Alternative Solutions

Personal Savings in the US Today "Status and Problems"

Issues and Options

G. William Hoagland
SVP Bipartisan Policy Center

ILTCI

15th Annual Intercompany Long Term Care Insurance Conference

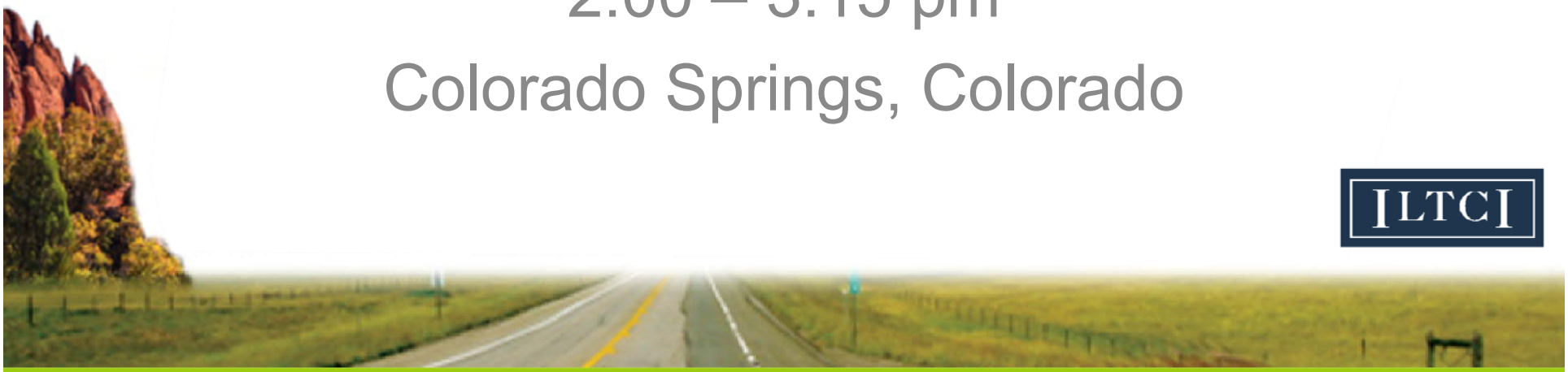
Alternative Solutions

The Economics of Using Savings to Fund LTC

March 24, 2015

2:00 – 3:15 pm

Colorado Springs, Colorado



ILTCI

15th Annual Intercompany Long Term Care Insurance Conference

Session Participants

- John O'Leary, Moderator
- GW Hoagland, Speaker
- Vickie Bajtelsmit, Speaker
- Karl Polzer, Speaker

Factors Impacting Personal Savings & Retirement

Macroeconomics

- Fiscal Policy
- Monetary Policy

Microeconomics

Income
- Wages
- Transfer payments

Life-cycle placement
- Current consumption
- Knowledge
- Unplanned events(health care)

Employment
- Size of employer
- Type of plans offered

Macroeconomic Problem

$$Y = C + I + G + (EX\text{-}IM)$$

Where:

Y = GDP or Income

C = Total spending by consumers

I = Total investment by businesses

G = Total spending by government

EX – IM = Net exports

An Identity: $S = I$

S = Savings

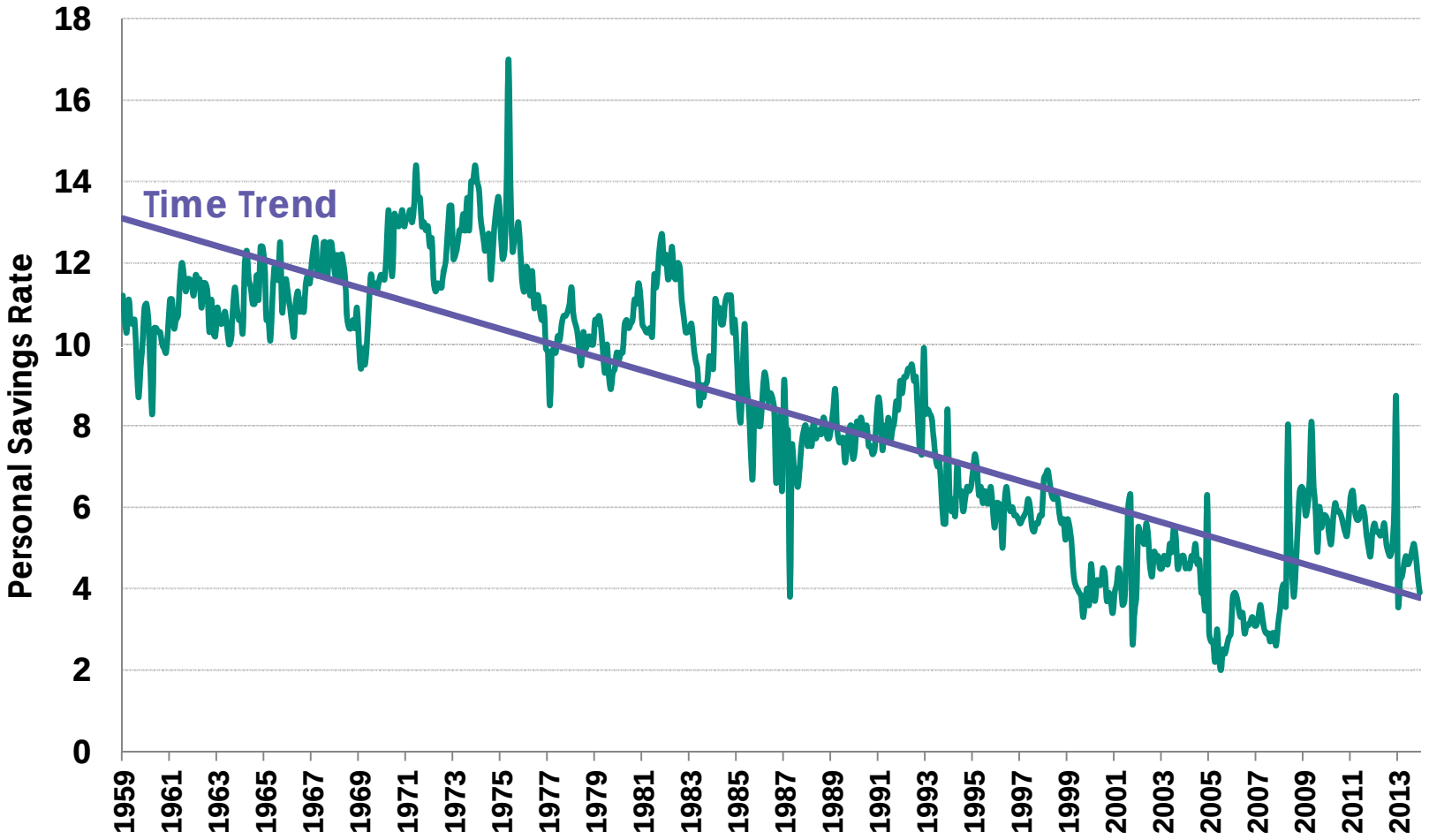
What is the Current Federal Budget Outlook ?

Billions of Dollars and % GDP

	2012 Actual	2013 Actual	2014 Actual	2015 Est.	2016	2017	2018	…2024	% Δ annual 2014-2024
Receipts	2,450	2,774	3,021	3,189	3,460	3,588	3,715	4,804	+ 4.7%
Spending	3,537	3,455	3,504	3,656	3,926	4,076	4,255	5,754	+ 5.1%
Deficits % of GDP	1,087 6.8%	680 4.1%	483 2.8%	468 2.6%	467 2.5%	489 2.5%	540 2.6%	951 3.6%	+7.0% NA
Public Debt % GDP Debt Subject Limit % GDP	11,281 73% 16,027 100%	11,98 372% 16,699 101%	12,779 74% 17,781 103%	13,359 74% 18,462 102%	13,90 5 74% 19,11 5 101%	14,466 73% 19,820 100%	15,068 73% 20,565 100%	20,463 78% 26,217 100%	+ 4.8% +4.0%

urce: CBO, Updated Budget Projections: 2014-2025 , January 2015

What about Personal Savings Rates?

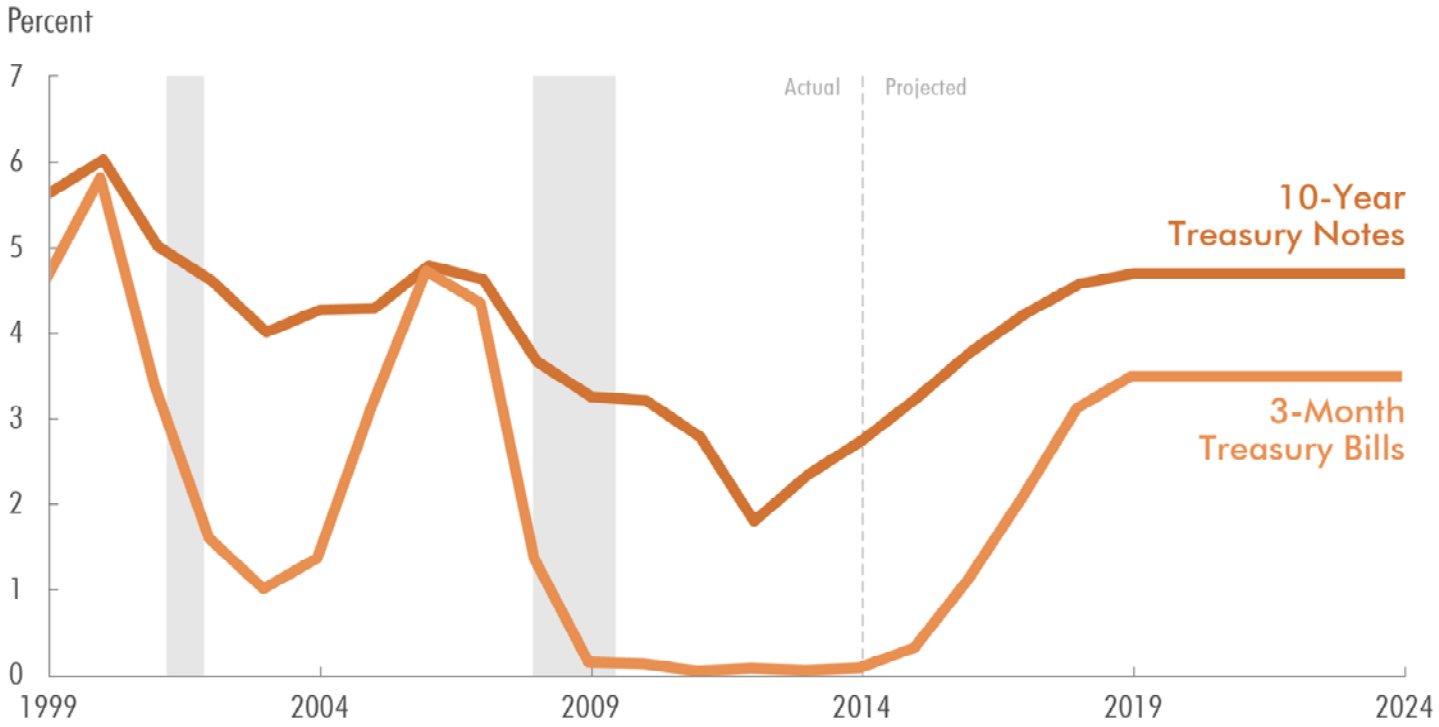


Note: Personal Savings Rate is ratio of personal savings to after-tax income.
Source: St. Louis Fed, Personal Savings Rate, Accessed 3-1-2014.

Interest Rates – CBO Anticipation

CBO

Interest Rates on Treasury Securities

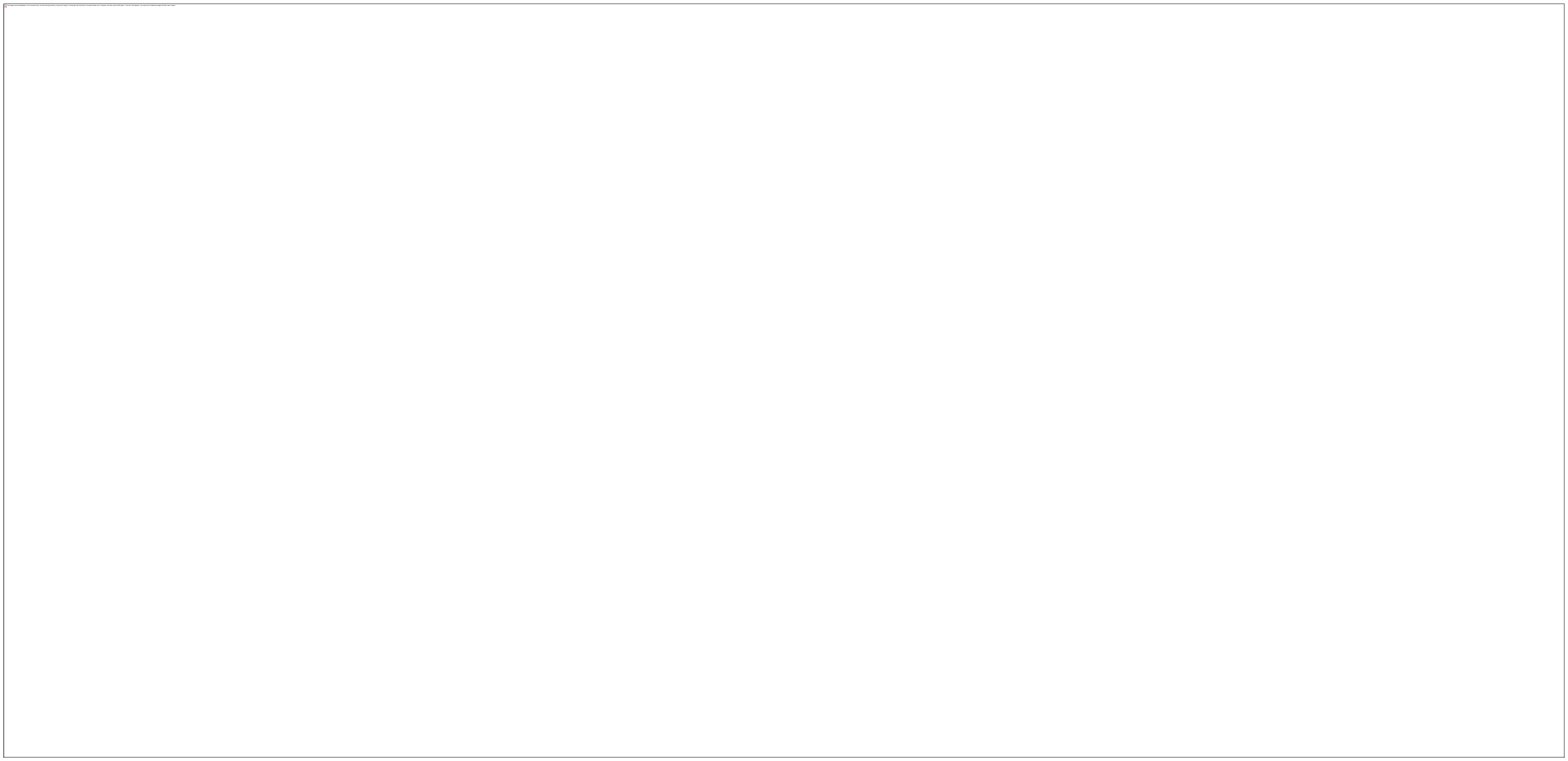


From 2014 to 2019, interest rates will be pushed up by market participants' expectations of an improving economy and an end to the Federal Reserve's purchases of long-term Treasury securities and mortgage-backed securities, CBO anticipates.

Microeconomic Problem

U.S. Households Could Not Replace 2 Months of Income with Liquid Savings At All Income Levels

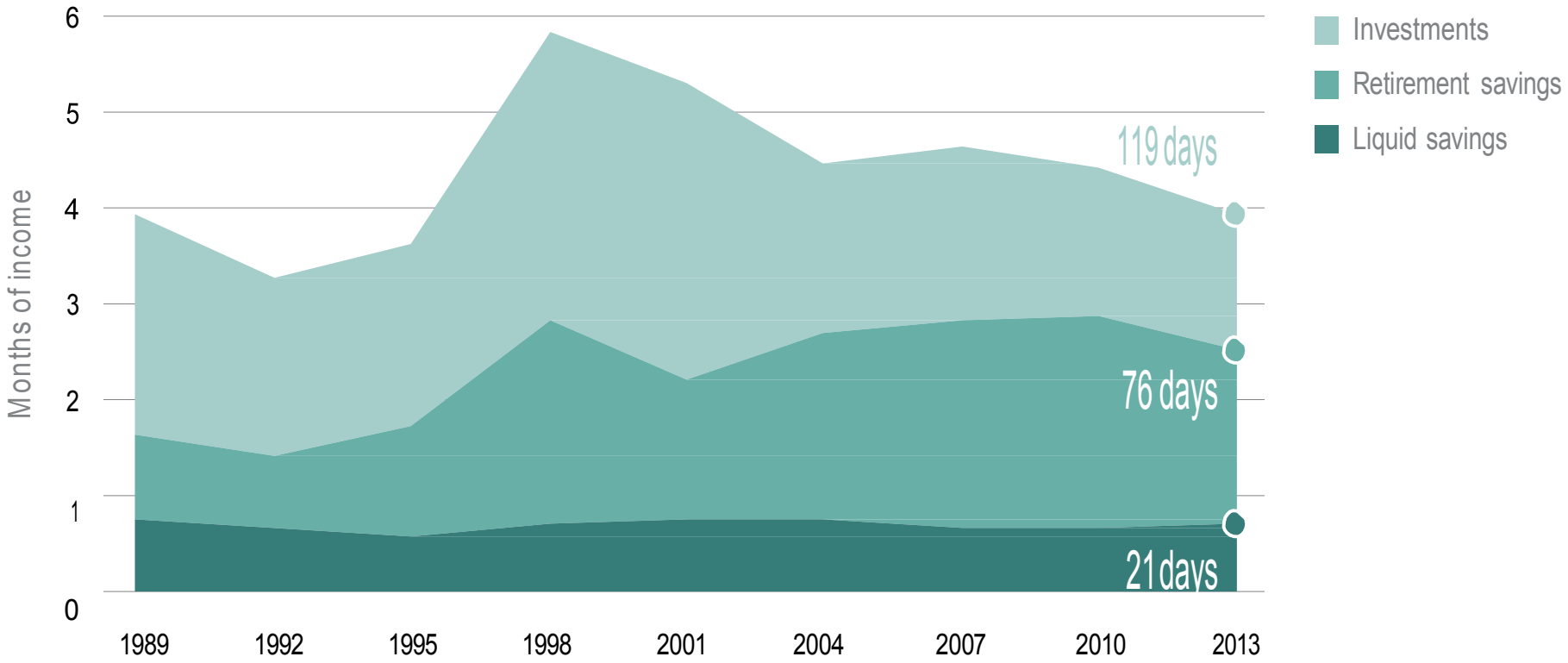
Median months of income in liquid savings by income quintile, 1989-2013



Source: The Precarious State of Family Balance Sheets. The PEW Charitable Trusts, January 2015.

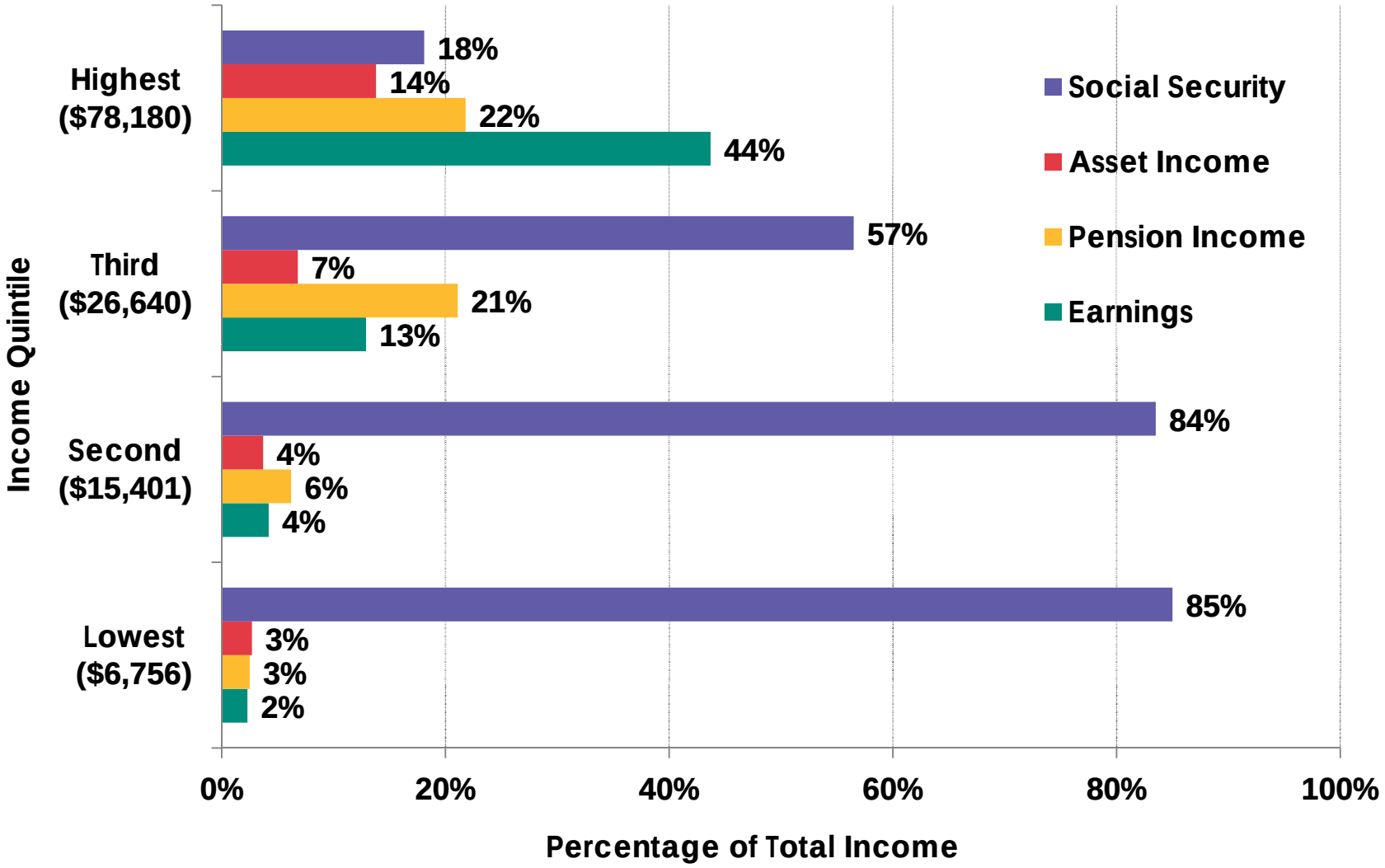
The Typical Middle-Income Household Is Unprepared for a Major Economic Shock

Median months of income in liquid savings, retirement savings, and investments for the middle quintile, 1989-2013



Source: The Precarious State of Family Balance Sheets. The PEW Charitable Trusts, January 2015.

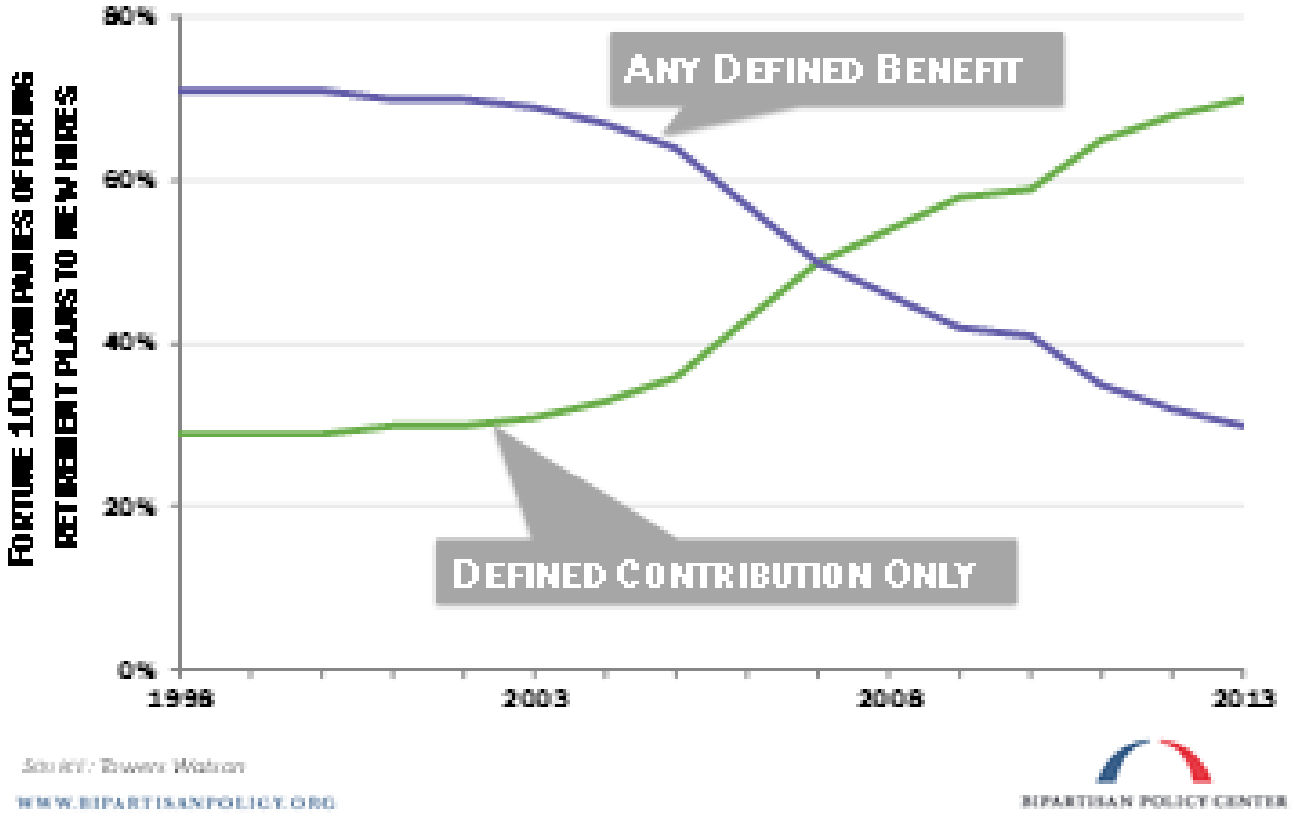
Social Security Makes up High % of Retirement Income Except for Those with Highest Incomes



Note: Totals do not add to 100%, numbers in parentheses are mean individual income in that quintile; *Source: "Retirement Security in an Aging Population," James Poterba, January 2014*

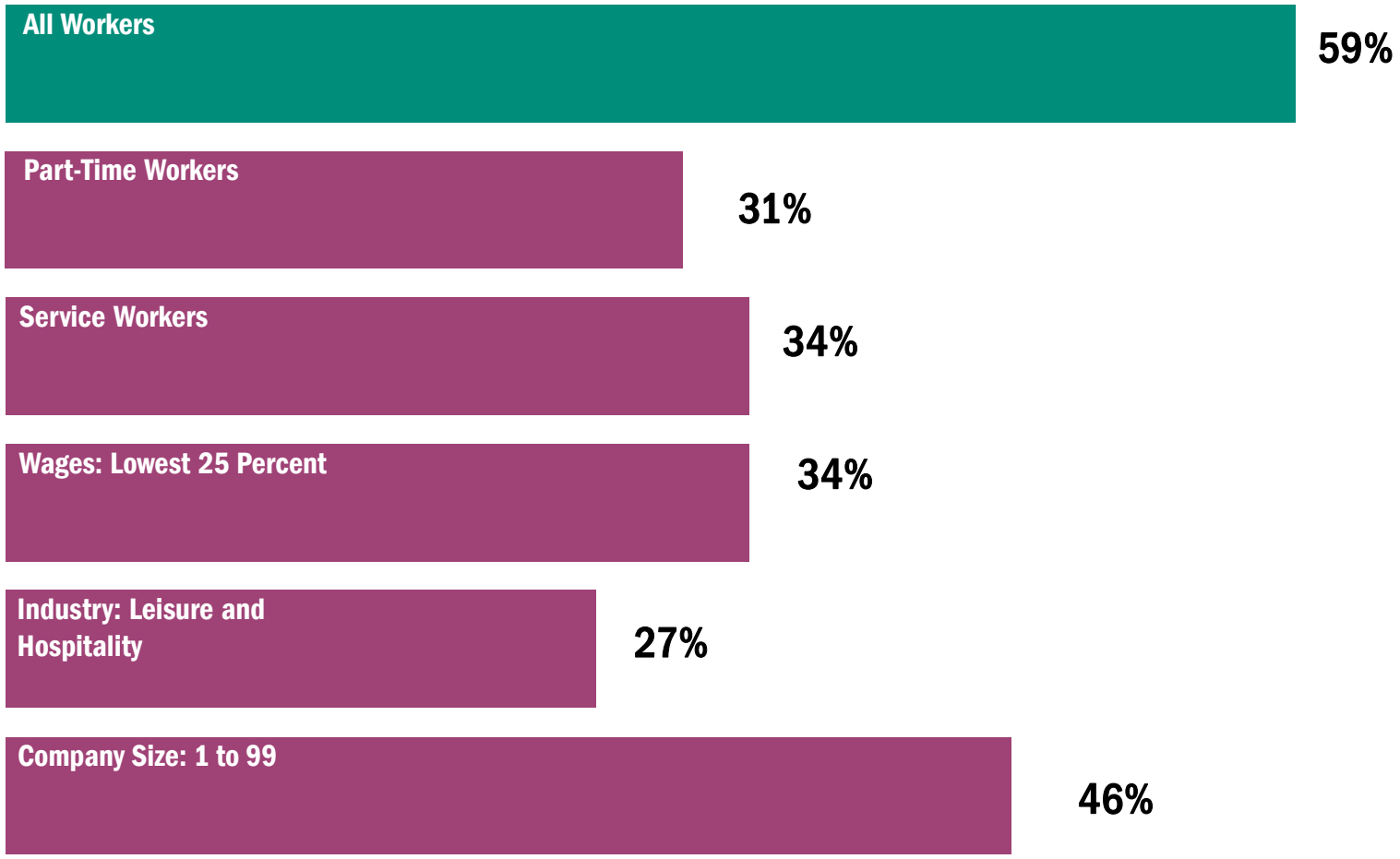
Paradigm Shift in Retirement Savings

A Shift to Defined Contribution (DC) Plans



Worker Access to DC Plans Varies Widely

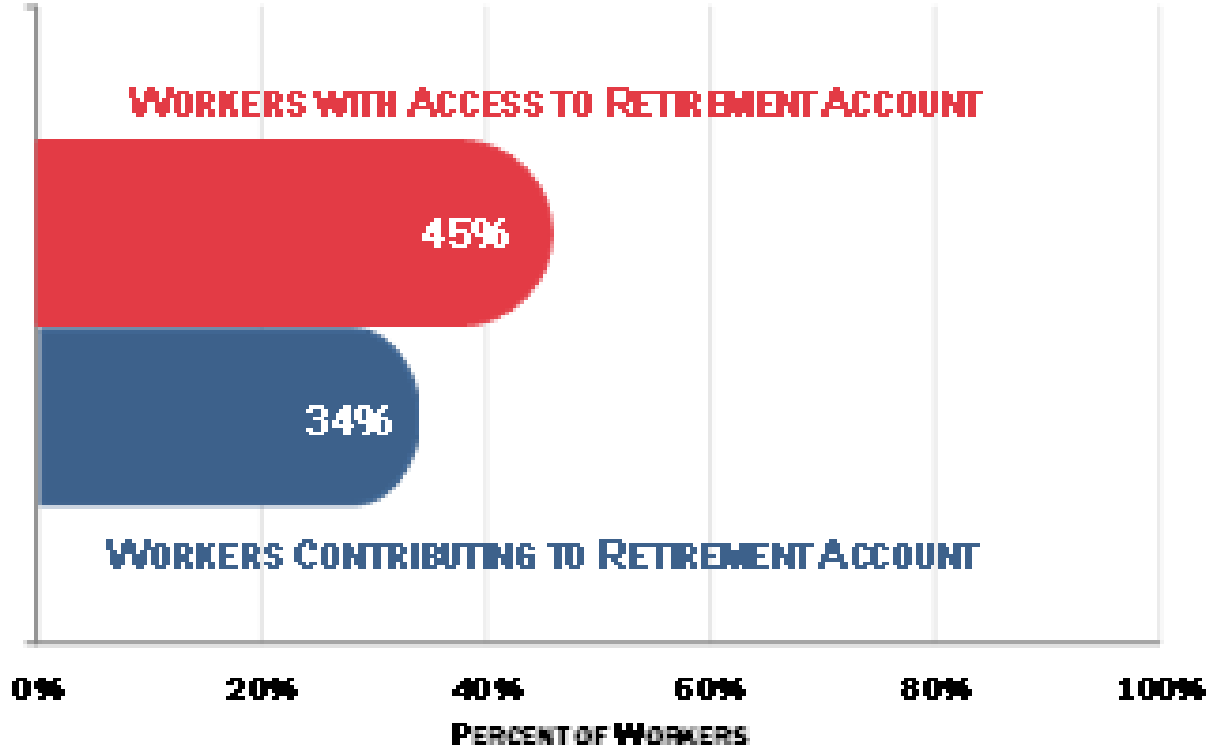
Industry Access to Defined Contribution Retirement Plans



SOURCE: BLS, EMPLOYEE BENEFITS SURVEY.

Contributions to DC Plans are Lagging

Many Are Not Contributing in 2014



Source: Employee Benefit Research Institute, 2014 ICI Fact Sheet #4.
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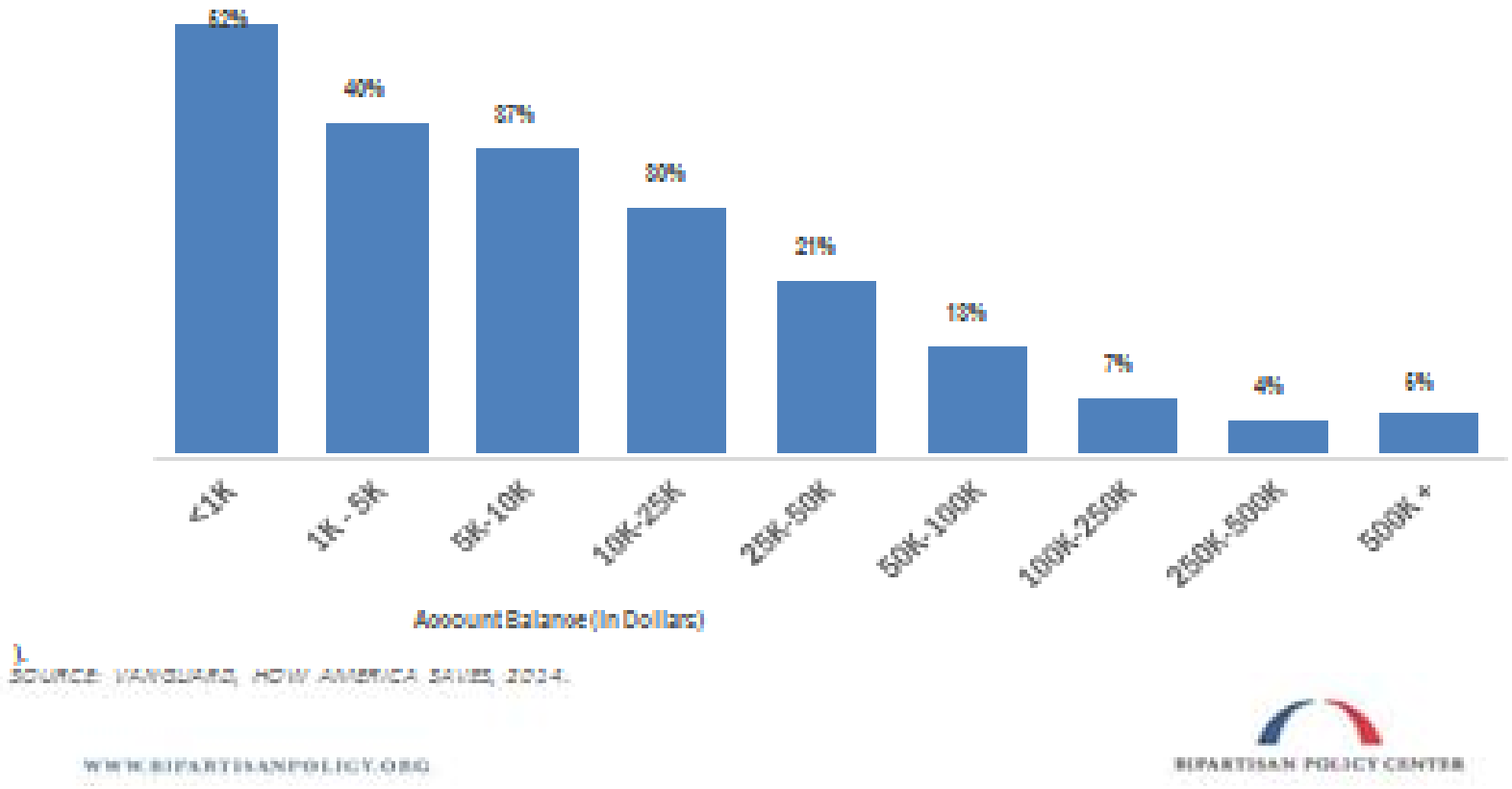
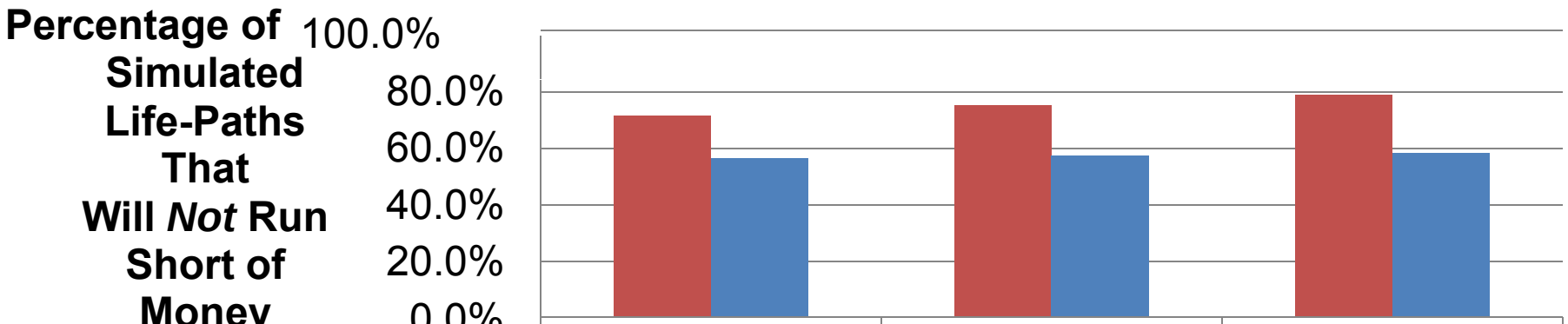
Workers With Smaller Balances Are More Likely To Cash Out Their Retirement Accounts



Note: a worker is considered to have cashed out if they do not remain in the plan, complete a rollover or set up an installment plan (for current retirees)

Impact of Long-Term Care Costs on Retirement Readiness

2014 Retirement Readiness Ratings With and Without Nursing Home and Home Health Costs, by Age Cohort



	Early Boomers	Late Boomers	Gen Xers
Without LTC	71.9%	75.6%	79.0%
With LTC	56.7%	57.7%	58.5%

*NB: This includes all households regardless of eligibility for employer-sponsored retirement plans. See subsequent slides for the impact of plan eligibility on retirement income adequacy.

Source: Jack VanDerhei, Why Does Retirement Readiness Vary: Results from EBRI's 2014 Retirement Security Projection Model®, ***The Journal of Retirement (April 2014)***

Current and Model Proposals Addressing Savings and Retirement Security

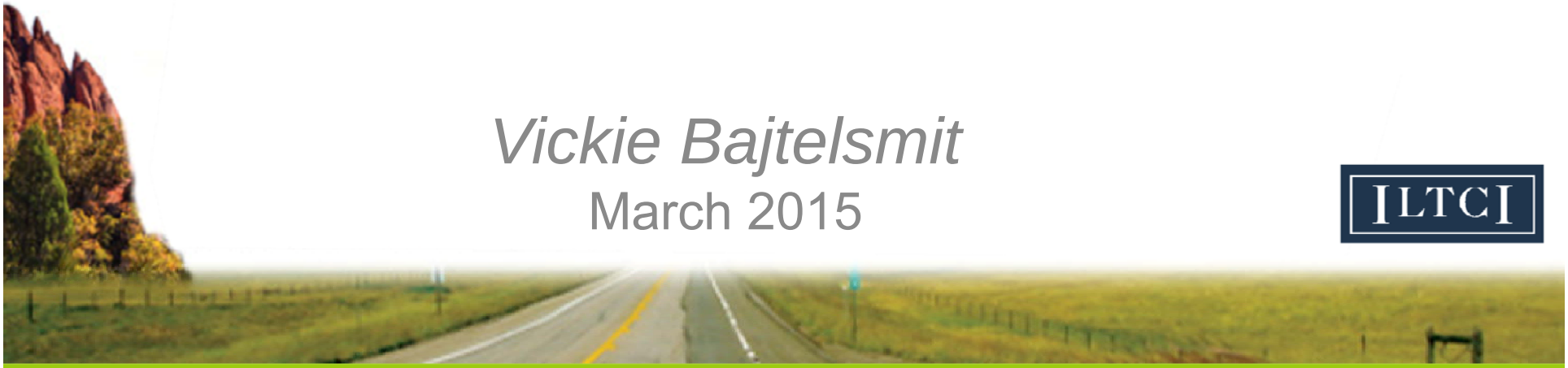
- Obama Administration: FY 2016 Budget
- Senator Hatch: Secure Annuities for Employee (SAFE) Retirement Act of 2013
- Senator Harkin: Universal, Secure, and Adaptable (USA) Retirement Funds Act of 2014
- Senators Nelson & Collins: Retirement Security Act of 2014
- Rep. Dave Camp: Tax Reform Act of 2014

QUESTIONS?

Alternative Solutions

The Impact of Long-Term Care Costs on Retirement Wealth Needs

Selections from Society of Actuaries Monograph:
"Managing the Impact of Long-Term Care Needs and Expense on Retirement Security: A Holistic and Multi-Generational View"



Vickie Bajtelsmit

March 2015

ILTCI

15th Annual Intercompany Long Term Care Insurance Conference

SOA Paper Call (Fall 2014) Addressed

- How can individuals and families protect themselves from the expense of LTC needs and potential financial ruin?
- How can advisors help their clients improve decision making?
- Are their better ways to frame and communicate challenges and possible solutions?
- Are there better product designs (private and public)?
- Are there alternative approaches to financing LTC?
- How can individuals and families integrate LTC financing into a more holistic plan that addresses other needs such as retirement income and asset protection?

***Monograph available online from Society of Actuaries:**
https://www.soa.org/Library/Monographs/Retirement-Systems/managing-impact-ltc/2014/mono-2014-managing-ltc.aspx

SOA LTC Monograph* (December 2014)

- "Managing the Impact of Long-Term Care Needs and Expense on Retirement Security"
  - Big picture overview of the issues, impact, challenges
  - Caregivers, family, and health impacts
  - Insurance solutions
  - Alternative solutions
    - 401(k)s and IRAs
    - Federal insurance program
    - Home equity
    - Risk sharing

***Monograph available online from Society of Actuaries:**
https://www.soa.org/Library/Monographs/Retirement-Systems/managing-impact-ltc/2014/mono-2014-managing-ltc.aspx

Impact on Retirement Wealth Needs

- Overview of my paper in the monograph (co-authored with Anna Rappaport)
  - Background on retirement and long-term care
  - Discusses impact on women
  - Sets up four methods for private financing of long-term care
  - Presents simulation research from SOA Retirement Adequacy Study
  - Provides areas for further research

Who Will Need Long Term Services & Support?

Duration of Expected LTSS Need for Persons Turning 65

- None 31%
- Under 1 year 17%
- 1-2 years 12 %
- 2-5 years 20%
- 5+ years 20%

Distribution of Future LTSS Cost for Persons Turning 65

- None 50%
- Under $10,000 25%
- $10,000 - $25,000 7%
- $25,000 -- $100,000 12%
- $100,000 or more 6%

Long-term care also affects caregivers and family members

Source: Federal Commission on Long-term Care (September 2013, pp. 24 – 25)

Women Need LTSS Longer than Men

Life Expectancies in Years

Age and Gender	Non-disabled	Mild or moderate disability	More severely disabled	Total Life Expectancy
Male 65	12.3	1.5	1.5	15.5
Female 65	13.6	3.0	2.8	19.4
Male 85	2.9	1.0	1.8	5.7
Female 85	2.5	1.7	3.0	7.2

Note: Women less likely to have spouse who can offer care

Source: Stallard, Eric, Estimates of the Incidence, Prevalence, Duration, Intensity, and Cost of Chronic Disability Among the U.S. Elderly, Society of Actuaries Living to 100 Monograph, 2008

Private Long-Term Care Insurance

- Only 10% have coverage in the United States
- Usually pays benefits based on inability to perform 2 of 6 activities of daily living
  - Many seniors need some support, but level of disability insufficient to be eligible for benefits.
- Different types of policies
  - Stand-alone long-term care
  - LTC combined with life or annuity products
- Fewer insurers in the market; increasing rates; shorter coverage periods
- Eligible for tax benefits if certain requirements are met
- Most policies are now tax-qualified

Four Options for Financing Care

	Insurance	Savings	CCRC	Housing Equity
Prevalence	< 10%	15% of care paid out of pocket (aggregate)	Low overall, higher net worth only	Little use of reverse mortgages
When to do	While still healthy	Ongoing – all ages	Time of entry and monthly	When needed
Match to needs	Depends on contract, situation	No direct match	Depends on contract, situation	No direct match
Applies to	Middle and upper income	Higher income and net worth	Higher net worth	All levels who own home

Four Options for Financing Care (con't)

	Insurance	Savings	CCRC	Housing Equity
Risks	Premiums may increase: Costs may exceed limits: Some situations not covered; Buy before you need	Investment risk, may not have enough money; Difficulty of managing assets; May not save early enough	Expensive; Monthly costs can increase; Facility bankruptcy; Care benefits uncertain – not "contractually defined."	Equity unmatched to need; Illiquidity; Interest rates affect reverse mortgages.
Costs – if LTC not needed	Premiums paid (for most policies)	None (ties up savings from other uses during accumulation)	Buy-in price and high monthly premiums	None
Issues for Surviving Spouse	Reduces risk of asset depletion; Income protection	Survivor may not have enough assets left	Security of CCRC; Higher monthly costs; Possible relocation	Survivor may not have enough assets left
Taxation	Most policies tax advantaged	Most retirement savings tax deferred	Part of price = insurance premium (not clearly TQ)	Gain on sale of house often tax-free

Building LTC into Retirement Modeling

EBRI model

- Aggregate approach
- Focuses on entire population
- Identifies % of population who will not have enough money

SOA Retirement Adequacy Study

- Individual approach
- Focuses on representative households
- Estimates how much money a household needs for retirement success

Both studies:

- Shocks including long-term care are important
- Long-term care is a major factor in inadequate assets

Research Objectives and Methodology

- Forecast post-retirement income and expenses for hypothetical U.S. households, with post-retirement risks
  - Monte Carlo simulation of hypothetical retirement period for married-couple household (Run 50,000 possible life paths)
  - Simultaneously incorporate investment risk, inflation risk, mortality risk, health and long term care risk.
- Assumptions:
  - Base-case households developed from national income, wealth, and expenditure survey data (50th percentile and 75th percentile).
  - Risky variables (e.g. inflation, investment returns, risk of needing LTC) modeled as being drawn risky distributions, based on past historical data and future expectations
- Objective: Determine wealth needed at retirement to fully fund retirement needs, including LTC costs, under alternative strategies for managing risks.

Simulated Impact of LTC Insurance

	Wealth at retirement that would have been sufficient to meet all household needs with no change in standard of living (in $000)		
	Base Case: No LTCI	**Buy LTCI for Both Spouses**	**Buy LTCI for Wife Only**
Median household ($60,000 pre-ret income)			
50% sure	$170	$227	$195
95% sure	$686	$333	$338
75th Percentile household ($105,000 pre-ret income)			
50% sure	$544	$599	$581
95% sure	$1,011	$851	$871

Note: Median HH and 75th percentile HH actual retirement wealth levels are only $100,000 and $250,000, respectively.

Observations and Conclusions

- Retirement forecasts commonly do not include LTC costs
  - EBRI and SOA-RA models include long-term care and health risk in broader retirement simulation models.
- Our results:
  - Retirement wealth targets much greater with LTC risk ($200,000+)
  - Having enough $ “on average” is very different from what is needed to be 95th percent confident of not running short.
  - Delaying retirement and/or downsizing at retirement help at the median but have little effect on cost of LTC “shock.”
  - LTC insurance most useful for middle-income households and for the longest-lived spouse in a married couple (e.g. younger, female)
- Follow-up Research in Progress
  - Better modeling of LTC risk and costs.
  - Compare LTC financing alternatives.
  - Evaluate insurance product designs (caps, inflation protection).
  - Focus on longest-lived households.

Other Relevant Monograph Papers

- "Home Equity: A Strategic Resource for LTSS" (Stucki)
  - Explores the methods and advantages of funding LTSS using home equity (the largest % of retirement wealth for most HHs)
- "Home Equity and At-need Annuities" (Cooperstein)
  - Describes how late-in-life LTC costs can be funded by tapping home equity to buy an at-need impaired lifetime annuity.
- "LTC Benefits May Reduce End-of-Life Medical Care Costs" (Holland, Evered, and Center)
  - Empirical study finds that people who used LTC insurance experienced lower end-of-life health care costs than a matched sample without LTC insurance.

Questions

Alternative Solutions

Financing Future LTSS and Long Life through 401ks and IRAs:
Exploring Reform Options

Karl Polzer

Colorado Springs, CO
March 22-25, 2015

ILTCI

Concentration of Income & Wealth Continues

From 2010 to 2013:

- U.S. economic performance improved substantially. BUT:

Income concentration continued:

- While family income rose 4% in real terms, median income dropped 5%, reflecting increasing income concentration at top.
  - Families at bottom saw continued substantial drop in real incomes (continuing trend seen in 2010 & 2013 Fed surveys).
  - Little income change in "middle" (40th to 90th percentile).
  - Only families at top saw widespread income gains.

Source: "Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances," Federal Reserve Bulletin, September 2014.

2013 U.S. Survey of Consumer Finances

While net wealth stabilized after recession, those at the bottom lost ground. Those at the top gained.

- Consistent with income trends and differential holdings of housing and corporate equities, families at the bottom of the income distribution saw continued substantial declines in real net worth between 2010 and 2013.
- Those at the top, on average, had modest gains.

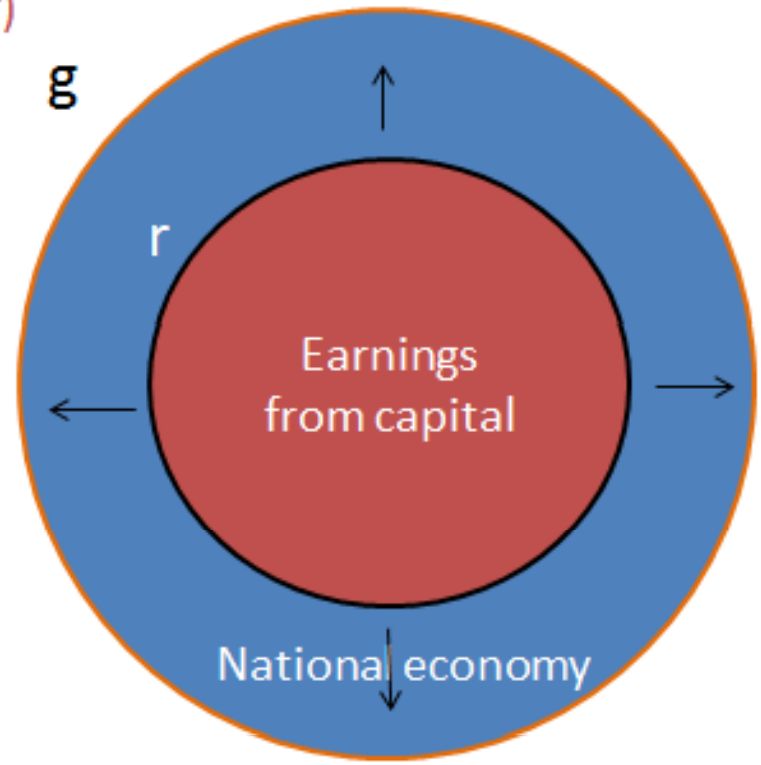
Retirement plan participation in 2013 continued on the downward trajectory seen between the 2007 and 2010 surveys for families in the bottom half of the income distribution. Participation rebounded slightly for upper-middle income families, but not to levels seen before 2007.

Source: "Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances," Federal Reserve Bulletin, September 2014.

Rate Of Return On Capital Grows Faster Than Overall Economy

"The rich get richer, while the poor get poorer."

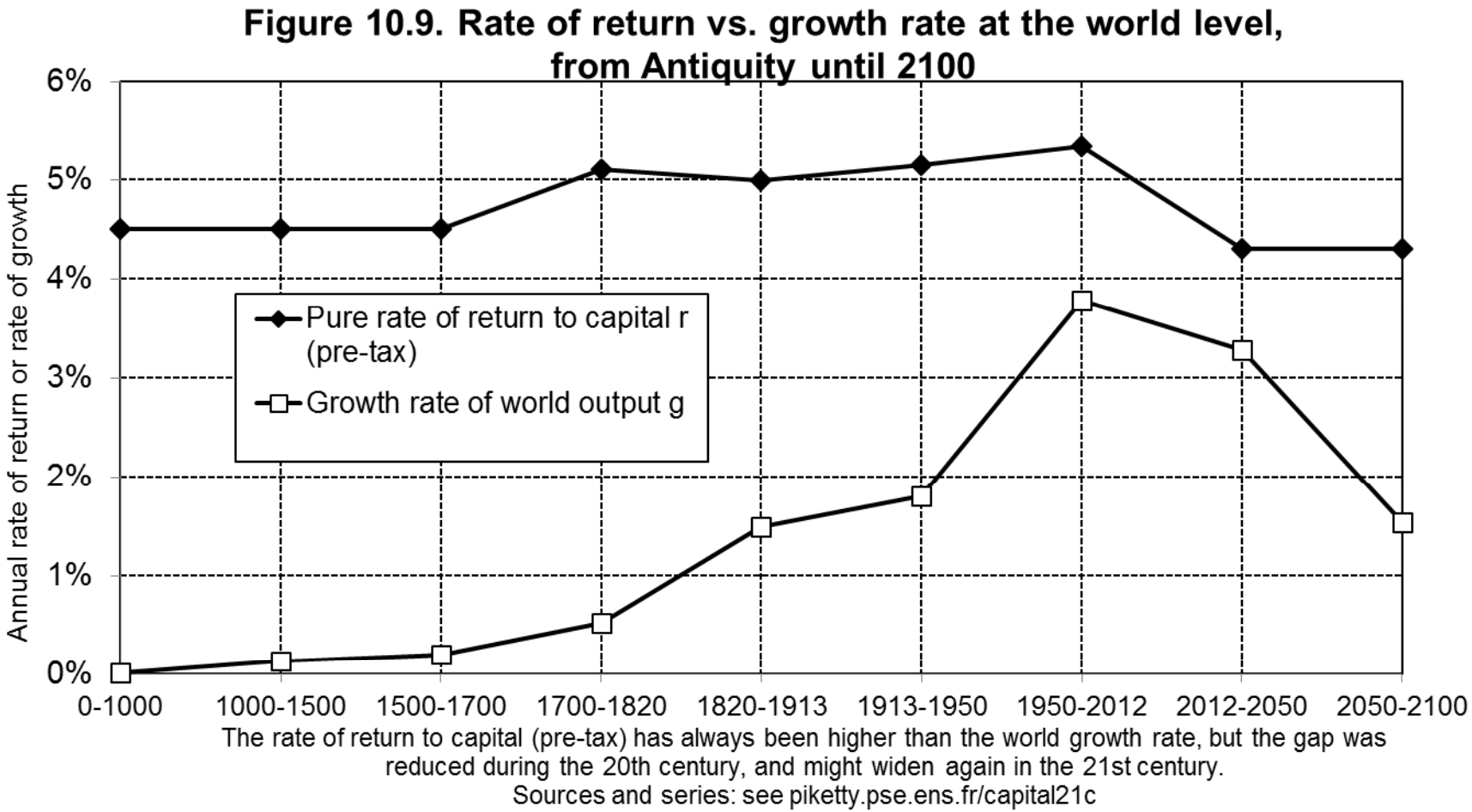
Thomas Piketty's "Capital in the 21st Century" (2014) drawing policymakers' attention:
Central proposition: If, r > g, where:
r = growth rate of capital (historically c. 4-5%/year)
and
g = growth rate of economy (CBO projects 2% annually in U.S. over next 10 years),
then, yields from capital increase as a % of national wealth.



No natural equilibrium, no "invisible hand" stops capital concentration. Wealth distribution result of policy choices, external "shocks" (e.g., war, recession, inflation).

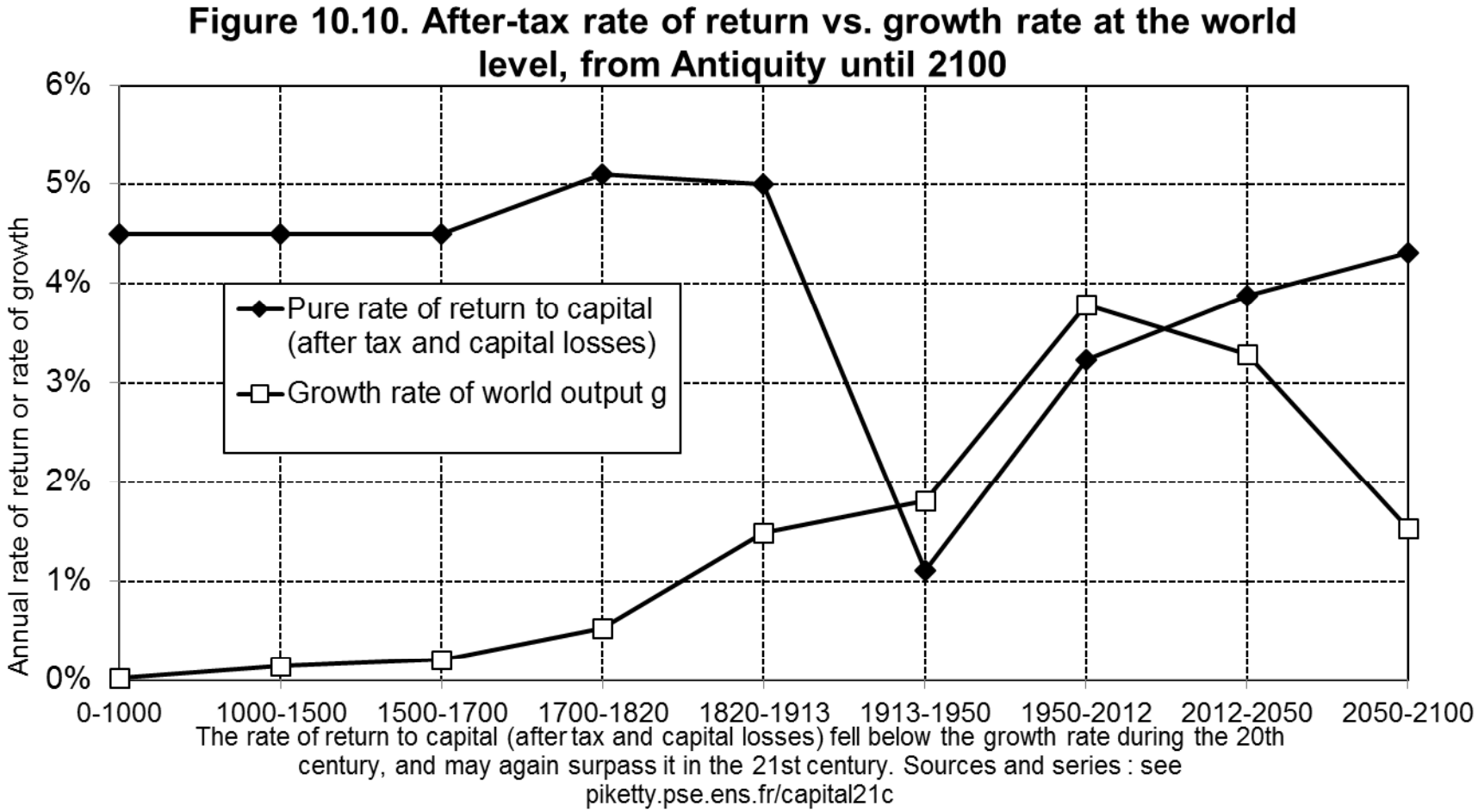
Note: In virtually all countries, the least wealthy half owns almost no net capital (< 5% of total wealth), Other than imputed value of social insurance programs.

Rate Of Return (R) vs. Growth Rate (G)



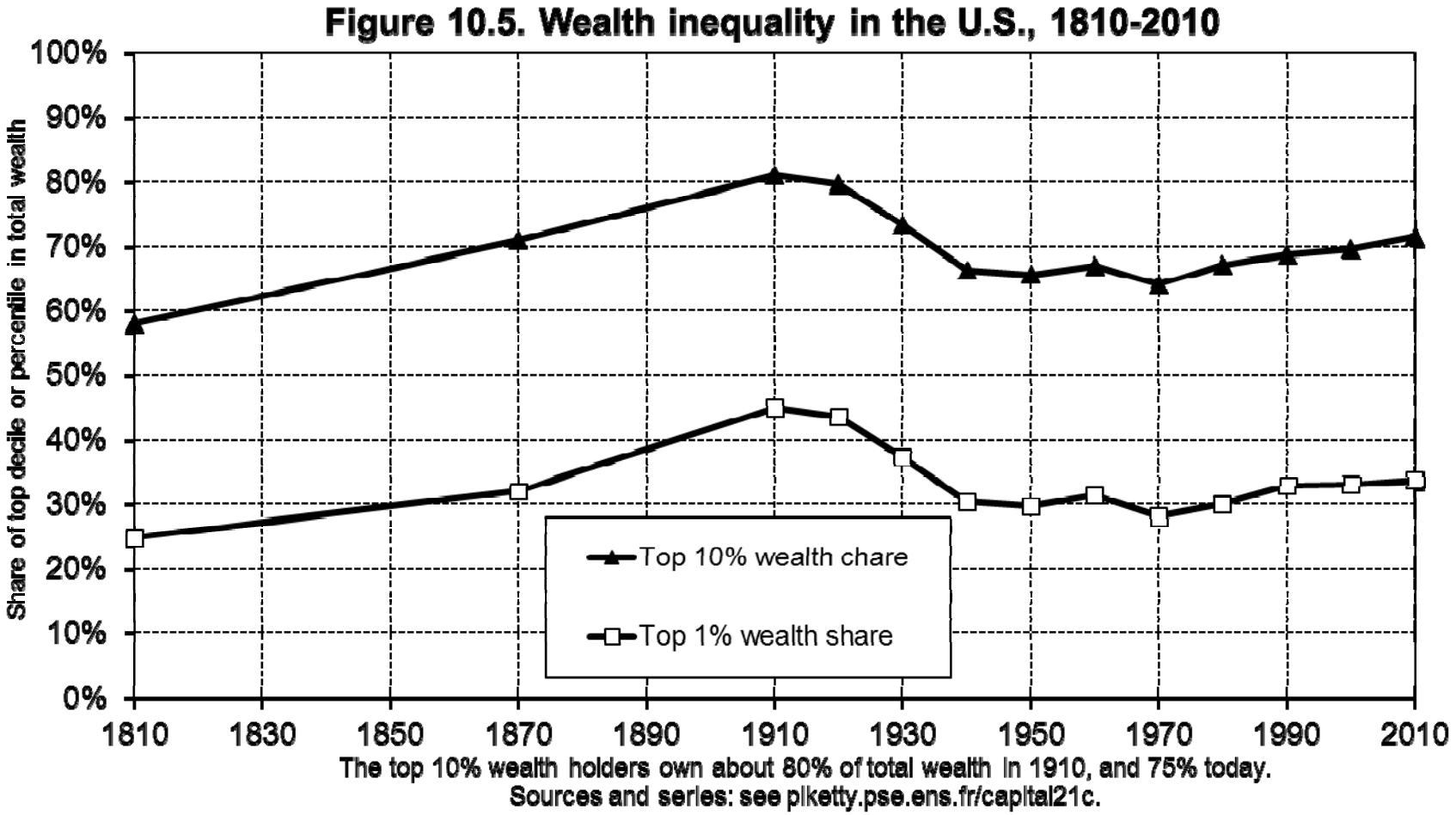
Source: "Capital in the 21st Century," Thomas Piketty, 2014.

After-Tax Rate Of Return vs. Growth Rate



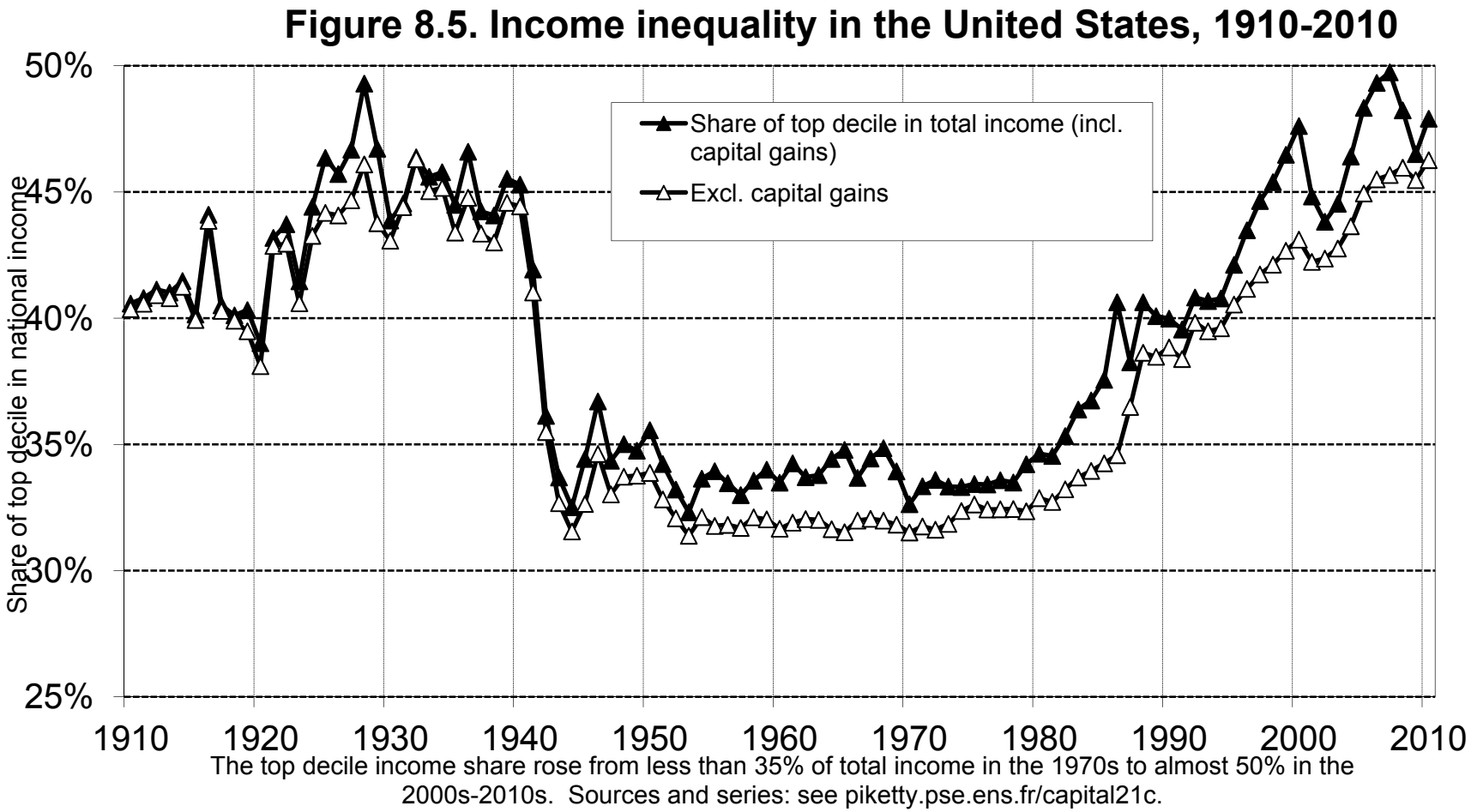
Source: "Capital in the 21st Century," Thomas Piketty, 2014

U.S. Wealth Concentration



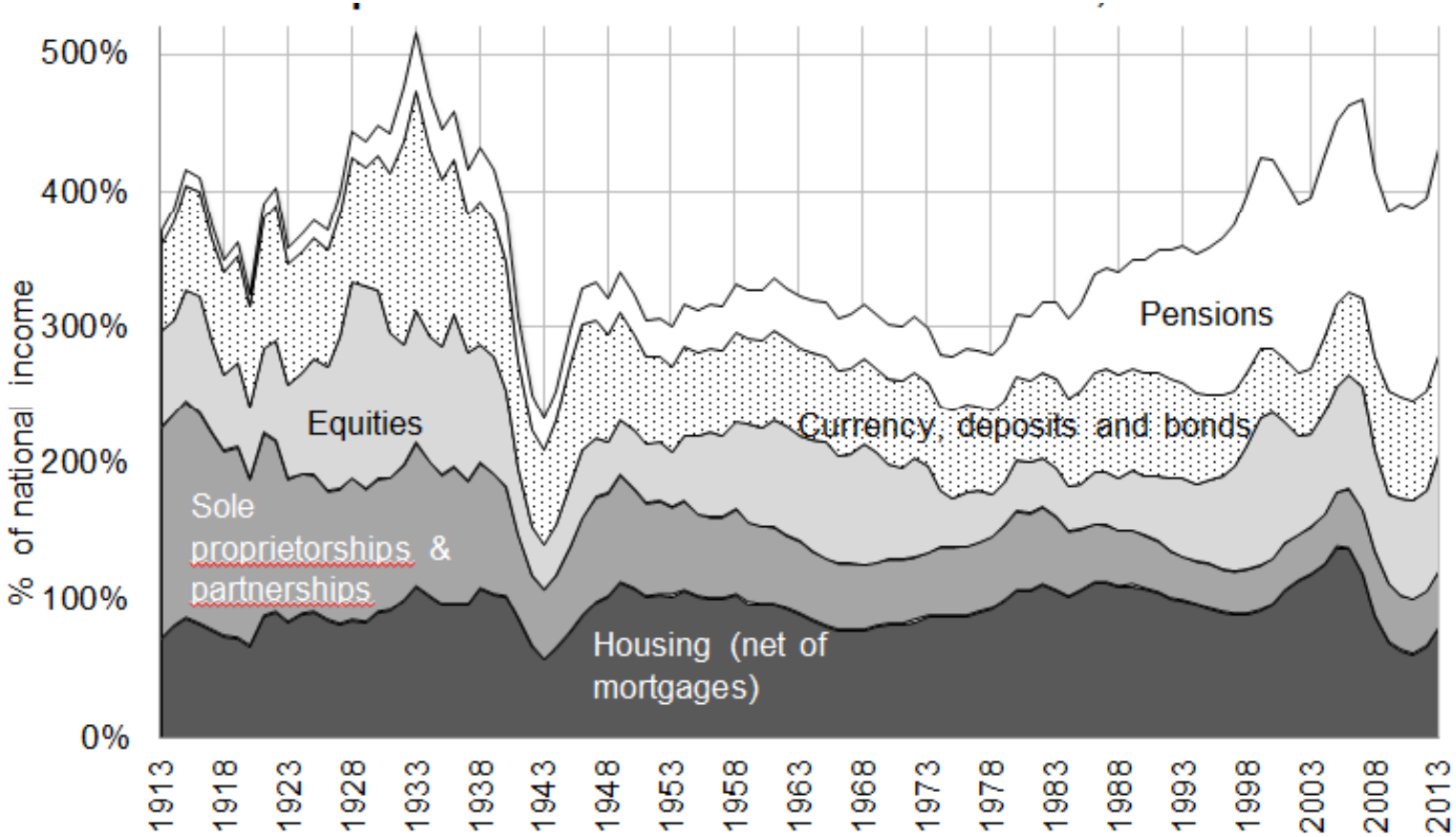
Source: "Capital in the 21st Century," Thomas Piketty, 2014

U.S. Income Concentration



Source: "Capital in the 21st Century," Thomas Piketty, 2014 P

The Composition of Household Wealth in the US: 1913-2013



This figure depicts the evolution of the ratio of total household wealth to national income. This ratio has followed a U-shaped evolution and the composition of wealth has changed markedly since 1913. Source: Appendix Table A1.

Source: Emmanuel Saez and Gabriel Zuchman, "Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Tax Data," National Bureau of Economic Research, October 2014.
http://eml.berkeley.edu/~saez/saez-zucmanNBER14wealth.pdf

Potential Market for LTCI Changing

- The market is changing. The very wealthy don't need LTCI – or as much of it. Mainly of interest to "upper-middle" and "middle" class.
- Most people can't afford it -- and the percentage may be rising.
- Many don't qualify due to underwriting criteria.
- About half the Baby Boom generation (age mid-point: 59) have passed the age at which people typically buy LTCI (c. 59).
- Customer family structure has changed and continues to do so. So have LTC options, including emergence of assisted living.
- Insurers don't want to cover the highest-cost consumers.
- How should the market and policymakers respond? What should people provide for themselves? What level of LTC coverage should be provided collectively?

Policy Goal: Increase Retirement Security

- Sutton's Law: "I rob banks because that's where the money is!"
- Consider the obvious first!
- Proposed Strategy: blend personal financial responsibility and social insurance.
- Recent activity framing policy debate:
  - LTC Commission.
  - Bipartisan Policy Center Initiative.
  - SOA's "Land this Plane."
  - New Treasury/IRS rule allows conversion of part of defined contribution account balance into lifetime annuity with no required minimum distribution penalty (limit: lesser of $125k or 25% of balance.

Where are the $$$$ for LTC?

- Social Security
- Defined Contribution Accounts (with some defined benefits also remaining)
- Other assets – home, non-tax-qualified savings and investments and others.

Key Questions

- How many $$$$ is in the Defined Contribution System?
- How much of that can be used for LTC?
- What are the trade-offs?

Average DC/IRA Balances, Total & by Income, 2010 & 2013

Average combined IRA & DC retirement plan balances for families owning them, total and by income

	2010	2013
Total	$185,713	$202,346
$10,000-$24,999	$45,171	$68,114
$25,000-$49,999	$70,829	$61,329
$50,000-$99,999	$95,313	$118,566
$100,000 or more	$373,532	$391,226

Source: Employee Benefit Research Institute estimates of 2010 & 2013 Survey of Consumer Finances. Income and asset values are in 2013 $$.

Average DC/IRA Balances by Age, 2010 & 2013

Average combined IRA & DC retirement plan balances for families owning them, total and by age (head of household)

	2010	2013
Age		
35-44	$91,400	$113,695
45-54	$185,394	$178,085
55-64	$320,785	$285,390
65 or older	$276,783	$375,478

Average DC/IRA Balances by Net Worth, 2010 & 2013

Average combined IRA & DC retirement plan balances for families owning them, by net worth percentile

	2010	2013
Bottom 25%	$12,420	$10,458
25-49.9%	$19,506	$18,543
50-74.9%	$60,450	$69,144
75-89.9%	$179,273	$193,906
Top 10%	$700,412	$728,397

Median DC/IRA Balances, Total & by Income, 2010 & 2013

Median combined IRA & DC retirement plan balances for families owning them, total and by income

	2010	2013
Total	$47,155	$59,000
$10,000-$24,999	$12,860	$10,300
$25,000-$49,999	$18,219	$18,000
$50,000-$99,999	$34,294	$45,000
$100,000 or more	$168,257	$171,000

Median DC/IRA Balances by Age, 2010 & 2013

Median combined IRA & DC retirement plan balances for families owning them, by age (head of household)

	2010	2013
Age		
35-44	$33,223	$42,700
45-54	$64,302	$87,000
55-64	$107,170	$104,000
65 or older	$76,091	$118,000

Median DC/IRA Balances by Net Worth, 2010 & 2013

Median combined IRA & DC retirement plan balances for families owning them, by net worth percentile

	2010	2013
Bottom 25%	$5,359	$4,700
25-49.9%	$12,806	$12,100
50-74.9%	$43,940	$52,000
75-89.9%	$144,680	$165,000
Top 10%	$442,612	$450,000

Average & Median DC/IRA Balances, 2013

Average vs. median combined IRA and DC retirement plan balances for families owning them, by key demographics

	Average	Median
TOTAL	$202,346	$59,000
Family Income: $50,000-$99,999	$118,566	$45,000
$100,000 plus	$391,226	$171,000
Head of Household Age: 55-64	$285,390	$104,000
65+	$375,478	$118,000
Net Worth Percentile: 75-89.9%	$193,906	$165,000
Top 10%	$728,397	$450,000

The Shift to Defined Contribution

Major Risks Posed by Defined Contribution System:

- **Longevity risk** –
  - At age 65, average life expectancy for women is 21.5 years, with 39% expected to live to age 90 and 5% to age 100.
  - IRS age-70.5 minimum distribution requirements an issue because based on average life expectancy.
- **LTC risk** –
  - In 2013, 65-year-old faced about 16% chance of lifetime LTC costs >$122K; 5% chance of costs >$305K
  - Medicaid acts as back up.
- **Exclusion** – being left out (no plan or IRA) or not saving enough
- **Investment risk, inflation risk**

How many $$ are in there?

Hard to pin down…

How many DC $$ could be used for LTC? … and what are the trade-offs?

Required Minimum Distributions

$100,000 Accounts at 2% and 4.5% Real ROI

		2% RoI		4.5% RoI	
Age	Distribution Period	Minimum Distribution	401k Balance	Minimum Distribution	401k Balance
70	27.4		$100,000		$100,000
71	26.5	$3,849	$102,000	$3,943	$104,500
72	25.6	$3,911	$100,114	$4,105	$105,082
73	24.7	$3,973	$98,127	$4,272	$105,521
74	23.8	$4,035	$96,038	$4,446	$105,805
75	22.9	$4,098	$93,843	$4,625	$105,921
76	22	$4,161	$91,539	$4,812	$105,853
77	21.2	$4,204	$89,126	$4,981	$105,589
78	20.3	$4,267	$86,621	$5,179	$105,136
79	19.5	$4,308	$84,001	$5,357	$104,455
80	18.7	$4,347	$81,287	$5,538	$103,557
81	17.9	$4,384	$78,479	$5,722	$102,430
82	17.1	$4,420	$75,576	$5,910	$101,060
83	16.3	$4,453	$72,580	$6,100	$99,432
84	15.5	$4,483	$69,490	$6,292	$97,531
85	14.8	$4,480	$66,306	$6,442	$95,345
86	14.1	$4,473	$63,063	$6,589	$92,903
87	13.4	$4,460	$59,762	$6,731	$90,199
88	12.7	$4,442	$56,408	$6,868	$87,223
89	12	$4,417	$53,006	$6,998	$83,971
90	11.4	$4,347	$49,561	$7,056	$80,438
91	10.8	$4,270	$46,117	$7,100	$76,684
92	10.2	$4,185	$42,684	$7,129	$72,715
93	9.6	$4,091	$39,270	$7,139	$68,537
94	9.1	$3,943	$35,883	$7,051	$64,161
95	8.6	$3,788	$32,578	$6,940	$59,680
96	8.1	$3,625	$29,366	$6,804	$55,114
97	7.6	$3,455	$26,255	$6,643	$50,484
98	7.1	$3,276	$23,257	$6,453	$45,814
99	6.7	$3,042	$20,381	$6,139	$41,133
100	6.3	$2,807	$17,686	$5,804	$36,568

IRS “required minimum distributions” based on average life expectancy – not right for those living a long time and/or needing LTC.

Average age of LTC facility resident = 85.

Retiree's Relative Investment Risk

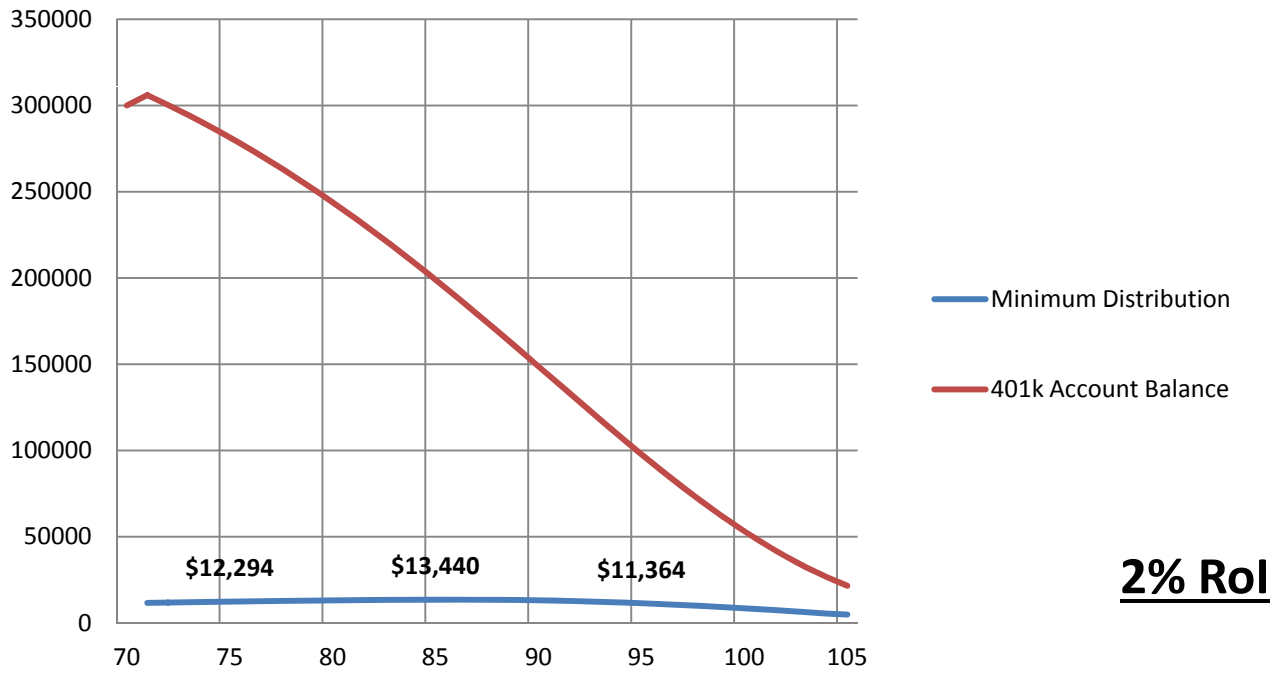
- Trade-offs: Pay now vs. pay later?
- Risk vs. yield?
- Buy LTC insurance vs. self-fund?
- Do the wealthier have an advantage because relative risk per dollar invested is less?

Next two slides illustrate:

401(k) Required Minimum Distributions & Balances, ages 70-105 for starting balance $300,000 (at 2% vs. 4.5% RoI)

Retiree's Relative Investment Risk

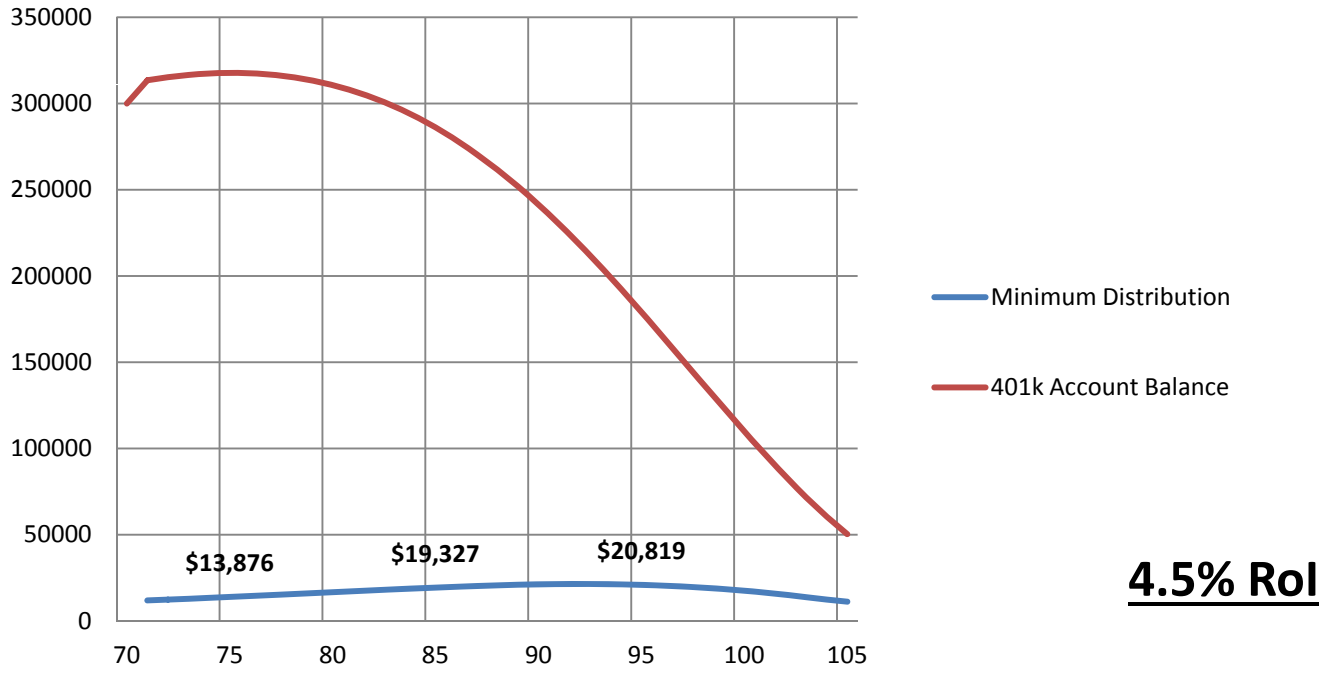
401k Required Minimum Distributions & Balances, ages 70-105
Beginning Balance of $300,000



2% RoI

Retiree's Relative Investment Risk

401k Required Minimum Distributions & Balances, ages 70-105
Beginning Balance of $300,000



4.5% RoI

A "Thought Experiment"

- Create LTC/Longevity sub-accounts.
- Allow part of DC funds to be put in trust or special LTSS/longevity IRA.
- Main moving part: Defer required minimum distribution (RMD) taxation rules that would otherwise kick in at age 70.5.
- Account owner chooses when to start "tax clock."
- Funds remaining at death taxed as under current law.

LTC/Longevity Accounts

- Provide retirement planning education to guide use of sub-accounts.
- Limit initial contributions to a maximum amount, or to a defined % of the funds.
- Earnings stay within the account.
- Funds drawn from accounts not spent on LTC/insurance are taxed, but without penalties related to RMDs.
- Policymakers have options on how to tax funds drawn from the account to pay for LTC or LTCI premiums:
  - Fully taxable
  - Tax exempt, or
  - Tilt tax breaks away from higher-income toward lower-income

LTC/Longevity Account or IRA Balances

$150,000 initial investment (2014 dollars) starting at age 70

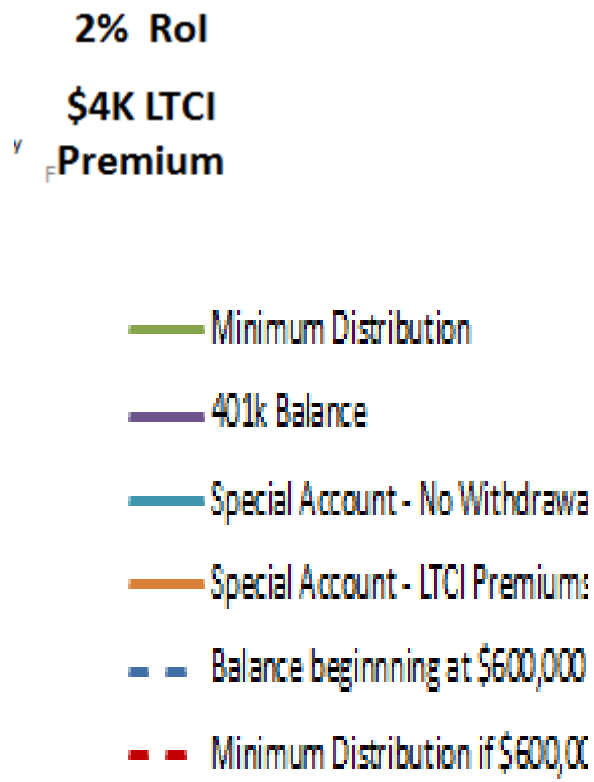
	Self-Insured with No Withdrawals		*$3K LTCI Premium*		*$4K LTCI Premium*	
	2% RoI	4.5% RoI	2% RoI	4.5% RoI	2% RoI	4.5% RoI
Age 70	$150,000	$150,000	$150,000	$150,000	$150,000	$150,000
Age 75	$165,612	$186,927	$150,000	$170,515	$144,796	$165,044
Age 80	$182,849	$232,945	$150,000	$196,081	$139,050	$183,793
Age 85	$201,880	$290,299	$150,000	$227,940	$132,707	$207,156
Age 90	$222,892	$361,757	$150,000	$267,643	$125,703	$236,271
Age 95	$246,091	$450,815	$150,000	$317,120	$117,970	$272,554

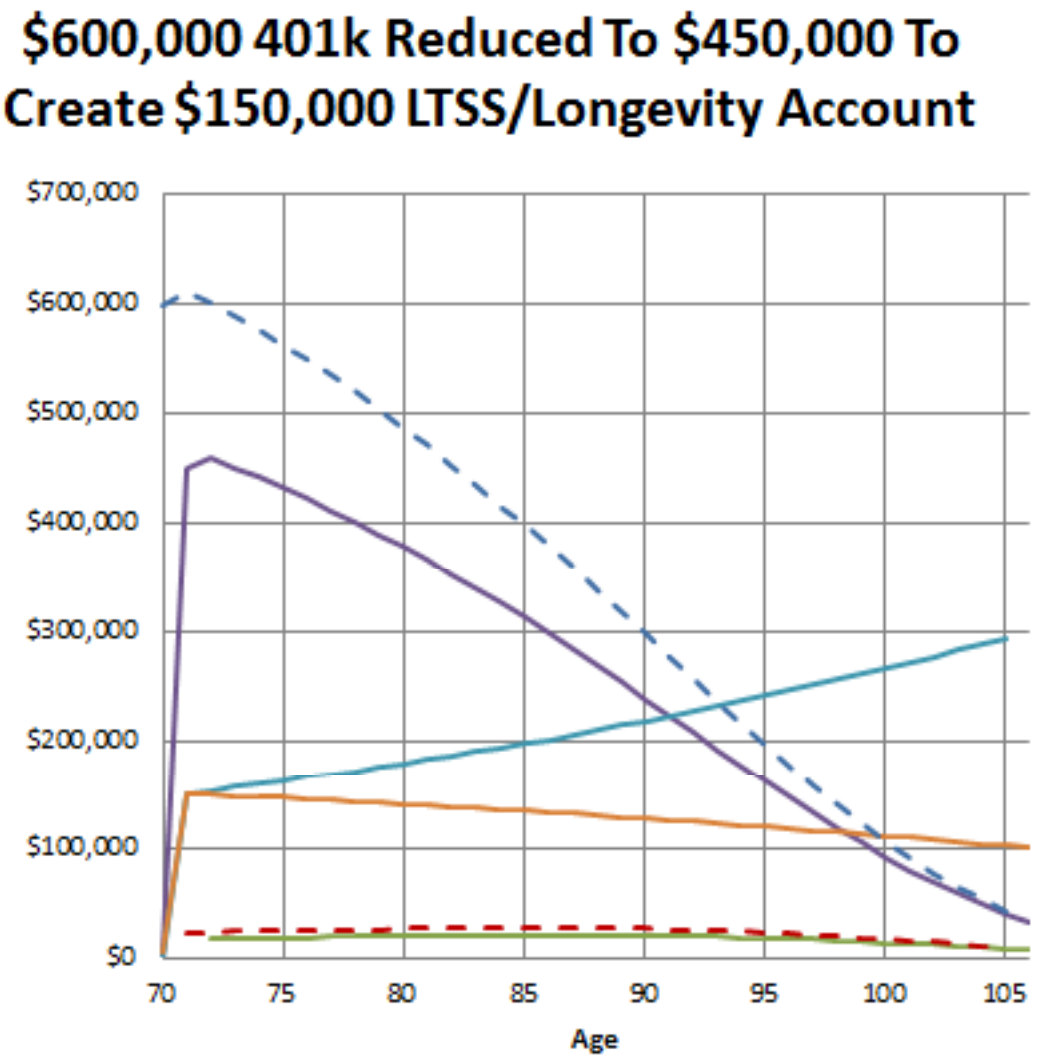
For full scenarios, see: "Key pieces of the retirement security puzzle; Financing future LTSS and long life through more flexible 401ks and IRAs," Society of Actuaries, 2014.

Example of Trade-Offs

$$ Now vs. Later

LTCI vs. Self-Func





Pre-Financing LTC

- People have 3 basic choices:
  - Buy LTCI.
  - Self fund. Pay through savings, assets.
  - Combination of the two approaches.
- Medicaid as back-up – but with limitations:
  - Income limits.
  - Asset spend down.
  - Choice of care settings.

Why Self-Fund?

- LTCI underwriting
- Personal preferences
- Lack of consumer information about risks
- Unavailability of "right-sized" products

Percentage of Applicants Declined Coverage (Individual Policies) Based on Health Status	
Age of Applicant	**Average Declined Coverage**
Under 50	7.3%
50 to 59	13.9%
60 to 69	22.9%
70 to 79	44.8%
80 and Older	69.8%

Source: American Association for Long-Term Care Insurance

Potential Benefits: LTSS/Longevity Accounts

- Funding these accounts with 25% of total DC balances could help about 20% of families with largest DC asset levels buy LTCI or self-fund for LTSS.
- Starting earlier, 30-35% of families could be helped in this way.
- People with low DC asset levels could have funds to better sustain quality of life if they have longevity.

Some Examples

- With $600,000 in DC accounts, many could self-insure at age 70.
- With $600,000 in DC accounts, most could afford LTCI premiums using 25% of DC funds in the special account.
- With $300,000 DC balances, a special account of $75,000 could support substantial LTCI premiums.

Starting Earlier

- Initial balances could be lower, LTCI premiums lower, and investment risk tolerance higher because of a longer investment horizon.
- Setting aside $50,000 at age 60 could cover $2000 annual premiums through age 95.
- Set aside $50,000 at age 40 could cover $1,500 premiums till have 95, with funds leftover.
- If 40 year old didn't buy LTCI, would have $122,000-$362,000 (at 2% and 4.% RoI).

Costs and Risks

- Primary cost – deferred or lost tax revenue.
- Might be offset by Medicaid savings.
- Increases complexity of DC system, with possible administrative costs.
- Cost of consumer education.
- Tax benefits mainly to well-off.
- Doesn’t address those without DC or DB plans.
- Individuals vulnerable to investment risk, economic downturns.

Counter Arguments

- Design investment choices to mitigate investment risk (which already being done with DC accounts to some degree).
- If account values eroded by major economic downturn, LTSS costs also could be lower and availability of unpaid help more likely.
- Special accounts could be hedge against value fluctuations in main IRA or 401K account – the "sub account" is like a reserve gas tank to the main retirement account since it is geared for longer time frame.

Fitting into LTC & Retirement Finance Reform

- Goal: Provide incentives for personal financial responsibility where possible.
- Goal: Expand social insurance where needed.
- Expanding “policy bargaining table” to include both LTC risk and retirement security creates opportunity to help different income groups in different ways.

LTC & Retirement Finance Reform

1) **Feds provide catastrophic LTC coverage** (say, for > 3-4 yrs. equivalent of NH costs), which would help almost everyone.

- Most LTCI doesn't cover catastrophic costs > 4 yrs. NH cost.
- Many more people could save enough cover LTC if they knew they only had to cover a few years.
- Fed $$ could overlay Medicaid.

- Could improve care quality for those receiving services for long time.

2) **Keep Medicaid**, but tighten eligibility for those at the top and loosen it for those near the bottom.

- e.g., allow poorer beneficiaries keep more income, assets.
- Make eligibility harder for wealthier (reduce allowable beneficiary home value established in Deficit Reduction Act of 2005.)

LTC & Retirement Finance Reform

3) Loosen minimum distribution requirements to help reduce longevity, LTC risk.

- LTSS/longevity accounts, annuities

What about people with little or no DC savings?

4) Help annuitize retirement savings at favorable yields for small accounts.

- DC system echoes TIAA-CREF in many ways. But where's the TIAA?
- Is a fiduciary organization needed to stabilize payouts, assume greater risk than individuals, especially with low income, assets?
- Could significantly augment combined DC/SS income for people at SS mean.

5) *Raise the bottom*: Increase Supplemental Security Income (SSI) to poverty level.

- SSI provides funds for room, board, and living expenses for the lowest-income aged, blind, and disabled people receiving LTC under Medicaid. SSI levels are currently far below the federal poverty level. (In 2014, SSI = $8,657 annually; poverty level = $11,670.)

6) Cover living expenses and LTC costs for the very old (age >92? >95?)

- Knowing they will have cover a finite # of years of retirement living will reduce risk. Otherwise, when can a risk-averse healthy person ever retire? Also, may increase $$ available for LTC.

7) Improve participation and consumer education early in life – at the "front end" of the DC system.

Possible Sources of Federal Financing

- Medicaid savings from increased private LTCI or LTC savings.
- Medicaid savings by lowering allowable home equity.
- Medicaid savings by raising SSI – help states shift Medicaid recipients to less costly care settings.
- Medicare savings from some substitution for active services by increased access to LTC services (Holland, et. al.)
- Tilting tax benefits away from higher-income toward lower-income: tax exclusion of pension contributions =, earnings = $109 billion in FY 2014).

Alternative (More Progressive) Tax Treatment of Funds Drawn from Accounts for LTSS or LTCI

(levels set for illustrative purposes only and do not reflect current tax law)

Account Owner's Tax Rate	Tax Treatment of Funds Used for LTSS or LTCI
>40%	Fully taxed
30%-39%	20% of funds spent tax free
25%-29%	40% of funds spent tax free
20%-24%	60% … tax free
15%-19%	80% … tax free
15% or less	Fully tax free

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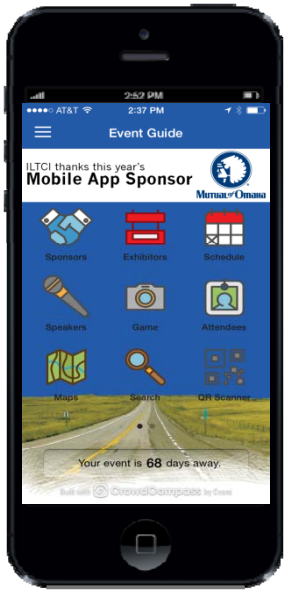
Don’t forget to fill out the survey



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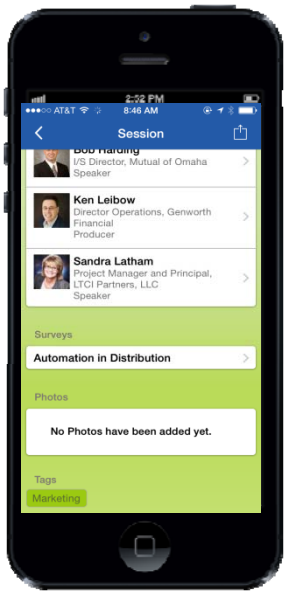
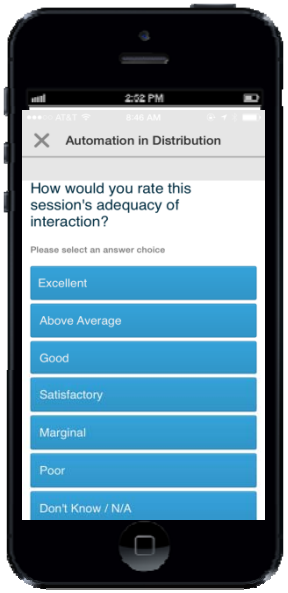
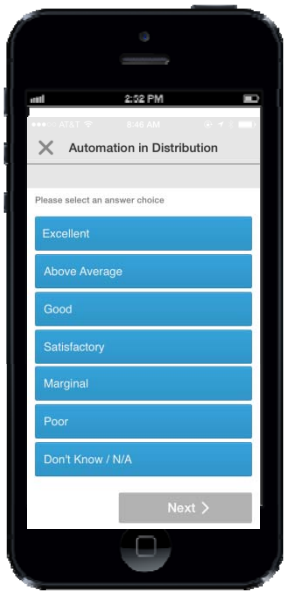




Tap on the answer you wish to submit



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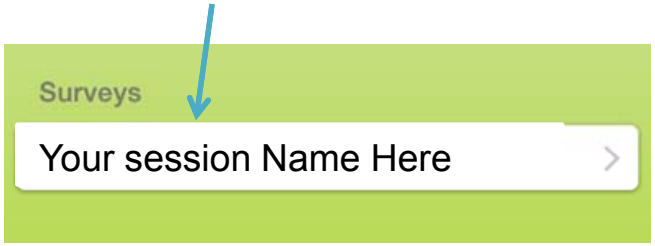

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