

# Nursing Home Use Expectations and Wealth Accumulation Among Older Adults

*Research conducted by Padmaja Ayyagari, University of South Florida  
Yang Wang, University of Wisconsin-Madison*

*Long-term care represents a significant cost to older adults in the US, and nursing home use is an important part of long-term care. It is therefore important to understand how older adults make nursing home-related decisions. This study analyzes the determinants of older adults' nursing home use expectations; their relationship with actual nursing home use in the future; and the association between nursing home use expectations and older adults' decisions regarding wealth accumulation.*

## Financing Long-term Care and Older Adults Expectations

*Long-term care represents a substantial financial risk to the elderly in the US, yet few elderly individuals purchase private insurance for such care. Less wealthy households may qualify for Medicaid coverage, but remaining households must pay for long-term care out of pocket. Older adults therefore have an incentive to either accumulate substantial wealth to pay for long-term care or spend down their wealth to qualify for Medicaid coverage. These decisions depend crucially on individual expectations about future nursing home use. Therefore, it is important to understand what affects these expectations and how they influence wealth accumulation.*

*This study uses data from the 1998 to 2016 Health and Retirement Study (HRS) and Ordinary Least Square and Quantile Regression with fixed effects to evaluate these effects. Specifically, we: 1) identify factors that are associated with expectations about future nursing home use and examine whether individuals update their nursing home use expectations in response to health shocks and other changing conditions; 2) examine whether expectations about nursing home use match actual nursing home use in the future; 3) evaluate whether nursing home use expectations influence wealth accumulation among older adults; and 4) examine whether there exists any heterogeneity by wealth, gender, race, cohort and other demographic and socioeconomic characteristics.*

## **Nursing home use expectations do predict actual nursing home use in the future but are not associated with wealth.**

*Older adults update their nursing home use expectations in a rational way. For example, adults who are older, married, and have more people in the household have lower expectations for nursing home use in the future, while those with bad health and more limitations with their activities of daily living have higher expectations for future nursing home use. In addition, subjective expectations are positively correlated with older adults' actual nursing home use in the future, even after controlling for demographics, health conditions, and insurance. However, older adults' nursing home use expectations are not statistically significantly associated with their wealth accumulation.*

### **Implications**

- 1) Although older adults are aware of the risk of future long-term care needs, they may benefit from additional assistance in planning for this risk.*
- 2) Understanding why high expectations about future nursing home use are not associated with more savings may inform policies or public programs that aim to protect older adults from the financial risk of long-term care use.*
- 3) Understanding the heterogeneity in subjective nursing home use expectations and their association with wealth may inform the targeting of such policies or public programs towards groups who would benefit the most.*