Private Financing of Long-Term Care: Income, Savings and Reverse Mortgages*

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Key question

The increase in life expectancy and the arrival of the large cohorts of baby boomers to the age of dependency raise questions about the sustainability of the financing of long-term care. These cohorts may have to make greater use of their own resources, in addition to public coverage and informal assistance. The paper assesses whether the expenses related to the loss of autonomy could be financed by mobilizing the current income, financial wealth and real estate assets made "liquid" by a reverse mortgage.

Methodology

Using data from the SHARE survey, a microsimulation model simulates the disability episodes of people aged 65 and older and their cost in nine European countries. The ability to finance long-term care needs is assessed by country, wealth or gender.

Main Results

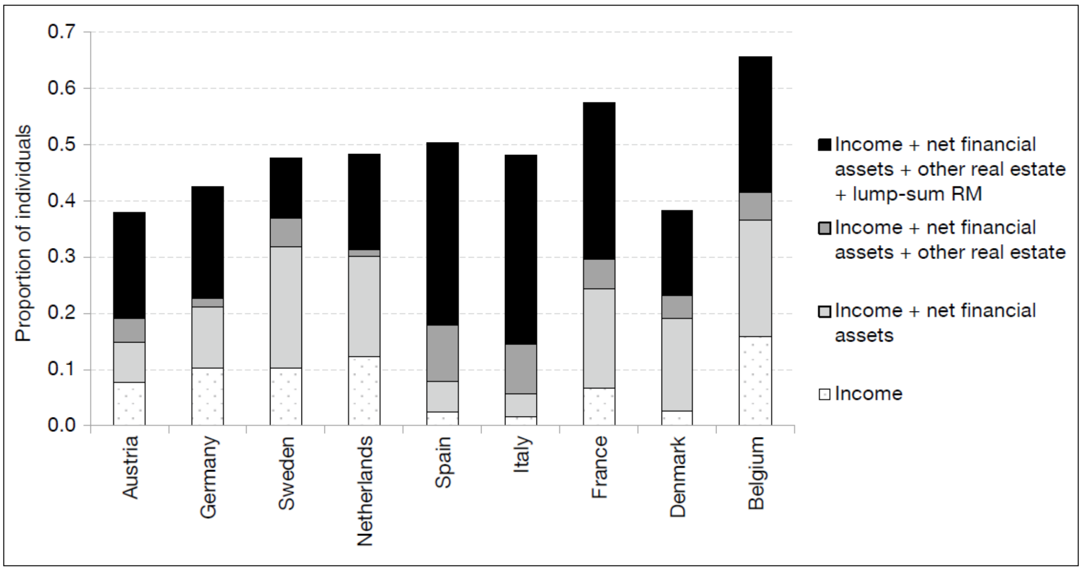
• 57% of people aged 65 and over would experience disability, defined as having at least two restrictions in essential activities of daily living, for an average duration of 4.4 years.

• In the absence of any public insurance coverage and family help, only 6% could finance their long-term care expenses by using only their current income. This proportion would rise to 22% by mobilizing financial assets and to 49% with real estate assets.

• However, a quarter of them could not even finance 10% of their expenses. The risk of disability is higher among the poorest.

• The role of real estate is potentially important in Southern Europe, where the proportion of people with low income and low financial wealth is high, but also in Belgium and France, where the homeownership rate is high.

Proportion of Dependent Individuals Able to Pay for Their LTC Needs



Individuals aged 65 and over at the time of Wave 5, who have no partner when they become dependent. Sources: SHARE.

Message

The potential contribution of reverse mortgages to the financing of long-term care needs is regularly discussed. Our exploratory results show that the sole use of current income, financial wealth, and even real estate assets would not allow half of the population aged 65 and over to cover their loss of autonomy expenses. Our results highlight the importance of public coverage, private insurance or informal family help. To go further, it would be necessary to take into account the interactions between these different types of assistance and their effects on individual behaviours, in particular savings decisions. The desire to pass on the family residence to children can also play a role.

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