Older Canadians' savings are shaped by their long-term care preferences

September 18 2023, by Marie-Louise Leroux, Bertrand Achou, Franca Glenzer, Minjoon Lee and Philippe De Donder

Credit: AI-generated image (disclaimer)

Canada's aging population is growing. According to the Organization for Economic Co-operation and Development, the proportion of Canadians aged 80 and older will surpass nine percent by 2050, up from 4.3 percent in 2021.

This demographic shift is happening in most developed nations, and will result in a greater demand for long-term care. Québec, for instance, anticipates that 600,000 people will need long-term care by 2050—nearly double the current number.

Meanwhile, escalated care expenses in recent years, attributed to labor shortages and exacerbated by COVID-19, are a pressing concern.

The costs of long-term care

In Québec, the rates (before any income-based subsidy) for public nursing home accommodations are around $2,000 a month. But since public nursing homes have such long waiting lists, some choose private nursing homes instead. The costs of private nursing homes are estimated to be between $5,000 and $8,000 a month.

Home care—a preferred option for many—costs around $5,550 a month, excluding additional expenses like maintenance and food. Consequently, long-term care expenses present a substantial financial risk in old age, potentially motivating people to save for it ahead of time.

While both nursing homes and home care impose financial burdens, their distinct cost structures can influence precautionary savings in different ways.

Nursing homes bundle accommodation and food, offering limited additional services. In contrast, home care recipients can allocate savings for quality-of-life improvements like better food, home maintenance, etc. Additionally, people may inherently value spending more while at home.

Long-term care and savings

Our recent research project aimed to understand how preferences for home-based care versus nursing homes affect people's savings, using both survey responses and a simulation study.

Our research is crucial for two reasons. First, even before the pandemic, a reluctance to be institutionalized—known as institutionalization aversion—was documented. Second, COVID-19 has further discouraged nursing home entry, possibly due to excess mortality in nursing homes, as has been documented in many countries.

To model savings in different care settings effectively, we needed to understand how individuals allocated their resources in those settings. To accomplish this, we developed a set of survey questions aimed at uncovering these preferences.

These survey questions were designed to prompt respondents to consider how they would allocate their resources depending on the long-term care setting in a well-defined, hypothetical scenario.

Survey respondents were randomly assigned to different long-term care settings (home care, semi-private room in a nursing home or a private room in a nursing home). Their resource allocation choices allowed us to examine how their preferences for savings varied based on the type of long-term care setting.

Our analysis of 3,000 survey responses shows that Canadians are highly motivated to save money to be better prepared for long-term care. This willingness to save was much larger when respondents expected to use home care; respondents anticipating home care allocated 38 percent more resources to savings. This reflects the greater financial needs associated with home care.

Long-term care insurance

We used the results from our survey to calibrate a simulation study—a computer-based experiment using a combination of economic theories and survey evidence—to simulate how households and individuals make financial decisions.

Our simulation study examined two scenarios: one based on the Canadian system, which includes a universal subsidy that lowers nursing home costs, and one based on the U.S. Medicaid system, which features a purely means-tested subsidy that provides free long-term care and ensures a minimum standard of living for those without sufficient income.

Differences in individual preferences for various care settings largely explain the savings disparities. In the Canada-like system, the prospect of receiving long-term care at home substantially boosts savings. On average, individuals planning to use home care saved $25,000 (8.3 percent) more by the age of 66, compared to those planning to use private nursing home rooms, and $29,000 (9.8 percent) more compared to those opting for semi-private rooms.

Under the U.S.-like system, the impacts on savings of different care settings were much smaller. This is because, in the absence of public subsidies, the minimum costs of a room in a nursing home are much higher than those of home care. When comparing the savings of individuals opting for home care versus a private room in a nursing home, the difference in savings was almost null.

However, when comparing savings between those opting for home care versus a semi-private room in a nursing home, we found that the former saved 3.7 percent more.

Policy implications

Assessing how individuals value additional public subsidies for each type of long-term care setting can provide policymakers with valuable insights about how to expand public long-term care insurance effectively.

Our research found that all subsidies are valued well beyond costs, with home care subsidies being more valued than nursing home subsidies. Under the Canada-like system, the average valuation for a home care subsidy was $2.98 per $1 spent, surpassing private ($2.72) and semi-private ($2.35) nursing home subsidies.

Middle-income individuals who aren't eligible for means-tested programs, but who have limited savings, placed the highest value on these subsidies. This shows that expanding subsidies for home care can be an effective way to protect Canadians from long-term care risks.

Provided by The Conversation

Citation: Older Canadians' savings are shaped by their long-term care preferences (2023, September 18) retrieved 13 May 2024 from https://medicalxpress.com/news/2023-09-older-canadians-long-term.html