and their families, but recipients often incur substantial out-of-pocket spending. We simulated the financial burden of paid home care for a nationally representative sample of non-Medicaid community-dwelling adults ages sixty-five and older. We found that 74 percent could fund at least two years of a moderate amount of paid home care if they liquidated all of their assets, and 58 percent could fund at least two years of an extensive amount of paid home care. Among older adults with significant disabilities, however, only 57 percent could fund at least two years of moderate paid home care by liquidating all of their assets, and 40 percent could fund at least two years of extensive paid home care. Paid home care could become less affordable if growing labor shortages raise future costs.

Paid home care can significantly improve the lives of older adults with disabilities and their families. Most older people who need help with everyday activities prefer to receive assistance in their homes instead of moving into a nursing facility or other type of residential care setting. These various types of care—home care, assisted living, and nursing home care—are collectively known as long-term services and supports (LTSS).

The vast majority of elders who receive home care rely on unpaid family caregivers for help with activities of daily living (such as bathing, dressing, and eating) and instrumental activities of daily living (such as preparing hot meals and shopping for groceries). In most cases, these caregivers are adult children—especially daughters—or spouses. Some older people, however, do not have access to family caregivers. Moreover, many caregivers experience significant physical, emotional, and sometimes financial burdens. Paid home care can relieve stressed family caregivers and allow frail older adults to remain at home longer.

Paid home care often involves substantial out-of-pocket expenses. A provider survey found that the national median hourly rate for home health aide services in 2018 was $22. Third-party reimbursement for paid home care is relatively rare; Only 11 percent of adults ages sixty-five and older were covered by private long-term care insurance in 2014, Medicare does not generally cover non-medical home care services, and Medicaid finances home care only for people with very limited financial resources. In addition, most states have long waiting lists for Medicaid-financed home and community-based services.

Rising labor costs could soon make home care more expensive. There is a mounting shortage of high-quality workers to provide paid hands-on care to the nation’s rapidly growing older population. This work, performed mostly by paraprofessionals with little training, is physically and emotionally demanding, pays low wages, and offers few benefits. To attract a competent, committed workforce, home care agencies may have to raise wages and provide more training.
and career advancement opportunities, which would likely force them to charge more and increase the financial burden on care recipients.

Policy makers, advocates, and researchers have tried unsuccessfully for decades to expand financing mechanisms to make home care more accessible and affordable, often by promoting social or private insurance to cover expenses. Several recent proposals, including ones from the Bipartisan Policy Center and the Long-Term Care Financing Collaborative, have emphasized catastrophic insurance coverage that would provide benefits only after enrollees had experienced significant LTSS needs or received care for a certain period. Several states, including Hawaii, Maine, and Washington, have recently explored various public financing options for paid home care. To assess the merits of such proposals, however, policy makers need better information on the affordability of paid home care while recipients are waiting for benefits.

We examined the affordability of paid home care by simulating the out-of-pocket spending that adults ages sixty-five and older who were not on Medicaid and who lived in the community would incur if they purchased various amounts of paid home care and by comparing those payments to their financial resources. We estimated how much assisted living and nursing home care older Americans could afford to purchase out of pocket.

**Study Data And Methods**

Our data came from the Health and Retirement Study (HRS), a nationally representative survey of older adults conducted by the University of Michigan’s Institute for Social Research. We restricted our sample to adults ages sixty-five and older who were not on Medicaid, because Medicaid recipients do not generally incur much out-of-pocket spending when they use paid home care. We used data for 2014 from the HRS, the latest wave available when we completed our study. Because the HRS income measures refer to the previous calendar year, the analyses describe LTSS affordability in 2013. Our sample consisted of 9,966 respondents.

To assess the affordability of paid home care and other types of LTSS, we compared paid LTSS charges and other living expenses to respondents’ financial resources. The cost of home care depends on how much care is provided, which varies substantially. We examined three alternatives: a limited care scenario of 25 hours per month, a moderate care scenario of 90 hours per month, and an extensive care scenario of 250 hours per month. These levels correspond to the approximate twenty-fifth, fiftieth, and seventy-fifth percentiles, respectively, of the distribution of paid home care provided to home care recipients in the HRS. Multiplying these amounts by the median hourly rate in Genworth’s 2013 national survey of home health aide services ($19), we set the monthly cost of paid home care at $475 for limited care, $1,170 for moderate care, and $4,750 for extensive care. We set the monthly price of nursing home care at $6,293, based on Genworth’s median 2013 daily price of $207 for a semiprivate room, and the monthly price of assisted living at $3,450, the median 2013 price for a one-bedroom unit.

The analysis estimated other living expenses using data from the 2013 Consumption and Activities Mail Survey (CAMS), an HRS companion survey that collects expenditure information from a subset of HRS respondents. We set necessary living expenses for respondents in the full HRS equal to median household expenditures on less discretionary goods and services in the 2013 CAMS for married and single households within income groups: high (top 25 percent of income), moderate (between the twenty-fifth and seventy-fifth percentiles), and low (bottom 25 percent). (See the online appendix for more details about how living expenses were calculated.)

The final step of our analysis was to subtract median living expenses and LTSS expenses from respondents’ monthly income. If those expenses exceeded monthly income, we subtracted the excess monthly expenses from household wealth and calculated how long that wealth would last. We first considered all available household wealth, including financial wealth (for example, the value of individual retirement accounts, bank accounts, and mutual funds) and nonfinancial wealth (for example, the value of any businesses, vehicles, and real estate). We then considered only financial wealth, which is easier to liquidate than real assets.

Estimated living expenses and available household wealth varied by the type of paid LTSS under consideration. The computations of wealth available for paid home care and—for married adults—nursing home care excluded the net value of the primary residence because home care recipients and spouses of nursing home residents need housing. We assumed that assisted living and nursing home charges would cover basic living expenses (food, housing, utilities, and recreational activities) so that additional funds would be needed to cover only the costs associated with medical care not provided by the
facility, clothing, and incidental personal care expenses, which we set equal to the median amount reported by CAMS respondents ages sixty-five and older within each income and marital status group.

We also assumed that married people would join their spouses in assisted living, which would cover most living expenses, and that spouses of nursing home residents would remain in the community. Our calculations reserved some household income to support the community-dwelling spouses of married nursing home residents.27

For each LTSS type, we estimated the share of respondents who could cover their expenses using only their monthly income and the median number of months that wealth would last for those who lacked sufficient income to cover all expenses. In addition, we computed the share of older adults who could afford to finance at least one, two, or three years of paid LTSS.

The analysis tabulated outcomes by demographic characteristics (sex, race/ethnicity, marital status, and age) and the presence of significant LTSS needs. People with significant LTSS needs are especially likely to need paid care, and they tend to have fewer financial resources than people in better health do.28 We identified those with significant LTSS needs not by their use of paid home care (as use reflects not only need but also financial resources, the availability of unpaid caregivers, and preferences for family versus paid care), but by the presence of severe cognitive impairment or limitations in two or more activities of daily living. The HRS assesses cognitive impairment by administering a cognitive test to self-respondents.29 (See the appendix for more details about how cognitive impairment was evaluated.)25

Study Results

The median 2013 household income was $26,400 for single adults ages sixty-five and older and $61,200 for married couples (exhibit 1). Median incomes were about 25 percent lower for people with significant LTSS needs. The median 2014 household financial wealth was $24,800 for single people and $108,700 for married couples. However, financial wealth was very unequally distributed. The top quarter of single adults held financial assets worth at least $176,300, while the bottom quarter had assets worth less than $400. Among married older adults, one-quarter held more than $421,300 in financial assets, and one-quarter held no more than $7,800 in assets.

Total household wealth levels, including the value of the primary home, were much higher, although a quarter of older single adults held no

| EXHIBIT 1 |
|---|

Distribution of household income and wealth among people ages 65 and older, by long-term services and supports (LTSS) need

| ANNUAL INCOME, 2013 |
|---|
| Single adults | Married couples |
| All | With significant LTSS needs | All | With significant LTSS needs |
| 75th percentile | $45,900 | $30,300 | $103,000 | $67,300 |
| 50th percentile (median) | 26,400 | 19,400 | 61,200 | 44,400 |
| 25th percentile | 16,000 | 13,600 | 37,200 | 27,200 |
| Mean | 43,900 | 32,800 | 92,800 | 59,500 |

| FINANCIAL WEALTH, 2014 |
|---|
| All | With significant LTSS needs |
| 75th percentile | $176,300 | $98,000 | $421,300 | $181,200 |
| 50th percentile (median) | 24,800 | 4,900 | 108,700 | 18,600 |
| 25th percentile | 400 | 0 | 7,800 | 0 |
| Mean | 191,200 | 111,700 | 380,800 | 211,400 |

| TOTAL HOUSEHOLD WEALTH, INCLUDING THE PRIMARY HOME, 2014 |
|---|
| Single adults | Married couples |
| All | With significant LTSS needs |
| 75th percentile | $424,800 | $252,400 | $891,900 | $592,700 |
| 50th percentile (median) | 151,900 | 83,300 | 370,300 | 187,100 |
| 25th percentile | 30,400 | 6,000 | 141,100 | 73,900 |
| Mean | 392,700 | 224,500 | 798,300 | 515,300 |

SOURCE Authors’ computations from data for 2014 from the Health and Retirement Study. NOTES Estimates were based on a sample of 9,966 respondents ages sixty-five and older who were not on Medicaid and who were living in the community in 2014. The estimates are reported in constant 2013 dollars and rounded to the nearest $100. Total household wealth included net housing wealth (including the net value of a secondary residence), other real assets (including vehicles, businesses, and other real estate), and financial wealth (defined in note 26 in the text). The analysis classified people as having significant LTSS needs if they had severe cognitive impairment or limitations in two or more activities of daily living.
more than $30,400, and a quarter of older married adults held no more than $141,100 in wealth. As with income, older people with significant LTSS needs held much less wealth than did older people in better health.

**LONG-TERM SERVICES AND SUPPORTS COSTS RELATIVE TO INCOME** Forty percent of adults ages sixty-five and older could finance a moderate amount of paid home care, as well as normal living expenses, with their monthly income alone (exhibit 2). Sixty-three percent of older adults could finance limited paid home care from monthly income alone, and 15 percent could finance extensive paid home care. Adults with significant LTSS needs, those ages eighty-five and older, and single adults—who are most likely to need paid help—were much less likely to have enough income to cover home care. Only 22 percent of older adults with significant LTSS needs could finance a moderate amount of home care with their income alone, and only 7 percent could finance extensive home care.

By comparison, 49 percent of older adults could pay for assisted living with their monthly incomes alone, and 14 percent could pay for nursing home care. Assisted living is more affordable than moderate or extensive paid home care because assisted living residents may receive less care, and assisted living costs cover most living expenses (including room and board), which enables residents to save on housing and food costs. Nonetheless, only 24 percent of single people, 29 percent of people with significant LTSS needs, and 26 percent of adults ages eighty-five and older had enough monthly income to pay for assisted living.

Nursing home care, which is much more expensive than assisted living, is not affordable for most older people with significant LTSS needs, only 6 percent of whom could pay for a nursing home stay out of their income alone.

**LONG-TERM SERVICES AND SUPPORTS COSTS RELATIVE TO HOUSEHOLD WEALTH** Nearly all older adults have some available household wealth that could be liquidated to pay for LTSS, including nonfinancial wealth such as businesses, vehicles, and—for people in assisted living and single people in nursing homes who do not need to maintain a household—home equity. If all available resources were devoted to LTSS expenses, many older adults could finance LTSS for many years. The median amount of care that could be financed that way for older adults with insufficient incomes to fully cover their costs would be forty-three months (or about three and a half years) of moderate paid home care, sixty-eight months (or about five and a half years) of limited paid home care, and twenty-five months (or about two years) of extensive paid home care. Only about four in ten recipients of paid home

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**EXHIBIT 2**

Percent of adults ages 65 and older who could finance paid long-term services and supports (LTSS) with their monthly income alone, by type of care

| Paid home care | Limited | Moderate | Extensive | Assisted living | Nursing home |
|----------------|---------|----------|-----------|-----------------|--------------|
| All            | 63%     | 40%      | 15%       | 49%             | 14%          |
| Significant LTSS needs |         |          |           |                 |              |
| Yes            | 49      | 22       | 7         | 29              | 6            |
| No             | 65      | 42       | 16        | 52              | 15           |
| Marital status |         |          |           |                 |              |
| Single         | 53      | 20       | 7         | 24              | 9            |
| Married        | 70      | 52       | 19        | 64              | 16           |
| Race/ethnicity |         |          |           |                 |              |
| Non-Hispanic white | 66   | 42       | 16        | 52              | 15           |
| Non-Hispanic black | 49   | 25       | 7         | 35              | 6            |
| Hispanic       | 43      | 26       | 8         | 31              | 8            |
| Sex            |         |          |           |                 |              |
| Male           | 68      | 47       | 18        | 57              | 16           |
| Female         | 59      | 34       | 12        | 43              | 12           |
| Age (years)    |         |          |           |                 |              |
| 65–74          | 70      | 49       | 19        | 59              | 18           |
| 75–84          | 56      | 31       | 9         | 39              | 8            |
| 85 or more     | 47      | 18       | 6         | 26              | 6            |

**SOURCE** Authors’ computations from data for 2014 from the Health and Retirement Study.

**NOTES** The sample and having significant LTSS needs are explained in the notes to exhibit 1. The analysis defined limited paid home care as 25 hours per month, moderate paid home care as 90 hours per month, and extensive paid home care as 250 hours per month.
care obtain that care for more than two years. Liquidating all available financial and nonfinancial household wealth could also finance a median of 106 months (or nearly nine years) of assisted living and 34 months (or nearly three years) of nursing home care for older adults who could not finance LTSS costs with their income alone. The median duration of long-term nursing home stays (ones that last more than three months) is two years, and only about one-quarter of long-term stays last more than four years. In a 2010 survey of residential care communities, only about three in ten residents had spent more than three years in residential care.

Older adults with significant LTSS needs, some of whom may already have received paid LTSS that depleted some of their wealth, would not be able to finance nearly as much additional LTSS by liquidating all of their available financial and nonfinancial wealth. The median older adult with significant LTSS needs and insufficient income to fully cover LTSS costs could cover only sixteen months of moderate paid home care or nursing home care with their wealth. However, older adults with significant LTSS needs could finance sixty-one months (or about five years) of assisted living by liquidating all their wealth, because people in assisted living could devote all of their home equity to financing their care.

It may be appropriate to consider only financial assets when assessing the affordability of LTSS, because such assets are easier to liquidate than home equity and other real assets. However, only about one-quarter of older adults with insufficient income to cover LTSS hold any financial assets (data not shown). The median amount of time that financial wealth could cover the gap between income and LTSS expenses was nineteen months for moderate paid home care, twenty-six months for limited paid home care, and thirteen months for extensive paid home care (exhibit 3). Financial assets would cover assisted living expenses and nursing home care for about one year. Half of the people with significant LTSS needs could cover no more than three additional months of moderate paid home care before depleting their financial assets.

### AFFORDABILITY OF ONE, TWO, AND THREE YEARS OF LONG-TERM SERVICES AND SUPPORTS

Most older adults have enough financial resources to fund more than a year of paid home care. If they liquidated all of their available household wealth—which excludes the value of a primary residence for home care users—74 percent of adults ages sixty-five and older could finance two years of moderate paid home care, 86 percent could finance at least two years of limited paid home care, and 58 percent could finance at least two years of extensive paid home care (exhibit 4). In addition, 72 percent could finance at least

### EXHIBIT 3

Median numbers of months that adults ages 65 and older with insufficient income to finance paid long-term services and supports (LTSS) could finance paid LTSS with other economic resources, by type of care

| Paid home care | Limited | Moderate | Extensive | Assisted living | Nursing home |
|---------------|---------|----------|-----------|-----------------|--------------|
| **All AVAILABLE ECONOMIC RESOURCES** |         |          |           |                 |              |
| All | 68 | 43 | 25 | 106 | 34 |
| Significant LTSS needs | 80 | 48 | 29 | 118 | 37 |
| Yes | 24 | 16 | 9 | 61 | 16 |
| No | 80 | 48 | 29 | 118 | 37 |
| Age (years) |         |          |           |                 |              |
| 65–74 | 56 | 40 | 28 | 111 | 34 |
| 75–84 | 82 | 47 | 26 | 121 | 35 |
| 85 or more | 75 | 44 | 17 | 85 | 33 |
| **FINANCIAL WEALTH ONLY** |         |          |           |                 |              |
| All | 26 | 19 | 13 | 12 | 11 |
| Significant LTSS needs | 33 | 23 | 15 | 15 | 13 |
| Yes | 3 | 3 | 2 | 2 | 2 |
| No | 33 | 23 | 15 | 15 | 13 |
| Age (years) |         |          |           |                 |              |
| 65–74 | 12 | 12 | 12 | 7 | 10 |
| 75–84 | 37 | 23 | 14 | 17 | 13 |
| 85 or more | 48 | 29 | 13 | 17 | 11 |

**Source** Authors’ computations from data for 2014 from the Health and Retirement Study. **Notes** The sample and having significant LTSS needs are explained in the notes to exhibit 1. Limited, moderate, and extensive paid home care are defined in the notes to exhibit 2. Financial wealth is defined in note 26 in the text.
three years of moderate paid home care, and 53 percent could finance at least three years of extensive paid home care.

Nursing homes are less affordable than limited or moderate paid home care, but assisted living is more affordable, because the value of the primary residence can be used to pay for it. Only 63 percent of adults could cover two years of nursing home care, and 56 percent could cover three years. Eighty-seven percent of older adults had enough income and wealth (including the value of the primary residence) to cover at least two years of assisted living, although residents might receive less hands-on help than those who purchase home care.

Paid home care is less affordable for older adults with significant LTSS needs, people of color, people ages eight-five and older, and single people than for other older adults (see appendix exhibit 2).25 Using all available resources, including any vehicles, businesses, and real estate they might own except for their primary residence, only 57 percent of older adults with significant LTSS needs could finance at least two years of moderate paid home care out of pocket, and only 40 percent could finance at least two years of extensive paid home care. Only 44 percent of Hispanics and 48 percent of non-Hispanic blacks could finance at least two years of moderate paid home care.

Fewer older people could cover multiple years of paid home care using only their income and financial (liquid) wealth (see appendix exhibit 3).25 Sixty-eight percent of adults ages sixty-five and older could cover out of pocket the cost of a moderate amount of paid home care for at least two years, and 51 percent could cover at least two years of extensive care. However, only 50 percent of those with significant LTSS needs could cover two years of moderate paid home care (or two remaining years if they were already receiving care) with their income and financial wealth, and only 32 percent could cover two years of extensive care.

Discussion

Most older adults could finance a substantial amount of paid home care out of pocket. About three-quarters of non-Medicaid, community-dwelling adults ages sixty-five and older could cover at least two years of moderate amounts of paid home care—the median duration among recipients—with their available resources, and about two-thirds could fund that amount of care using only their income and financial assets.

Home care is less affordable, however, for those most likely to need it, including older adults with significant LTSS needs, single adults, and those ages eighty-five and older. Only 57 per-
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To access the appendix, click on the Details tab of the article online.

Financial wealth consisted of the value of individual retirement accounts; Keoghs; stocks; mutual funds; investment trusts; bonds; bond funds; certificates of deposit; government savings bonds; treasury bills; checking, savings, and money market accounts; and other savings, net of nonhousing debt.

We summed total household spending on housing, health care, durable goods, and transportation reported by married adults ages sixty-five and older in the 2013 Consumption and Activities Mail Survey; added half of household spending on food, clothing, and personal care (because households can reduce their spending on those items when a spouse moves into a nursing home); and set necessary living expenses for married nursing home residents equal to the median value of this spending within each income group.

We classified respondents as having severe cognitive impairment if they scored 7 or fewer points out of a possible 35 points on the cognitive test. Respondents whose data were provided by proxies (generally spouses or other close family members) were classified as having severe cognitive impairment if their proxies rated their memory as poor or reported that they sometimes wandered off, hallucinated, or got lost in familiar environments.

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