



## EXECUTIVE SUMMARY

Research conducted by NORC at the University of Chicago through a grant provided by National Investment Center for Seniors Housing & Care (NIC). Contributors and authors to this document as well as other related material include:

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## Executive Summary

### The Forgotten Middle

As people age and experience deteriorating health, mobility, and cognition, it becomes increasingly difficult for them to live in their homes independently. The range of options available to these seniors is driven, in part, by their financial resources. In the United States, Medicaid covers long-term care services for very low-income individuals. High-income individuals have a wider range of paid options, including private assisted and independent living communities. This report explores the remaining cohort in the middle—those who are unlikely to qualify for Medicaid but may not have sufficient resources to pay for private seniors housing as it exists today. This is the forgotten middle. Our analysis set out to forecast the size, demographics, health needs, and financial resources of these middle market seniors age 75 and older in 2029—ten years from now.

### Defining Middle Market

Our definition of middle market was motivated by the range of options available to seniors for housing and care. We conservatively defined the middle market as those individuals in the 41<sup>st</sup> to 80<sup>th</sup> percentile of individual income and annuitized assets in 2014. For seniors age 75-84, that band corresponds to \$25,001 to \$74,298 in annual income and assets. The band is wider for older seniors age 85 and above, where it ranges from \$24,450 to \$95,051.

#### Definition of Middle-Income Based on 2014 Annual Financial Resources

Age Group	Middle-Income Range	Excluding Housing Equity		With Housing Equity	
		Mean	Median	Mean	Median
75+	41 <sup>st</sup> - 80 <sup>th</sup> Percentile	\$44,326	\$40,774	\$57,187	\$51,801
75-84	\$25,001 - \$74,298	\$42,865	\$39,685	\$53,642	\$49,483
85+	\$24,450 - \$95,051	\$47,756	\$43,108	\$65,505	\$58,706

We analyzed financial resources at an individual-level instead of a household basis, as is common in both the seniors housing industry analysis and academic research. By characterizing resources at an individual level, we are better able to account for differences in life expectancy and health needs of spouses. This also enables us to compare resources against annual housing and care costs. Our measure of financial resources includes income streams (like Social Security) and annuitized assets (like retirement savings or mutual funds). For some seniors, adult children may make financial contributions to support their seniors housing and care, though this analysis does not assume any financial support from adult children. We include information about housing equity, but we hold this separately since some individuals may be reluctant to sell their home or may have a spouse who continues to live in the home. Additionally, some seniors may want to retain their home as a “nest egg” to protect against outliving their assets or a catastrophic health event.

## A New Market Opportunity

Over the next 10 years, the first wave of Baby Boomers will turn 75 and begin to dramatically increase the size of America’s senior population by 68 percent. With this overall growth comes a rapid increase in the middle market, which expands from 8M seniors in 2014 to 14.4M seniors in 2029. While many of these individuals may not be able to afford assisted living as it is currently envisioned, this untapped market presents new opportunities for seniors housing owners, operators, and investors. If the private seniors housing market can generate a range of new product offerings at lower costs, the industry can extend its reach to address this large and expanding middle market.

**Size of the Senior Population 2014 and 2029, by Age and Income**



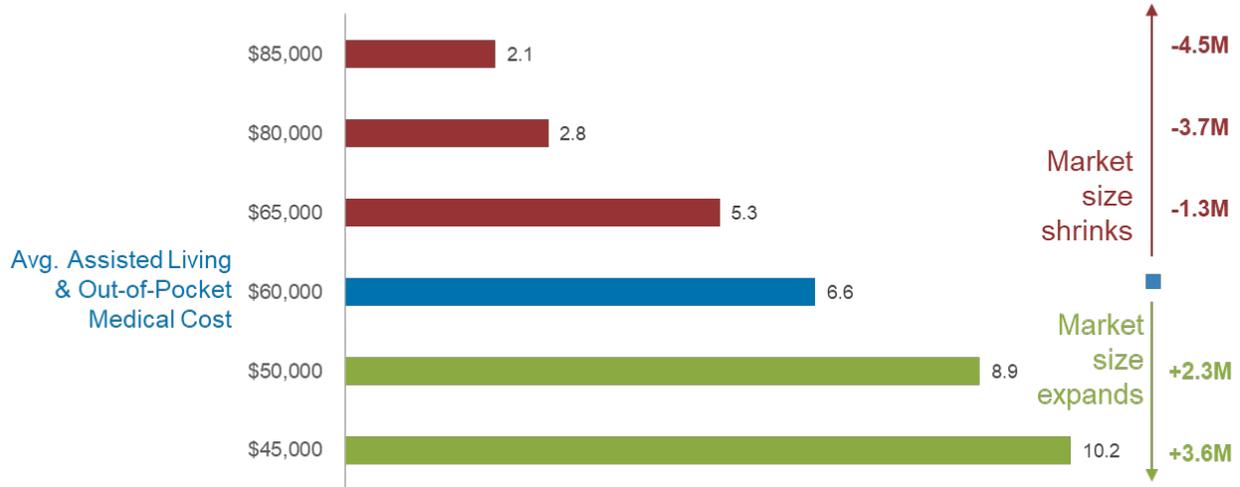
**Assisted Living:** In 2014 dollars, we conservatively assume that the average annual cost of assisted living rent and medical out-of-pocket costs is about \$60,000. In fact, these represent low-end estimates for medical out-of-pocket and housing with very limited care included. Even then, only 19 percent (2.7 million) of middle market seniors 75 and older will have annual financial resources of \$60,000 or more in 2029. If we include housing equity for these seniors, then 46% (6.6 million) of them will have financial resources over \$60,000 per year.

**Independent Living:** In 2014 dollars, we conservatively assume that the average annual cost of independent living and medical out-of-pocket costs is about \$45,000. At the lower cost of independent living, only 48 percent (6.8 million) of middle market seniors 75 and older will have annual financial resources of \$45,000 or more in 2029. If we include housing equity for these seniors, then 71 percent (10.2 million) of them will have financial resources over \$45,000 per year.

## Serving a Broader Market in Seniors Housing

The seniors housing industry has an opportunity to greatly expand its potential market further into the middle-income group, by reducing annual housing costs. For assisted living, a \$10,000 reduction in annual costs to \$50,000 total expands the potential market by 2.3 million individuals 75 and over nationwide. By reducing annual seniors housing costs by \$15,000 per year—from \$60,000 to \$45,000—the potential market expands by 3.6 million individuals 75+. At the \$45,000 annual cost level, 10.2 (71 percent) million middle-income seniors have resources including housing equity above the annual cost.

**Number of Middle-Income Seniors 75+ with Financial Resources (with Housing Equity) Greater than the Cost of Seniors Housing**



By 2029, the oldest Baby Boomer will only be 83 years old. More than half of Baby Boomers will not yet have turned 75. As a result, the market expansion described in this analysis will more than double over a 20 year period. Further, as the oldest Baby Boomers reach their 80s, their care needs will increase and their likelihood of moving into seniors housing will increase as well. As such, the next 10 years present an opportunity for the industry to broaden its target market, create new and innovative seniors housing residences, and prepare for the years after 2029, when the nation’s massive senior population will need these options the most.

### Understanding Care Needs

The onset or anticipated onset of health and mobility challenges is a common motivator for seniors to transition out of their homes to independent or assisted living. As we examine the 14.4 million middle market seniors, we project that many of them will have serious health conditions or care needs. Two-thirds of seniors 75 and over are projected to have three or more chronic conditions in 2029, and 20 percent of seniors will have high needs—meaning they have three or more chronic conditions and at least one limitation in activities of daily living. Sixty percent of seniors are expected to have mobility limitations, which may make it difficult for them to navigate their homes independently. As shown below, prevalence of these conditions increases markedly in the group that is 85 and older, which suggests that care needs may grow dramatically when the Baby Boomers reach this age.

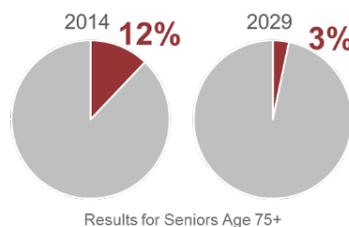
## Middle-Income Seniors 75+ with Health, Cognitive and Mobility Limitations, 2029

	All Seniors 75+		75-84		85+	
	#	%	#	%	#	%
<b>All Middle-Income Seniors</b>	<b>14.35</b>		<b>10.81</b>		<b>3.54</b>	
<b>3+ Chronic Conditions</b>	9.61	67.0%	6.97	64.5%	2.64	74.6%
<b>Activities of Daily Living (ADLs) Limitations</b>						
0-2 ADL Limitations	13.11	91.4%	10.17	94.1%	2.94	83.1%
3+ ADL Limitations	1.24	8.6%	0.64	5.9%	0.60	16.9%
<b>Cognitive Impairment</b>	1.15	8.0%	0.63	5.8%	0.52	14.7%
<b>Mobility Limitations</b>	8.66	60.3%	6.09	56.0%	2.57	73.0%
<b>Mobility Limitations &amp; Cognitive Impairment</b>	0.84	5.9%	0.41	4.0%	0.43	12.0%
<b>High Needs*</b>	2.90	20.0%	1.73	16.0%	1.17	33.0%

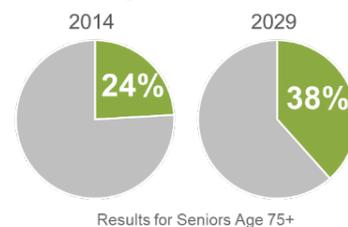
### The Changing Face of Middle-Income Seniors

One of the most important shifts that will occur among the future senior population is an increase in level of education, relative to prior generations. Rates of college education among seniors 75 and over will increase from 24 percent in 2014 to 38 percent in 2029. Concurrently, the portion of seniors without a high school degree will shrink from 12 percent in 2014 to 3 percent in 2029.

#### No High School Diploma

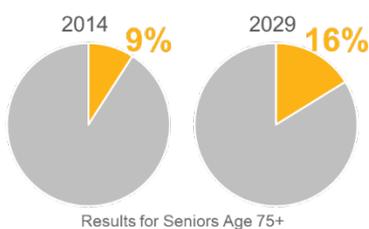


#### College and Above

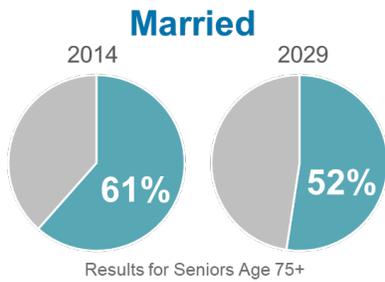


This increase in educational attainment drives a shift of the income distribution with a reduction in the portion of seniors living in extreme poverty as a result of low education.

#### Racial / Ethnic Minorities



Mirroring the rest of the country, future seniors will also be more racially and ethnically diverse with minorities increasing from 9 percent of the population 75 and older today to 16 percent in 2029. This demographic shift will demand that seniors housing owners and operators increasingly consider ways to make their properties more inclusive and appealing to a more diverse population.

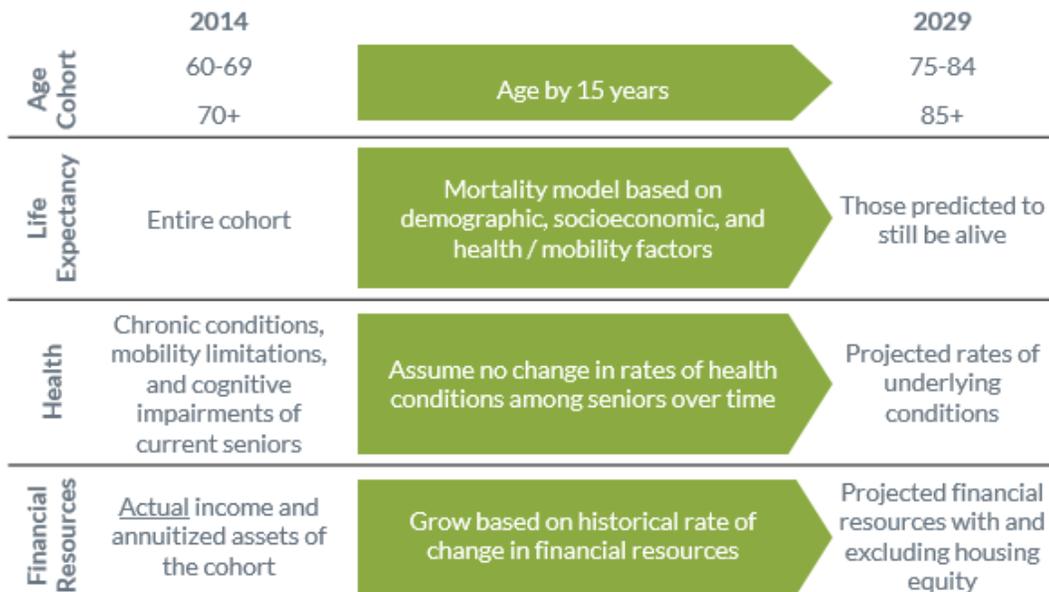


By 2029, the portion of seniors that are married is also expected to decline, as fewer of these individuals are married today. Even assuming no new divorces over the next 15 years, rates of marriage are expected to fall from 61 percent of people 75 and older in 2014 to 52 percent in 2029. Many seniors rely on spouses or other family caregivers to support them in the home, so lower marriage rates may reduce the availability of caregivers for some of these individuals.

## Methodology

This analysis relies on the Health and Retirement Study (HRS), using 2014 as a base year given that it was the most current data available. We examined individuals who were 60 and older in 2014, since they will be 75 or older in 2029. For each of these individuals in the sample, we used a regression model to predict the number of years of remaining life. Those who are predicted to be alive in 2029 were included in the future seniors cohort. We then examined the time-invariant demographic attributes of this group, such as gender, race, and education. We then estimated people’s health, cognitive, and mobility status assuming the same rates of these conditions that exist in the 2014 population, for each demographic subgroup. We also modeled these individuals’ future financial resources, starting from their actual income and assets in 2014. We grew these assets based on the historical rate of change for each type of financial resource, and we annuitized assets across individual’s life expectancy.

### Overview of Forecasting Approach



The detailed methodology can be found [here](#).