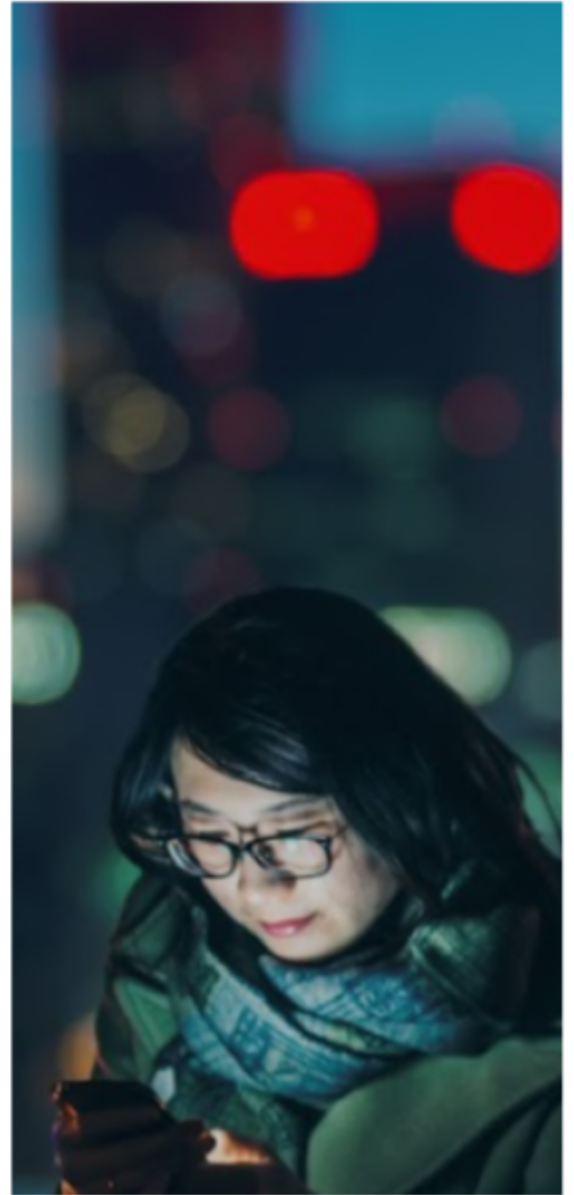


Formal cost of long-term care services



2021 update

Executive summary

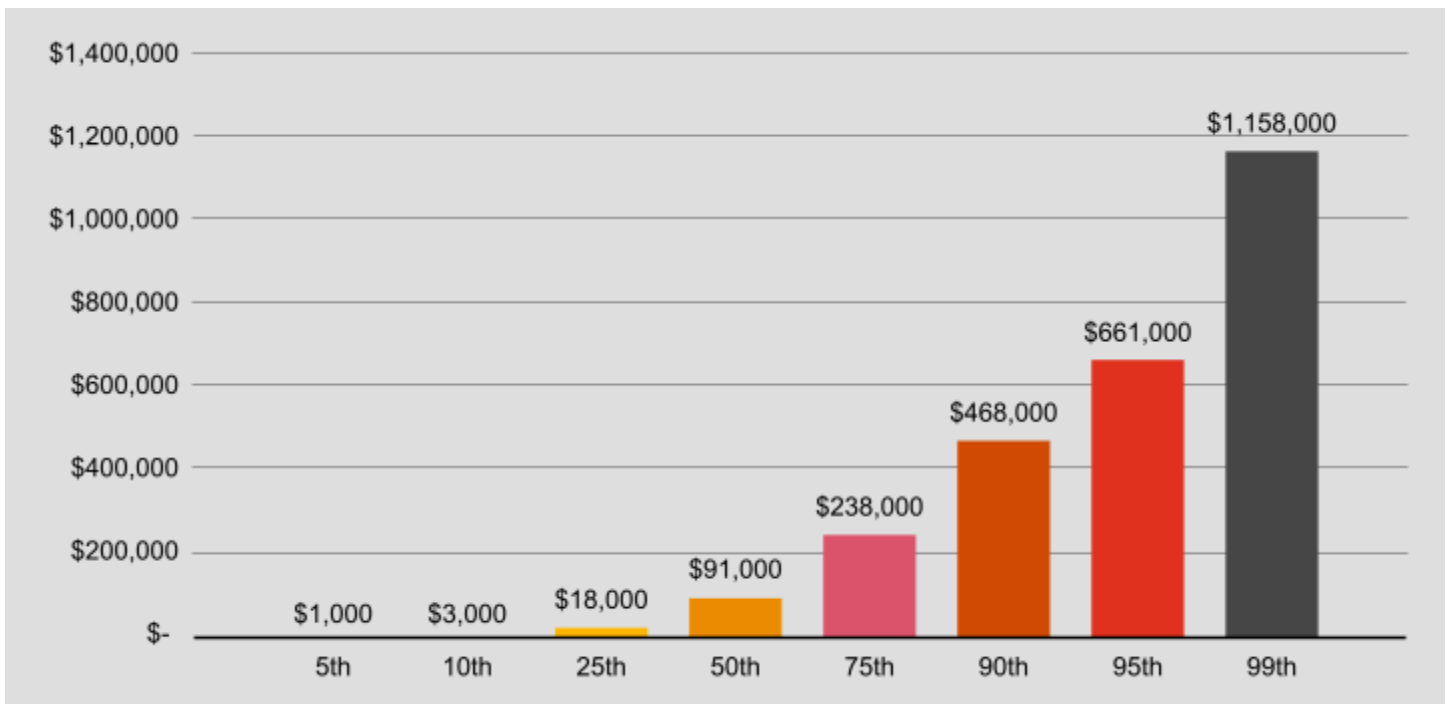
Many Americans will need long-term care services; however, few are knowledgeable about the cost. While acute care deals with diseases, infections and injuries, long-term care provides assistance to elderly and disabled persons for functional or mental limitations due to chronic conditions. Long-term care (LTC) encompasses a range of services that include personal and therapeutic care at home, community centers, and assisted living and nursing facilities. The level of care intensifies as a condition becomes more disabling. Home health aides, personal assistants, therapists and nurses perform the paid long-term care services. Family members, relatives, friends and neighbors generally provide unskilled services for free.

PwC published its first [formal cost of care study](#) that examined the lifetime cost of formal care in March 2018 based on data through 2011. The research utilized the use of actual payment data collected from eight long-term care insurance carriers. PwC's research estimated that the average lifetime cost of long-term care services was \$172,000. This amount included all costs associated with expected formal care for a person whose level of disability is consistent with dependence in at least two activities of daily living or has a cognitive impairment. If a person had LTC insurance, this cost would include not only the insurance claim payments but also costs of care during any deductible periods and above any policy maximum limits.

In 2021, PwC collaborated with MIB to update the research with additional data through 2016 (versus data through 2011 in the prior study), with one company providing data through 2019, intentionally aligned to the last intercompany study data request. The updated average lifetime cost of long-term care in 2020 dollars is \$180,000. The new estimate represents an average annual rate of inflation of 2.3% since the prior study. It is important to note that the underlying data and inflation roll-forward to 2020 is prior to any influences of COVID on cost of services or policyholder/claimant behavior. The expected cost at various percentiles are shown as Figure 1.

Figure 1

Percentiles for cost of care (lifetime per policy)



Data

This updated study is supported by data from nine leading long-term care carriers.



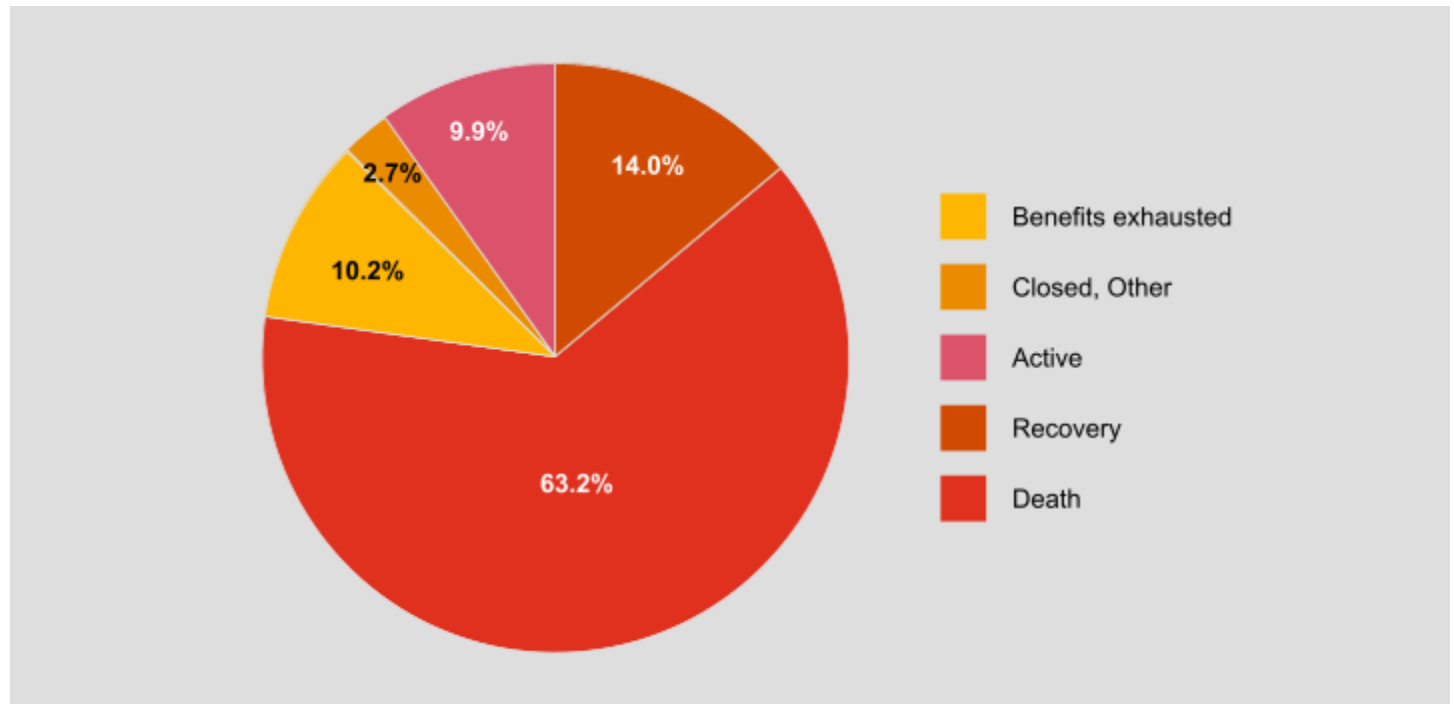
PwC study includes data from the following nine insurance companies:

Allianz	John Hancock	Thrivent
Bankers Life	New York Life	Transamerica
Genworth	Prudential	Unum

The data consisted of policy and claim information and claim payments records from the participating companies. In order to ensure that the data from the nine companies are consistent with each other, PwC and MIB performed a series of data validation and trimming procedures consistent with the methodology applied in the prior study. This resulted in a reduction of the number of claims in the study from the original data submissions. The final dataset consists of 228,524 policyholders and \$18 billion of claim payments. Figure 2 below displays the distribution of the status of the claims at the study end date.

Figure 2

Distribution of the status of the claims at the study end date





Methodology

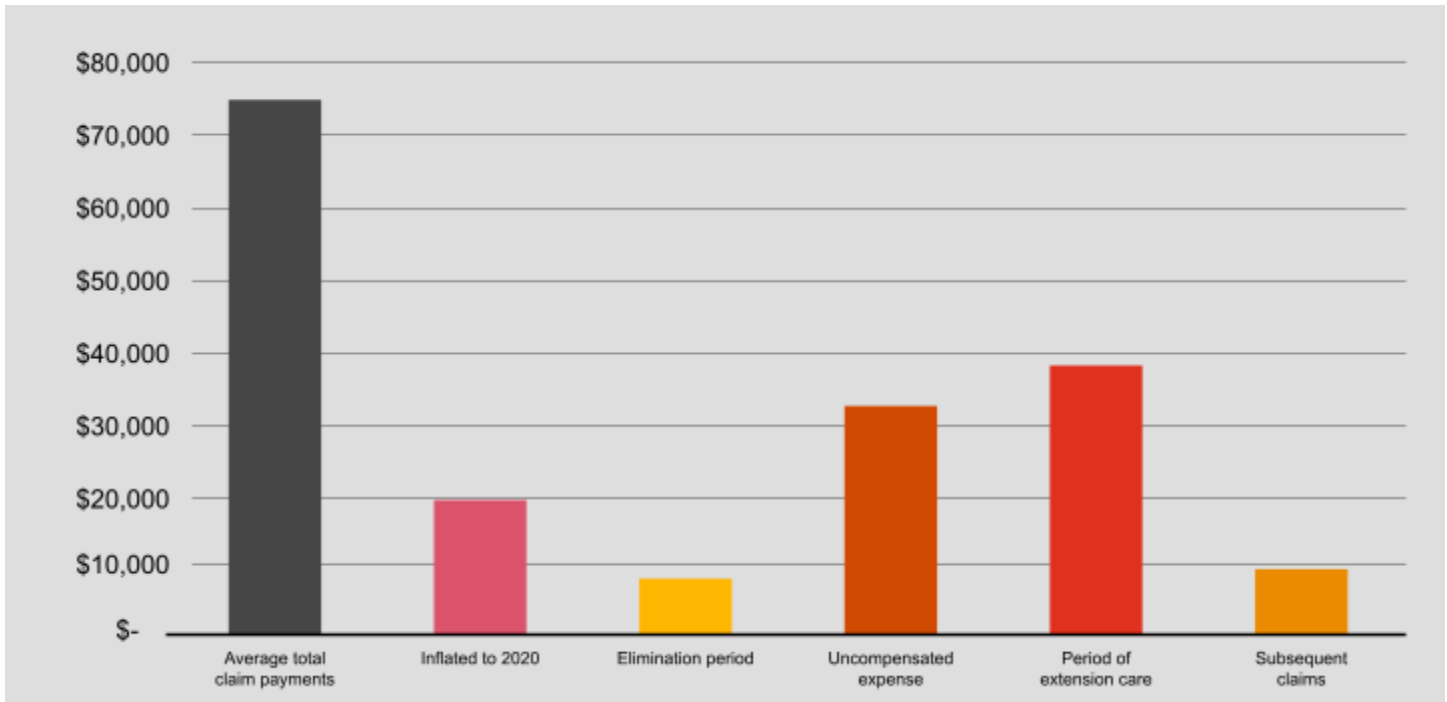
From the raw claim data, PwC made a series of adjustments to estimate the lifetime cost of paid care. These adjustments are consistent with prior years' methodology and a detailed description is documented in the report from 2018. Below is a summary of the adjustments:

1. **Total claims** – To determine lifetime cost, all claims from a policyholder were combined to produce a lifetime estimate.
2. **Cost Inflation** – To account for the cost of care inflation, claim payments were inflated to 2020 using an annual inflation rate 3.2% for facility care and 1.5% for home care. The inflation rates are derived from the respective Consumer Price Indices for facility care and home care.
3. **Elimination Period** – Estimate of the actual expenses incurred during the elimination period calculated as the product of the number of days in the elimination period times the average claim payments over the first 30 days of payments.
4. **Uncompensated Expenses** – Estimate of the total charges for care, including charges above benefit maximums. We estimated these uncompensated costs from claim payment data that contained both billed amounts and actual claim payments and applied ratios of billed to daily payment amounts to claim payments capped at the policy limits.
5. **Extension of Period of Care** – Estimate of the subsequent claim payments expected for claims still open at the study end date and for claims that have exhausted policy benefits. The expected additional period of care was derived from the Society of Actuaries' Long-Term Care Intercompany Experience Study - Aggregate Database 2000-2016 Report. The expected average claim amount per month is derived from actual claim payment for the last six claim months.
6. **Subsequent claims** – Estimate of future claims for policyholders in a recovered status at the end of the study period. This is required to project and measure the lifetime cost of care, not just cost incurred from claim episodes to date.

Figure 3 below shows the value of each adjustment.

Figure 3

Value of series of adjustments





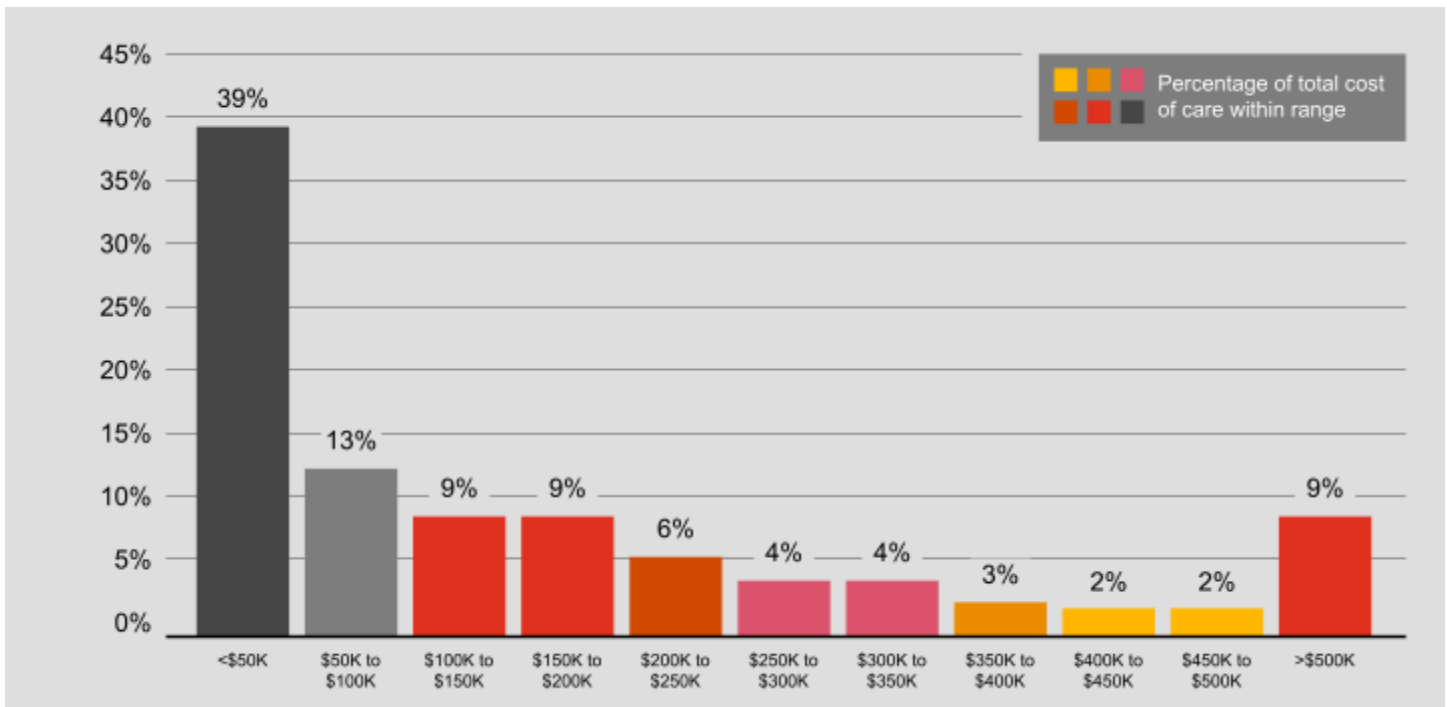
Results

Final results are the estimated costs in 2020 dollars of formal long-term care services over the lifetime of an individual who is sufficiently disabled and receiving formal paid care. Estimated costs represent the portion paid out-of-pocket or reimbursed by private insurance. We excluded costs Medicaid or Medicare pays and costs for care provided to individuals with disability levels below insurance benefit triggers. Thus, the estimated costs do not represent the total long-term care expenditure for an individual in need of care.

Below is the distribution of claims by total cost in \$50,000 bands. The largest cohort of policyholders incur costs less than \$50,000.

Figure 4

Distribution of claims by total cost in \$50,000 bands



Conclusion

This update's findings are consistent with the original study. We hope it will help 1) individuals make informed decisions about funding, 2) insurers enhance product offerings, and 3) policymakers design public funding proposals.

The \$180,000 average estimated cost of paid long-term care is a significant amount for most Americans, particularly seniors on fixed incomes. Hence, long-term care financing should be a consideration in any personal retirement plan. Funding typically comes from one or more of the following four sources: personal savings, insurance, financial support from family, and Medicaid.

As we move forward, it will be interesting to monitor the effects of recent elevated inflation in home care and if the shift in the mix of business due to COVID-19 persists, as well as any resulting impact on the cost of care in a post-pandemic environment.



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