

**The Forgotten Middle:
NIC Middle Market Investor Summit
Yale Club, New York City**
May 21, 2019



Today's Presentation

- ▷ Executive Summary
- ▷ Background
- ▷ How Big is the Opportunity?
- ▷ Financial Means of Future Middle Income Seniors
- ▷ Care Needs of Future Middle Income Seniors
- ▷ The Changing Face of Middle-Income Seniors
- ▷ Limitations of the Study
- ▷ Next Steps

Executive Summary

- ▶ Innovative financial structures and operating models are needed to provide care and housing options for America's middle-income seniors cohort.
- ▶ The investment opportunity is large and growing – over 14 million middle income seniors by 2029, 6 million more than today.
- ▶ Of these future seniors, 6.6 million (46%) are projected to have the financial means to meet the estimated \$60,000 annual costs of living in seniors housing and paying out of pocket medical costs.
- ▶ An additional 2.3 million middle income seniors could meet the yearly costs of rent and other costs if they were cut by \$10,000 from \$60,000 to \$50,000.
- ▶ At today's utilization rates, more than 700,000 units of seniors housing will be needed to satisfy potential demand from middle market seniors by 2029.

Executive Summary

- ▷ The middle income seniors cohort includes today's retiring workforce housing cohort -- teachers, firefighters, government workers and nurses -- individuals with financial resources between \$24,000 and \$95,000 annually.
- ▷ Future seniors will be more racially and ethnically diverse and more educated than today, potentially altering the care needs and preferences of this burgeoning cohort.
- ▷ Many middle income seniors may have health and mobility needs that cause them to leave their homes for additional care
- ▷ Lower marriage rates, fewer children, and less access to caregivers may increase the need for paid, private seniors housing solutions

Background

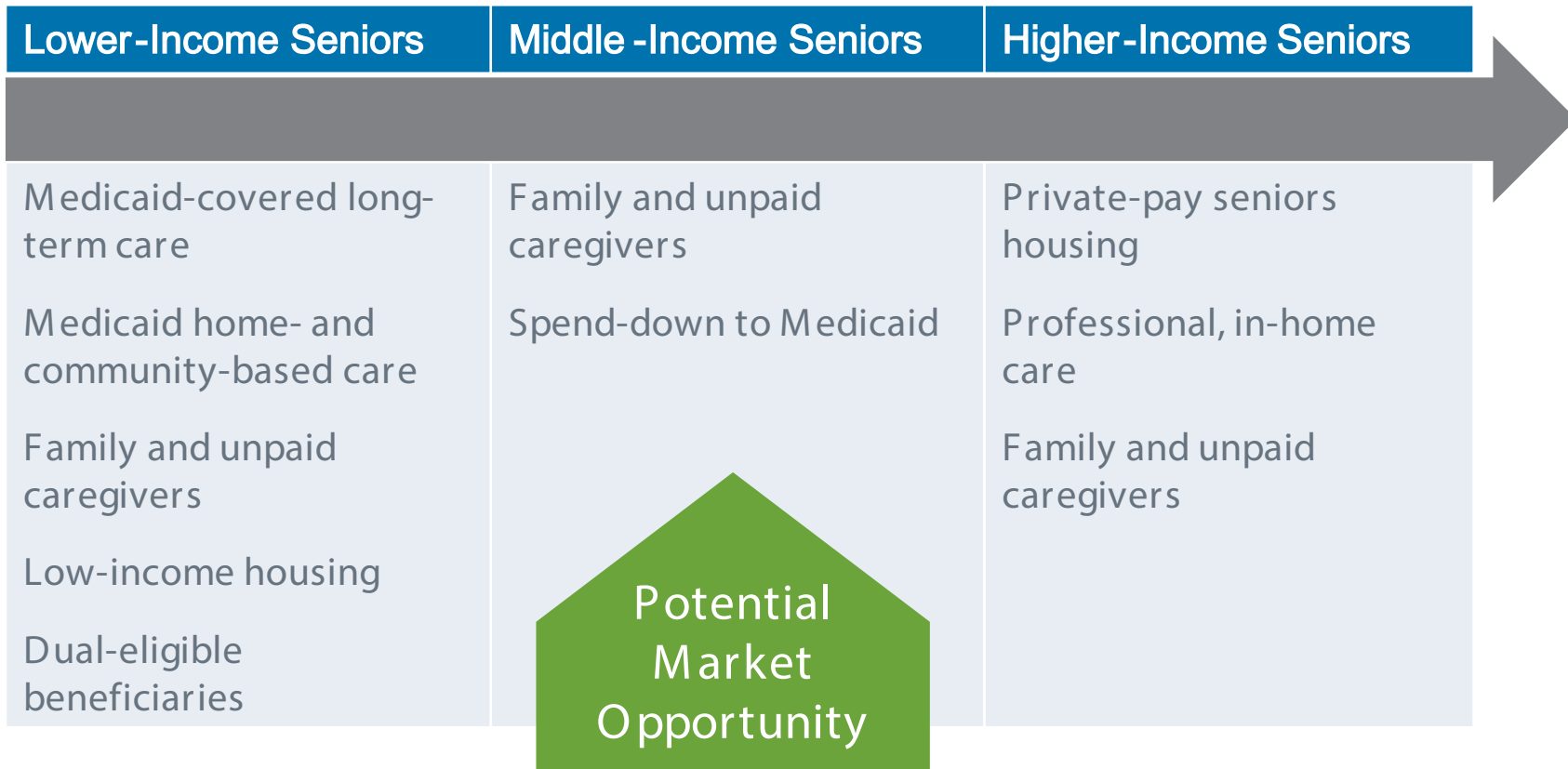
Goal of the Study

To analyze the expected growth from 2014 to 2029 in the number of middle-income seniors

- ▷ How many of them will there be?
- ▷ Who are they? What do their demographics look like?
- ▷ What will their housing and care needs be?
- ▷ Will they have sufficient financial resources to access seniors housing?

Middle Income Seniors

Those seniors who do not have enough financial resources to live in much of today's seniors housing, but too many resources to be eligible for Medicaid, unless they spend down their assets



Research Study

- ▷ Conducted by NORC at the University of Chicago through a Grant provided by NIC in 2017
- ▷ Advisory Group
 - **Kai Hsiao**, Eclipse Senior Living
 - **Dan Lindh**, Presbyterian Homes
 - **Judy Marczewski**, One Eighty/Leisure Care
 - **John Mark Ramsey**, Sentio Investments
 - **Bill Sheriff**, Sheriff Consulting
- ▷ NIC Staff
 - **Bob Kramer**, Founder and Strategic Advisor
 - **Beth Mace**, Chief Economist
 - **Chuck Harry**, Chief of Research and Analytics
 - **Lana Peck**, Senior Principal
 - **Charlene Quinn** (Advisor to Staff and Project)

Dissemination of Results

▷ Manuscript published in May 2019 Health Affairs on Elder Care print edition, on-line version released at Health Affairs Briefing on April 24, 2019

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▷ New York Investor Summit

○ May 21, 2019

▷ NIC Fall Conference

○ September 11 – 13, 2019

ELDER CARE

By Caroline F. Pearson, Charlene C. Quinn, Sai Loganathan, A. Rupa Datta, Beth Burnham Mace, and David C. Grabowski

The Forgotten Middle: Many Middle-Income Seniors Will Have Insufficient Resources For Housing And Health Care

ABSTRACT As people age and require more assistance with daily living and health needs, a range of housing and care options is available. Over the past four decades the market for seniors housing and care—including assisted living and independent living communities—has greatly expanded to accommodate people with more complex needs. These settings provide housing in a community environment that often includes personal care assistance services. Unfortunately, these settings are often out of the financial reach of many of this country's eight million middle-income seniors (those ages seventy-five and older). The private seniors housing industry has generally focused on higher-income people instead. We project that by 2029 there will be 14.4 million middle-income seniors, 60 percent of whom will have mobility limitations and 20 percent of whom will have high health care and functional needs. While many of these seniors will likely need the level of care provided in seniors housing, we project that 54 percent of seniors will not have sufficient financial resources to pay for it. This gap suggests a role for public policy and the private sector in meeting future long-term care and housing needs for middle-income seniors.

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Health problems, cognitive decline, and mobility limitations that become more common with aging often result in older people struggling to live independently. As care needs increase, people pursue a range of solutions—including increased reliance on family caregivers, in-home support services, or both and moving out of their homes into alternative housing arrangements. A number of housing options exist, including private independent living and assisted living communities for those with a range of care needs and nursing homes when high-intensity care is required. Housing options available to older people often depend on the financial resources available to them.

Over the past forty years the housing market for seniors (people ages seventy-five and older), particularly assisted living and independent living communities, has experienced tremendous growth and evolution.¹ Seniors housing provides residence and care to about two million older adults, roughly evenly split between independent and assisted living.^{2,3} Increasingly, people living in these communities have high rates of chronic illness, functional dependence, and medical complexity.^{2,4} In the context of this higher acuity, seniors generally have a desire to live and receive care in the least institutional and most homelike setting possible.⁵ The emergence of seniors housing has been influenced by consumer preference for the high level of socialization and autonomy found in these communi-

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Unique Aspects of This Study

- ▷ Most prior studies use household income as a measure of financial means. This study creates a financial resource measure to include income as well as annuitized assets. As a separate contributor to financial means, annuitized home equity is included.
- ▷ Measuring at the individual level provides a more accurate estimate of accessibility and needs for care and seniors housing, i.e., women have a longer life expectancy than their male partners.
- ▷ Allows us to link financial resources to individual-level measures of health and functional status that affects care needs.
- ▷ Average out of pocket medical costs for seniors included.

Goal of Today's Event

Get the conversation started on how we can collectively as an industry address the care and housing needs of this burgeoning cohort

- ▷ What private sector solutions will work?
- ▷ Do today's financial structures work?
- ▷ Does today's operating model work?
- ▷ What types of public/private partnerships are required?

How Big Is the Opportunity?

Middle Market Includes Seniors in the 41st-80th Percentile of Financial Resources Today

- ▷ Income thresholds were informed by today's cost of seniors housing, as well as sample size constraints
- ▷ Middle-income is meant to exclude those who may be eligible for Medicaid and who can easily afford seniors housing

Definition of Middle-Income Based on 2014 Annual Financial Resources

		Excluding Housing Equity		With Housing Equity	
Age	Range	Mean	Median	Mean	Median
75+	41 st - 80 th 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

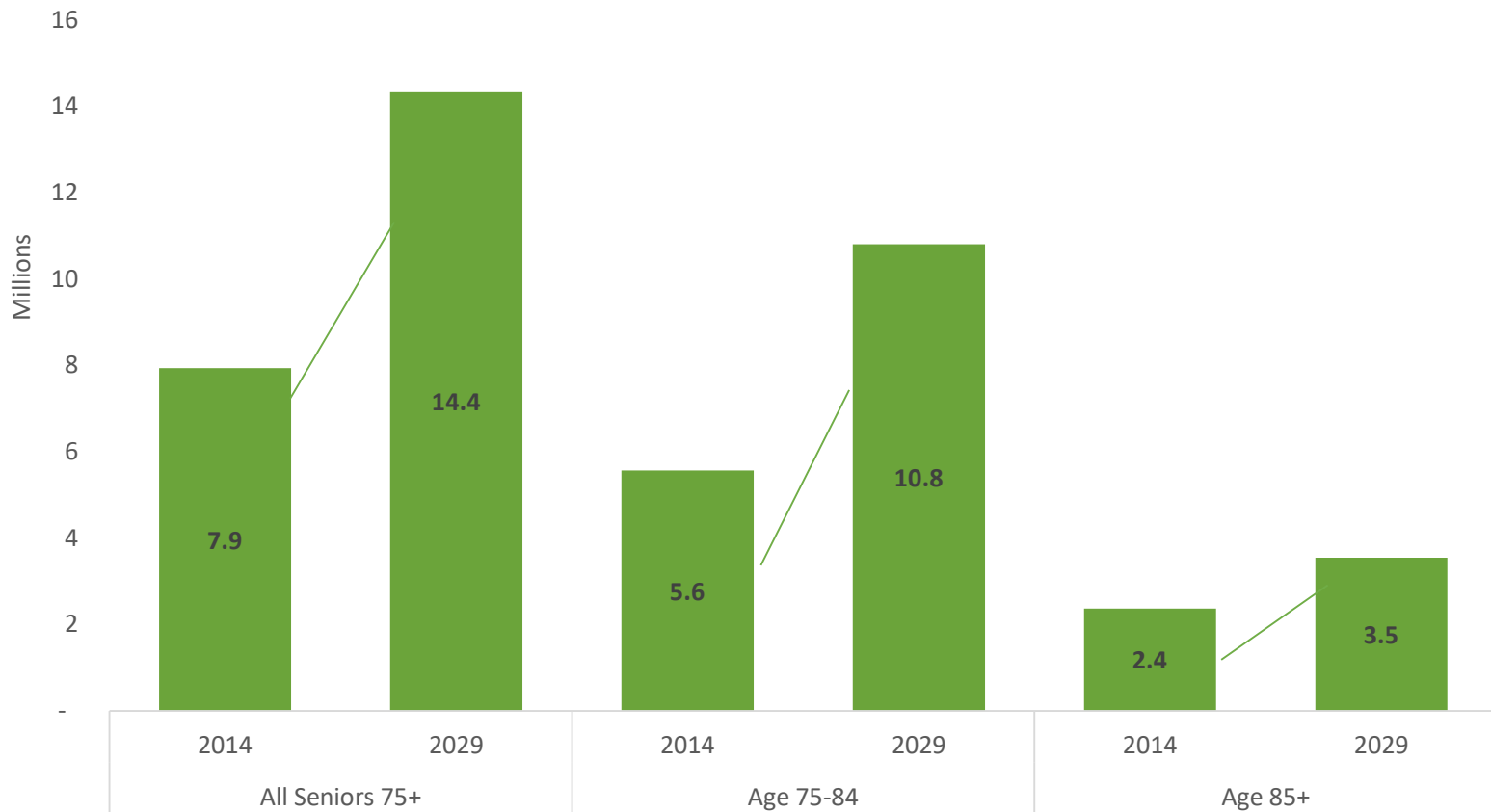
Housing equity is not included in financial resources used to define income groups. All projections are calculated in 2014 dollars assuming a consistent rate of inflation. Income thresholds for future middle-income seniors are held constant from 2014 dollar values.

A Variety of Factors Will Cause This Cohort and Its Needs to Swell

- ▶ **Sheer Demographics:** The first baby boomer turns 83 in 2029, with explosive growth in the cohort thereafter.
- ▶ **Reduced Retirement Savings:** Pensions are becoming less common, replaced by 401(k) and other defined-contribution plans.
- ▶ **Changing Marital Status:** Future seniors are less likely to be married (52%) than today's seniors (62%).
- ▶ **Fewer Family/Unpaid Caregivers:** People are having fewer children and those children are less likely to live nearby.

As the Baby Boomers Age, the Total Number of Middle Income Seniors 75+ Will Grow by 82% between 2014 and 2029

Size of the Middle Income Population 2014 and 2029, by Age



How Many Future Middle Income Seniors Have the Financial Means for Seniors Housing?

Financial Resources Include Income and Assets, with Housing Considered Separately

▶ Annual financial resources include:

Income

- Earnings, capital income, Social Security income, pensions and annuities, unemployment compensation, Veteran's benefits, alimony payments, and income from public programs

Assets

- Vehicles, real-estate, IRAs, stocks and securities, bank accounts, bequests, and lump sum

Housing Equity (separate)

- Housing equity net of mortgage debt and home loans

▶ Joint resources are annuitized based on projected life expectancy for each partner

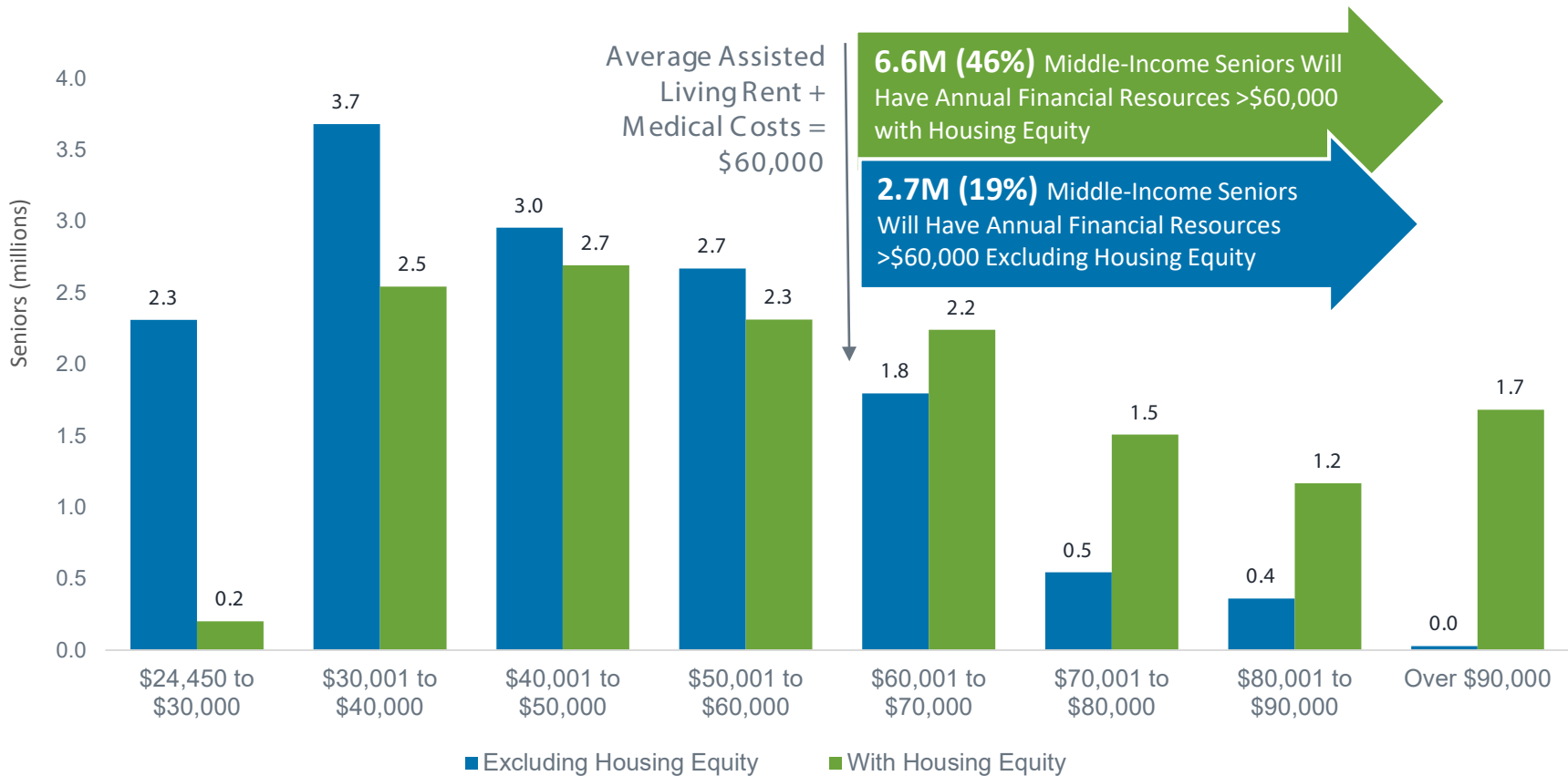
By using data on the actual financial resources of the 2014 cohort, this method takes into account generational differences in savings patterns, pension vs. defined contribution retirement benefits, mortgages, and marriage patterns.

The Model Produces Conservative Estimates of Costs

- ▷ The combined cost of assisted living housing and medical care is set at \$60,000, but that represents low-end estimates of out-of-pocket medical costs and rent
- ▷ As people age and have higher care needs, the annual costs of seniors housing are likely to rise
- ▷ The definition of middle-income is set to safely exclude people who may be eligible for Medicaid, but many low-income seniors in our model also may not qualify for Medicaid
- ▷ Assumptions in the model are conservative and likely overstate the number of seniors who may be able to afford seniors housing options at today's price points in 2029

46% of Middle -Income Seniors 75+ May Have Sufficient Financial Resources for Seniors Housing With Home Equity

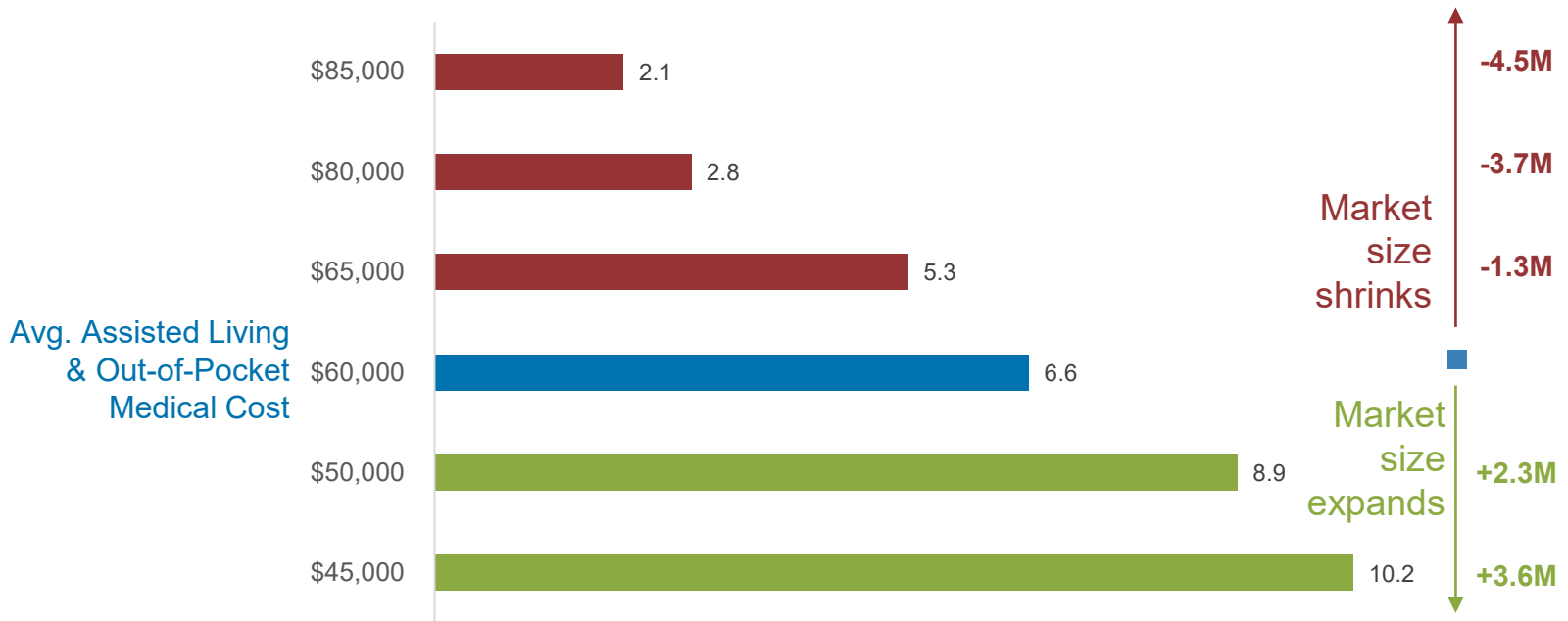
Projected Financial Resources of Middle-Income Seniors Compared to Assisted Living Costs, 75+, 2029



Note: Numbers Depicted are in 2014 Dollars

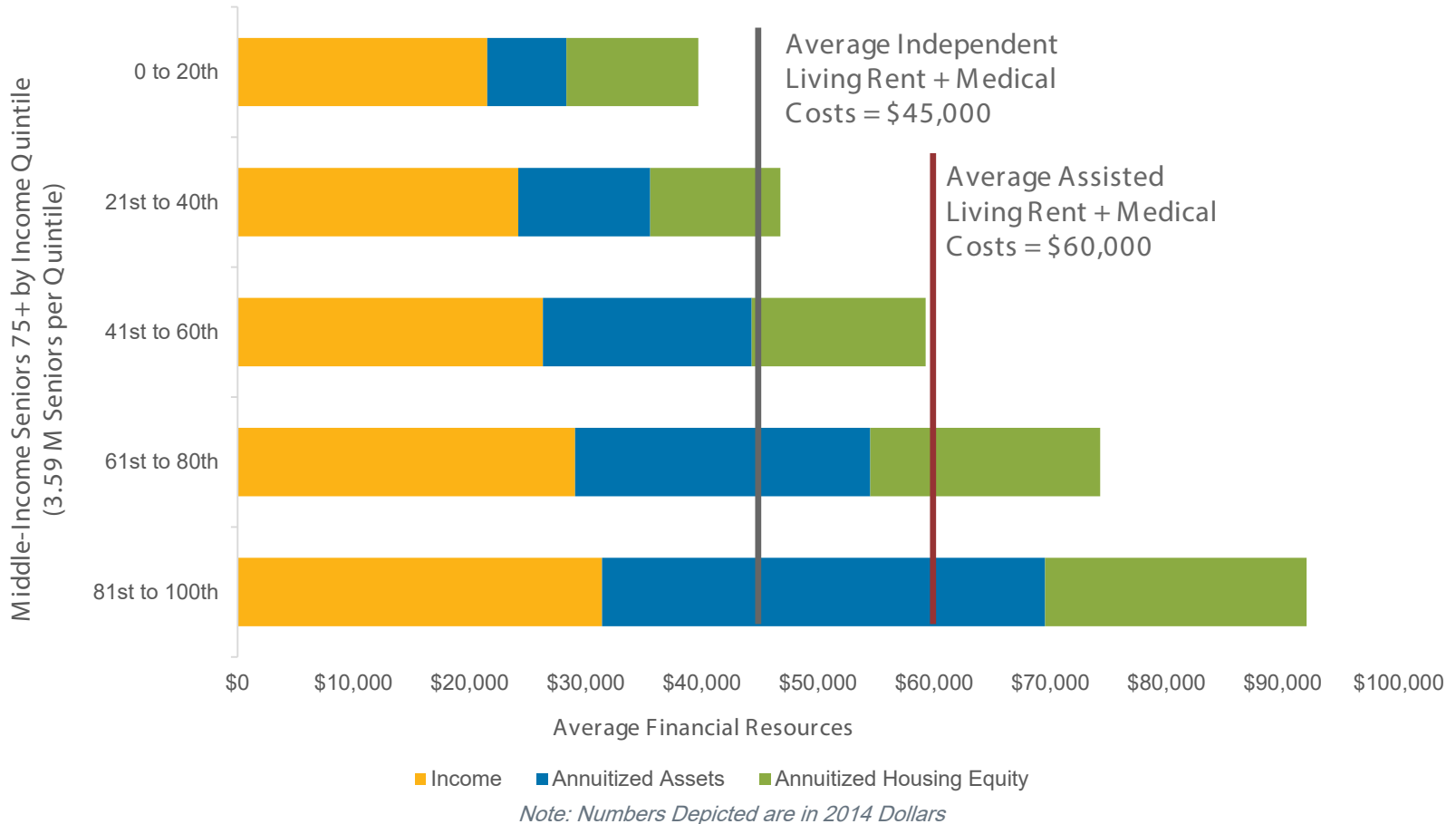
As the Cost of Assisted Living Decreases, the Demand Pool Expands Significantly

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



If Operators Create More Affordable Options, Many More Seniors May Enter the Market

Average Financial Resources of Middle-Income Seniors by Income Quintile, 75+, 2029



More than 1 million units of new seniors housing may be needed to meet middle market demands

Price point and penetration rates dictate potential new supply needed

Scenario Analysis: Projected Supply Needed in 2029 to Fill Middle Market Seniors Housing Demand at Current Costs: Three Rents, Two Medical Out-of-Pocket Estimates and Two Penetration Rates

Annual Rent	Medical Out-of-Pocket	Total Cost	Number of Middle Income Seniors Who Can Afford the Total Cost (Millions)	Percent of Middle Income Seniors Who Can Afford the Total Cost	Units Needed at Different Penetration Rates	
					11%	14%
\$40,000	\$5,000	\$45,000	10.2	71%	1,145,088	1,431,360
\$40,000	\$10,000	\$50,000	9.0	63%	1,008,000	1,260,000
\$55,000	\$5,000	\$60,000	6.6	46%	739,200	924,000
\$55,000	\$10,000	\$65,000	5.3	37%	593,600	742,000
\$75,000	\$5,000	\$80,000	2.9	20%	324,800	406,000
\$75,000	\$10,000	\$85,000	2.1	15%	235,200	294,000

Source: NIC and NORC

Care Needs of Future Middle Income Seniors

Health and Mobility Limitations May Cause Future Seniors to Need Additional Care

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

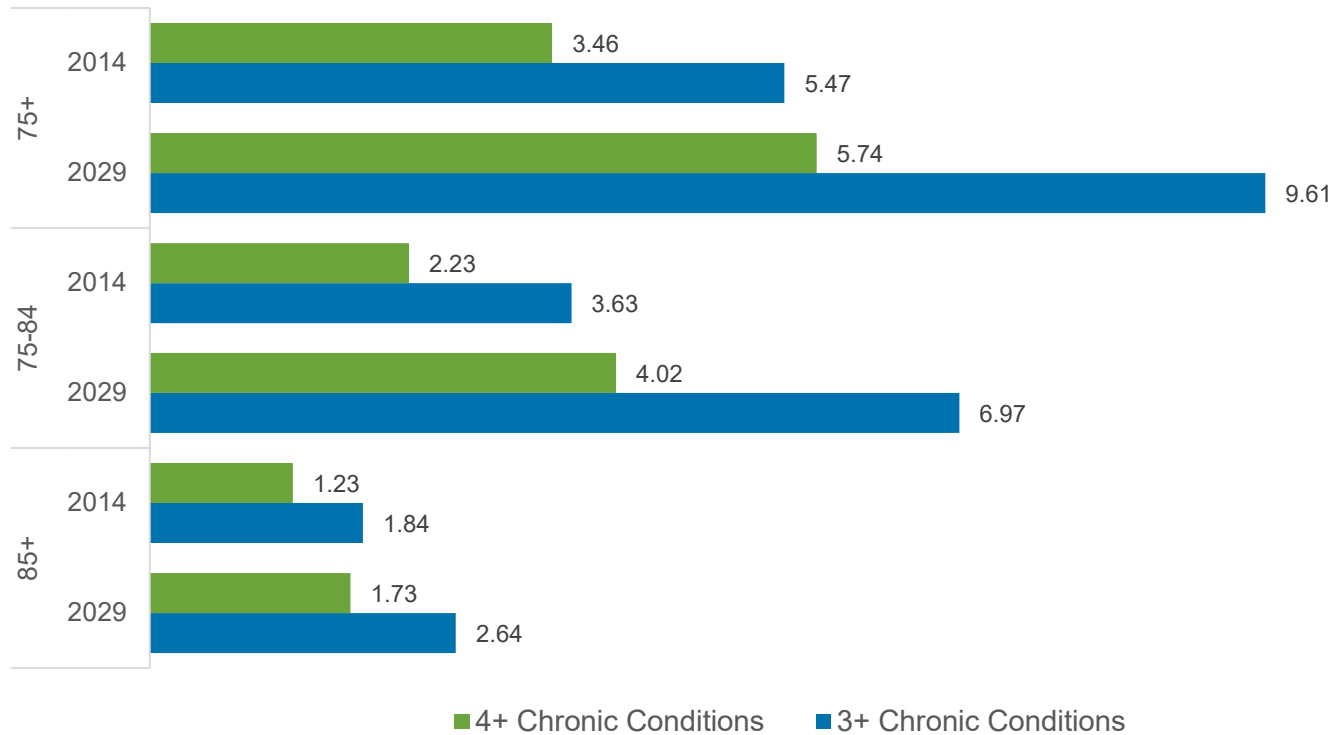
	All Seniors 75+		75-84		85+	
	#	%	#	%	#	%
All Middle -Income Seniors	14.35		10.81		3.54	
Prevalence of Chronic Conditions						
3+ Chronic Conditions	9.61	67.0%	6.97	64.5%	2.64	74.6%
Activities of Daily Living Limitations (ADLs)*						
0-3 ADLs	13.11	91.4%	10.17	94.1%	2.94	83.1%
3+ ADLs	1.24	8.6%	0.64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

Note: High-needs is defined as those with three or more chronic conditions and one or more limitations in ADLs

The Number of Seniors with Multiple Chronic Conditions Will Grow by 2029

▷ By 2029, 9.6M (67%) of seniors 75+ will have three or more chronic conditions

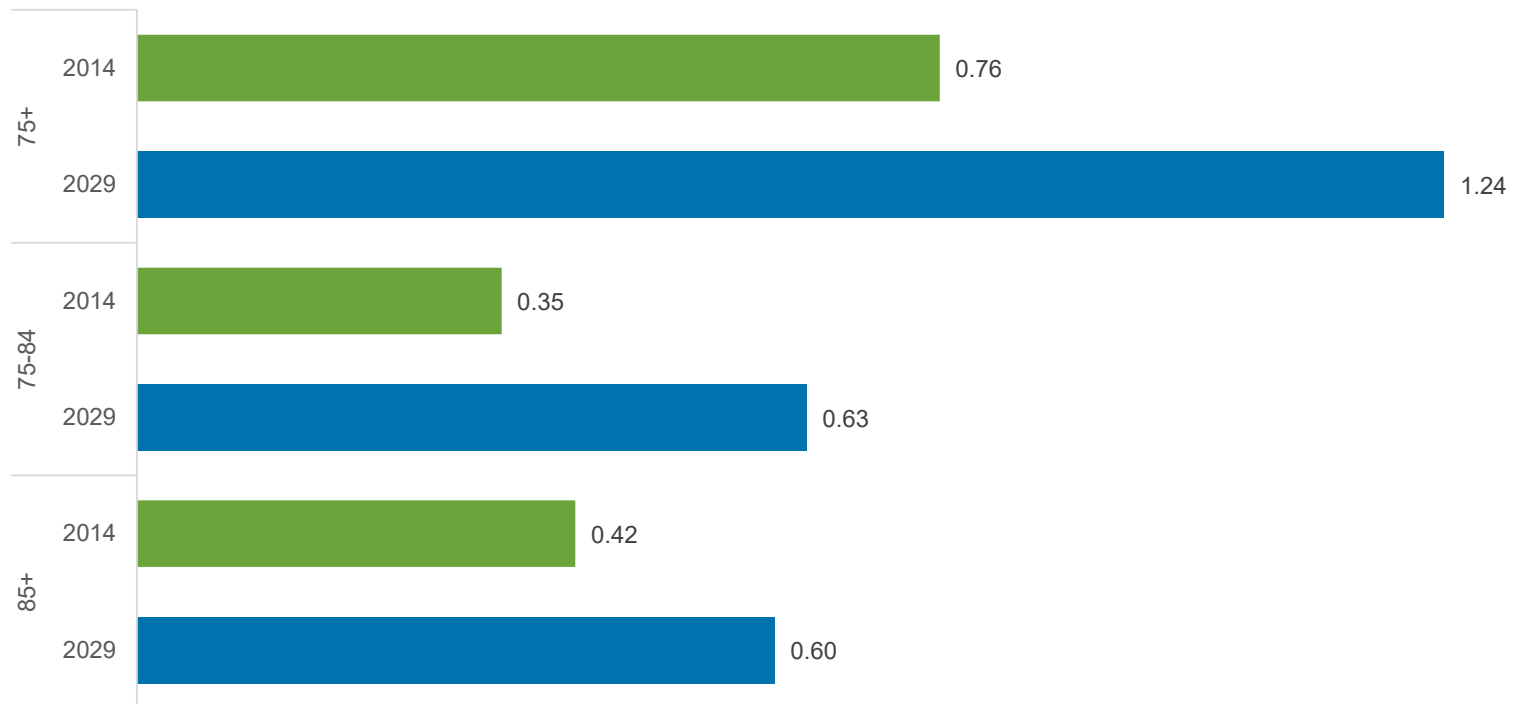
Millions of Middle-Income Seniors with Chronic Conditions by Age, 2014 to 2029



Limitations in Activities of Daily Living (ADLs) Are More Common Over Age 85

▷ 17% (600,000) of middle income seniors age 85 and older have 3+ ADL limitations that may make it difficult for them to live independently

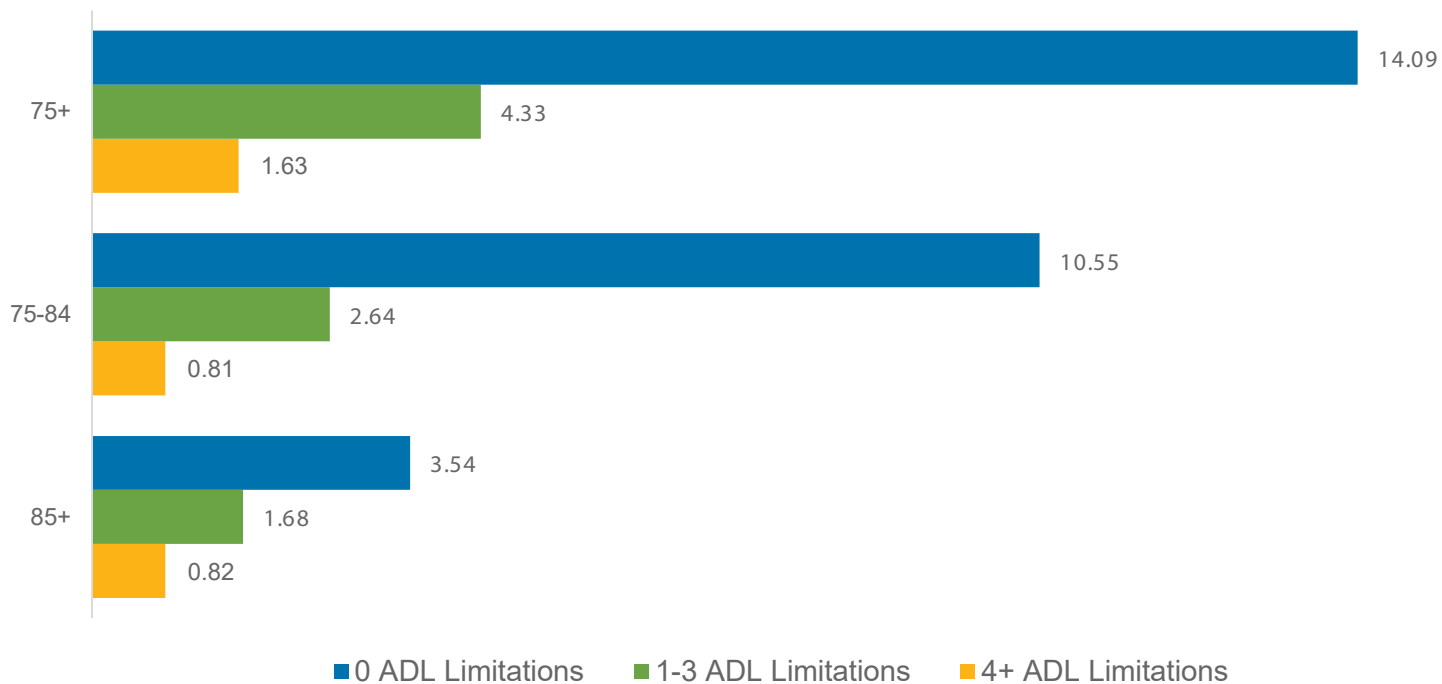
Millions of Middle-Income Seniors with 3+ ADL Limitations by Age, 2014 to 2029



Limitations in Activities of Daily Living (ADLs) Are More Common Over Age 85

▶ Over 800,000 of all seniors age 85 and older have 4+ ADL limitations that may make it difficult for them to live independently

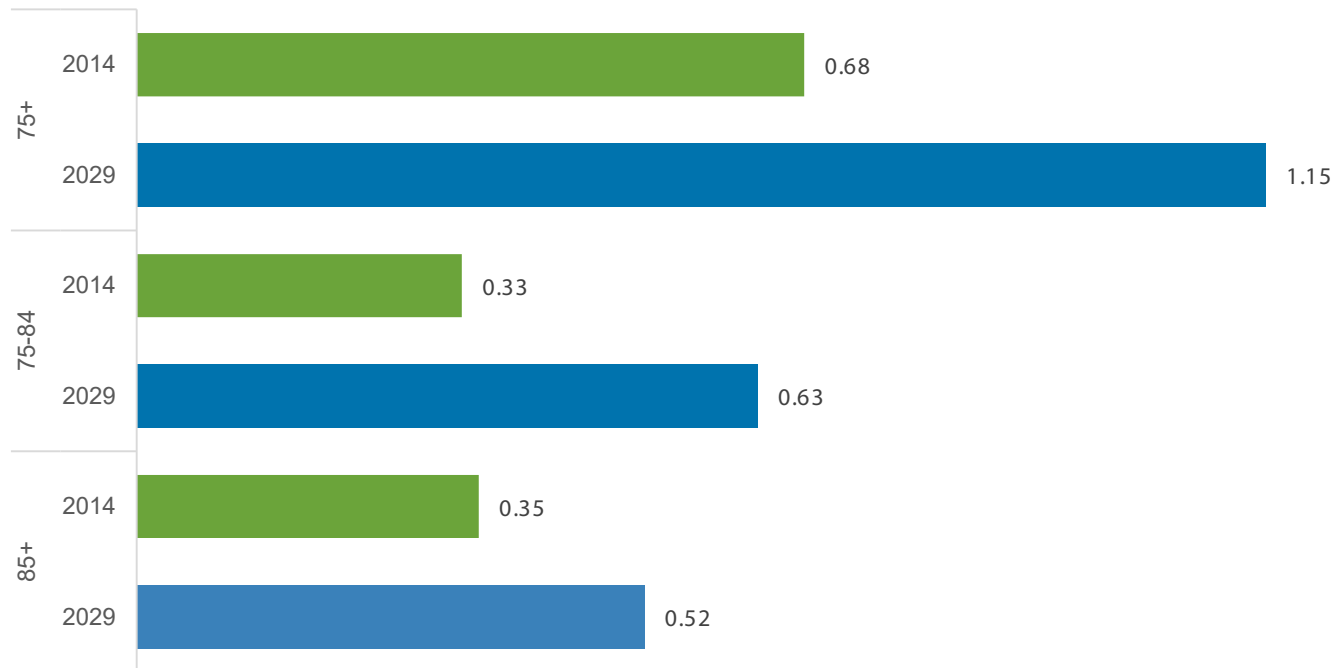
Millions of Seniors with ADL Limitations by Age, 2014



The Number of Seniors with Cognitive Impairment Will Grow by 2029

▷ Cognitive impairment gets increasingly more prevalent as individuals age, impacting 15% (520,000) of seniors age 85+

Millions of Middle-Income Seniors with Cognitive Impairment by Age, 2014 to 2029

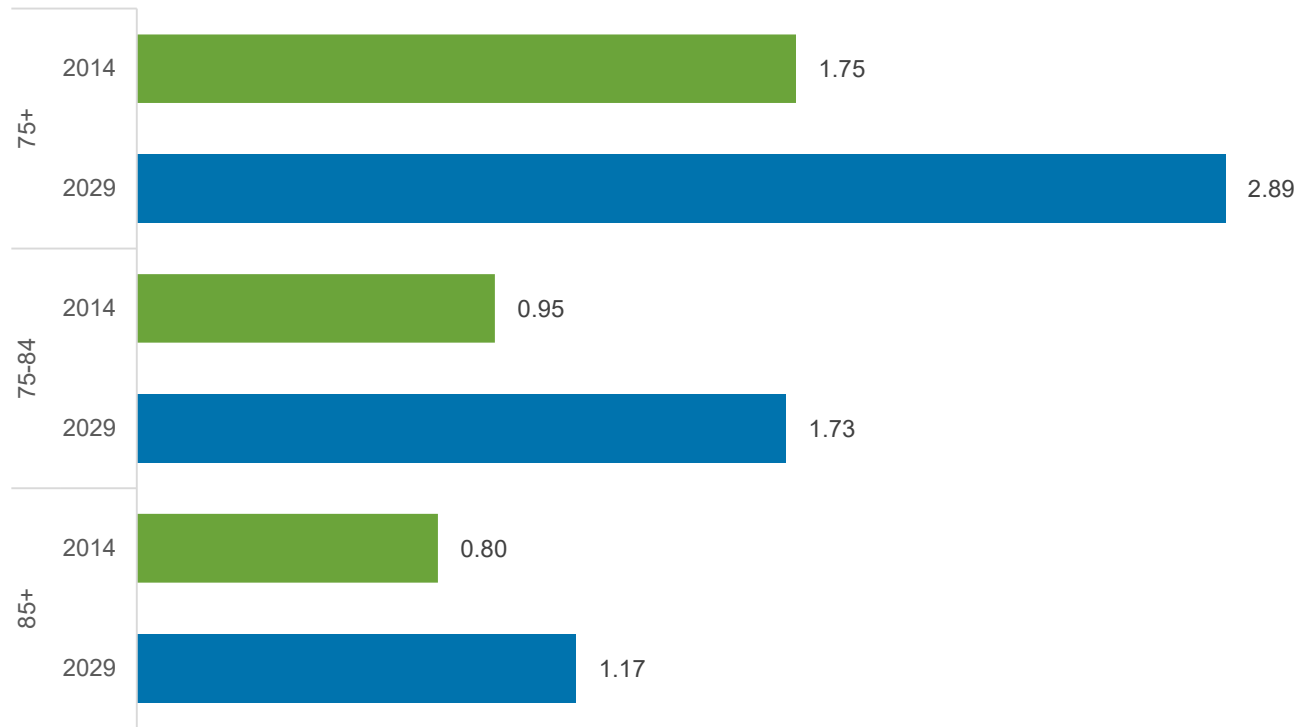


Note: Cognitive impairment includes those with and without dementia

The Number of Seniors with High Needs Will Grow by 2029

▷ 16% of seniors 75-84 are projected to have high needs in 2029, and 33% of seniors age 85+ will have high needs

Millions of Middle-Income Seniors with High-Needs by Age, 2014 to 2029



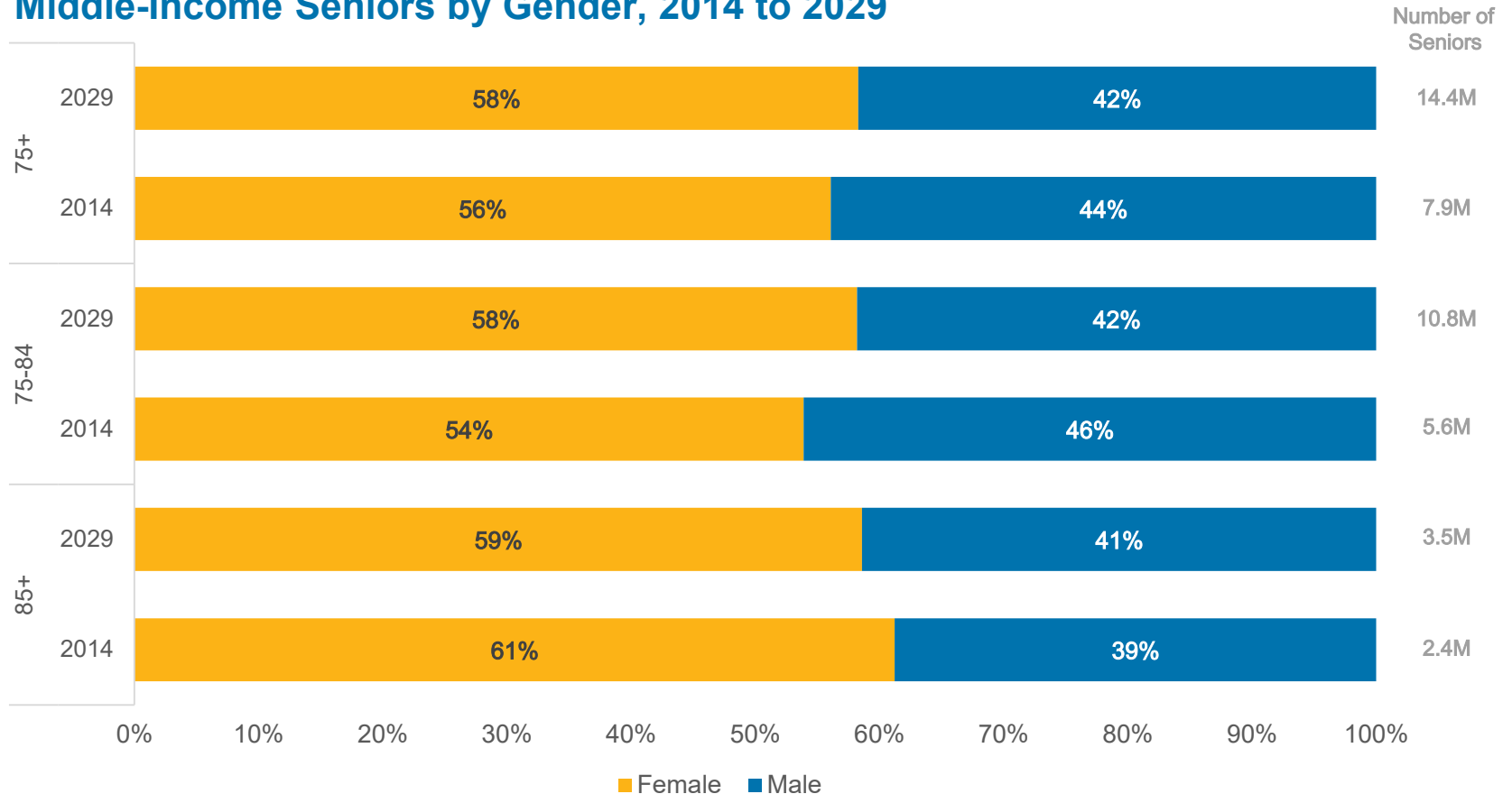
Note: High-needs is defined as those with three or more chronic conditions and one or more limitations in ADLs

The Changing Face of Middle - Income Seniors

Women Comprise an Even Larger Portion of the Future Middle -Income Senior Population

▶ Women will rise to 58% of the 75+ population in 2029, compared to 56% in 2014

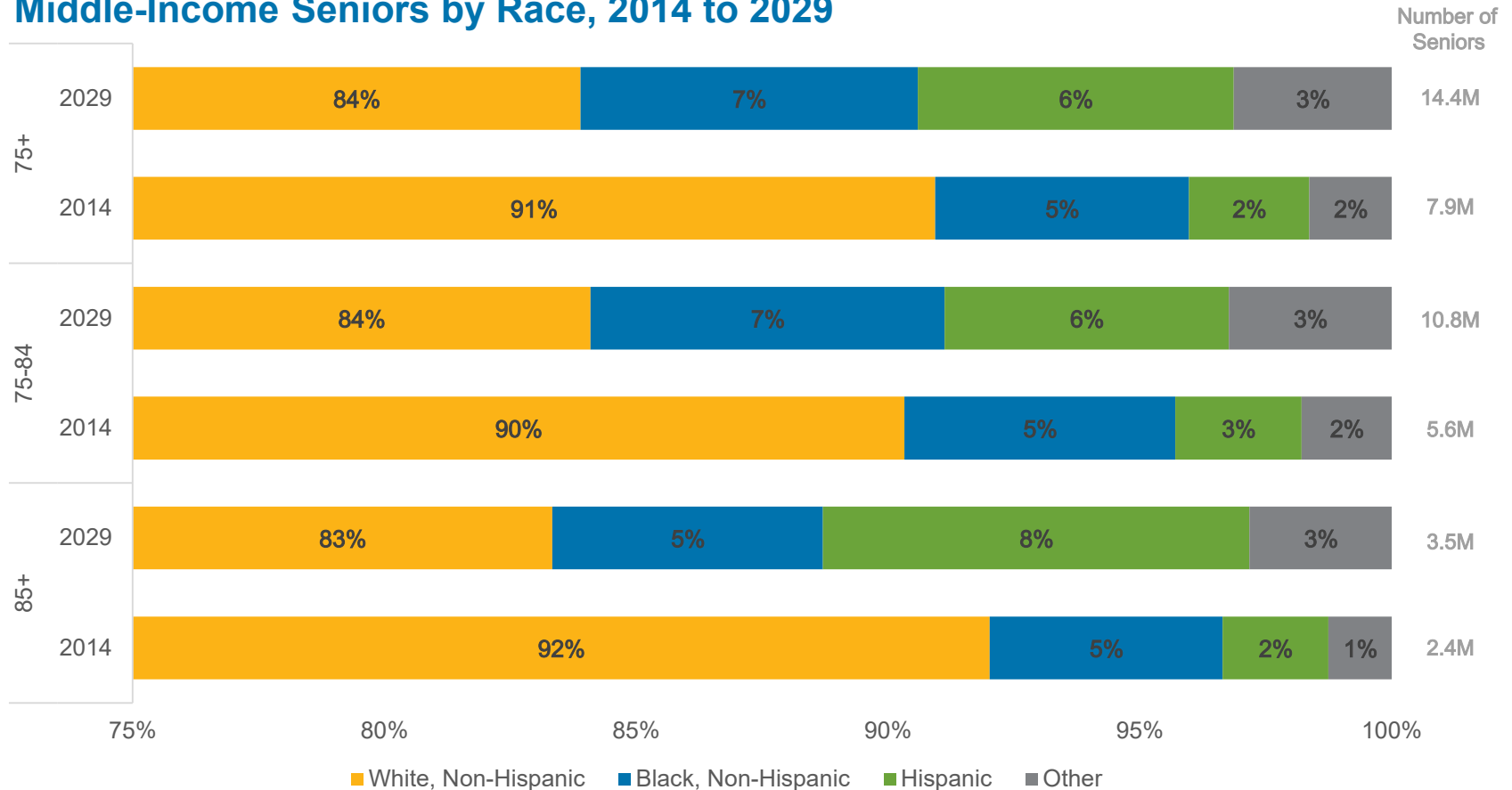
Middle-Income Seniors by Gender, 2014 to 2029



Seniors Are Becoming More Diverse with a Significant Increase in Blacks and Hispanics over 75

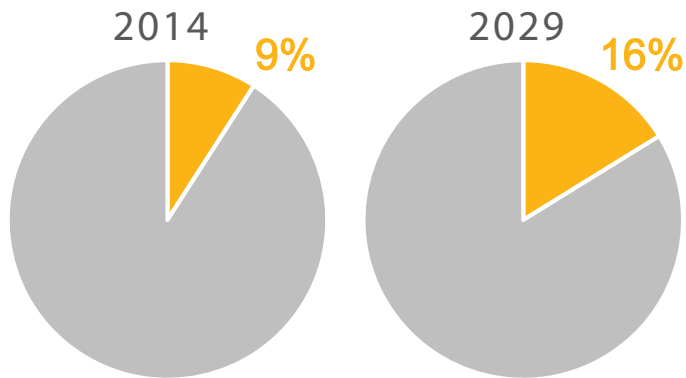
▷ Racial and ethnic minorities will become more common, increasing from 9% in 2014 to 16% in 2029

Middle-Income Seniors by Race, 2014 to 2029

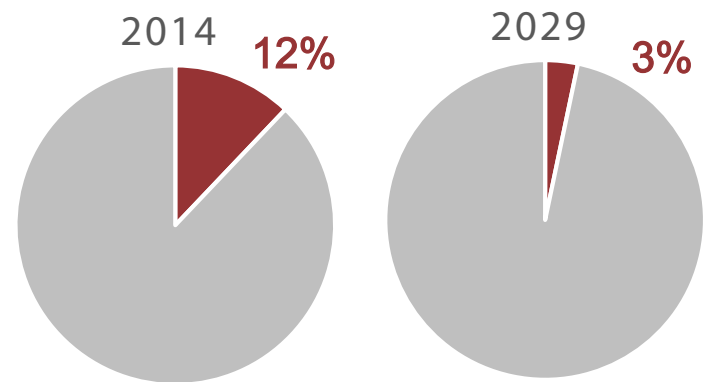


Future Seniors 75+ Will Be More Diverse and Educated

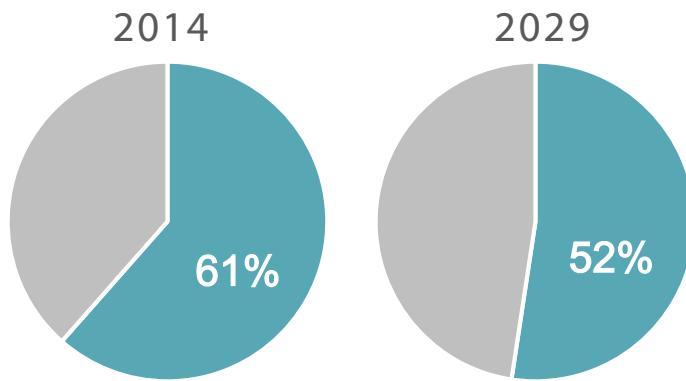
Racial / Ethnic Minorities



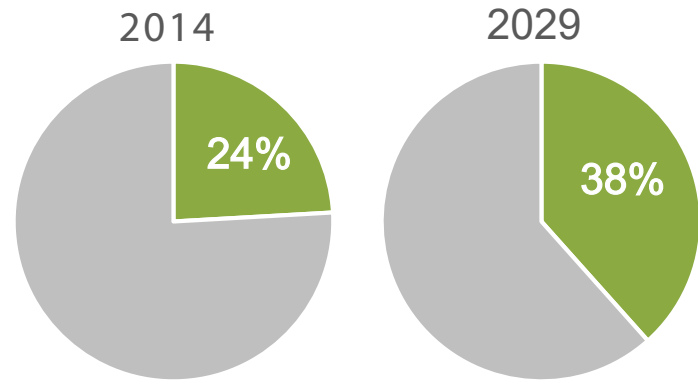
No High School Diploma



Married



College and Above



Results for seniors age 75+

Limitations of the Study

Caveats and Limitations

▷ Rates of Health Conditions

- Assumes rates of health conditions—including chronic conditions and mobility limitations—continue at current rates
- To the extent that these conditions become more or less common, the estimates will be affected

▷ Growth Rates for Financial Resources

- Used actual 2014 financial resources of the people who will be seniors in 2029, including actual rates of savings, homeownership, and retirement plans
- Assumed the rate of change for income, assets, and housing equity would match the historical trend from the prior 15 years
- Differences in future economic performance could impact the estimates of financial resources in 2029

Caveats and Limitations

▶ **Adult Child Financial Contributions**

- For some seniors, adult children may make financial contributions to support their seniors housing and care
- This analysis does not assume any financial support from adult children

▶ **Future Inheritance**

- Some middle-income seniors may inherit financial resources from family members
- This analysis does not assume any additional inheritance received by the cohort of future seniors between 2014 and 2029

▶ **Housing Equity**

- This analysis holds housing equity separate from other resources
- Some individuals may be reluctant to sell their home or may have a spouse who continues to live in the home
- Seniors may want to retain their home as a nest egg to protect against outliving their assets or a catastrophic health event

Caveats and Limitations

▷ Seniors Housing Cost Assumptions

- For assisted living, we assume asking rates which include a minimum amount of care
- Makes a national assumption about rent costs, though actual costs will vary by market

▷ Seniors Out-of-Pocket Medical Cost Assumptions

- This analysis assumes individual out-of-pocket medical costs are \$5,000 per year¹
- Actual medical costs will vary by individual based on health status and insurance coverage
- High needs seniors are likely to have higher out of pocket medical costs than assumed in our study

NIC created an interactive tool that enables users to view results using different housing and medical cost assumptions.

Visit: <http://middlemarketseniors.norc.org>

¹ [Kaiser Family Foundation: Medicare Beneficiaries' January 2018 Out-of-Pocket Health Care Spending as a Share of Income Now and Projections for the Future](#)

Caveats and Limitations

▷ Seniors Housing Needs

- This study sizes the entire middle-income seniors population and estimates their health and mobility needs
- However, it does not assume which individuals will actually enter seniors housing

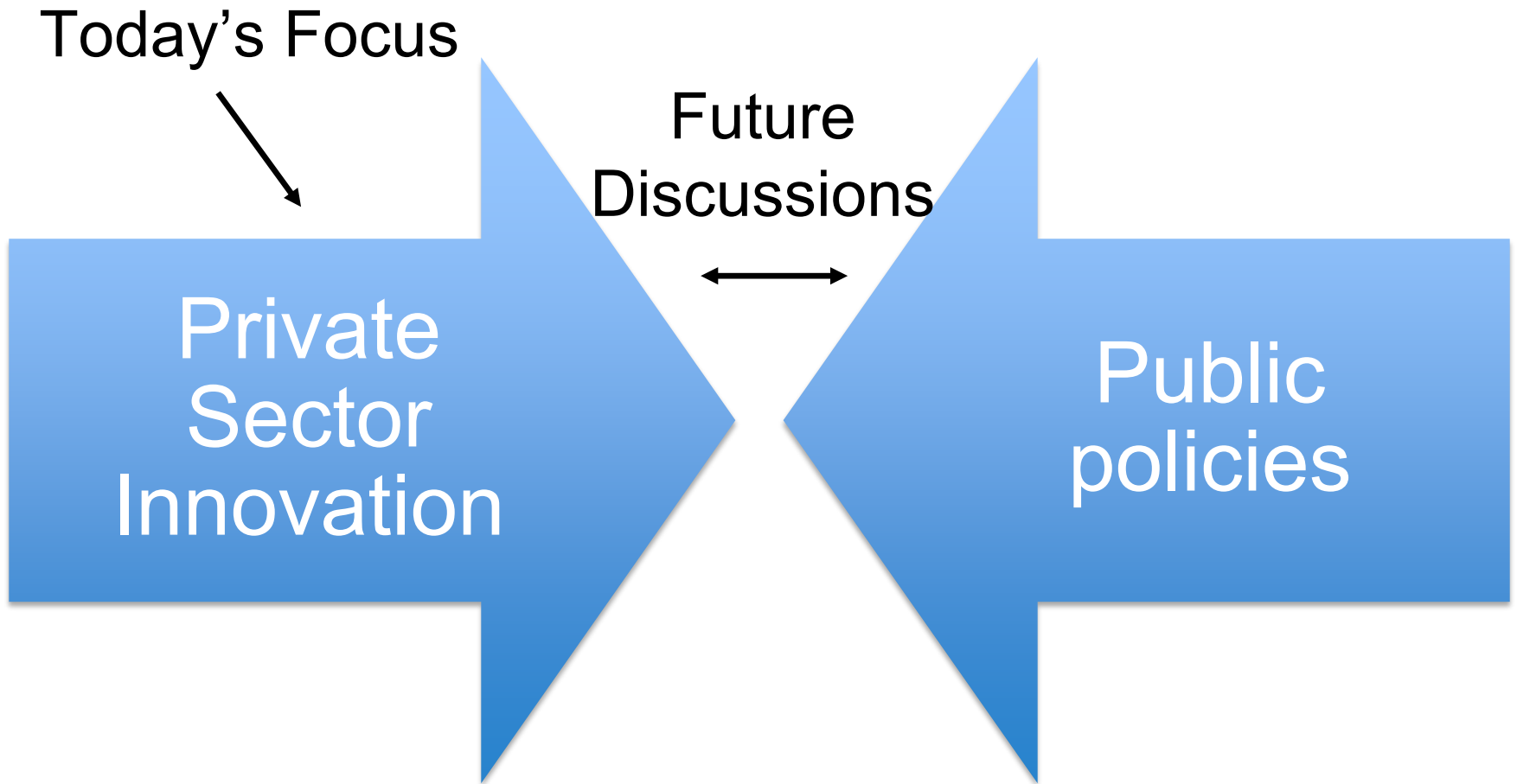
▷ Life Expectancy

- The mortality model estimates life expectancy for future seniors by demographic sub-group
- Assets are annuitized across the full life expectancy
- Average life expectancy by age and gender is shown below:

	75-84	85+
Men	8.1 Years	4.5 Years
Women	9.7 Years	5.6 Years

Next Steps

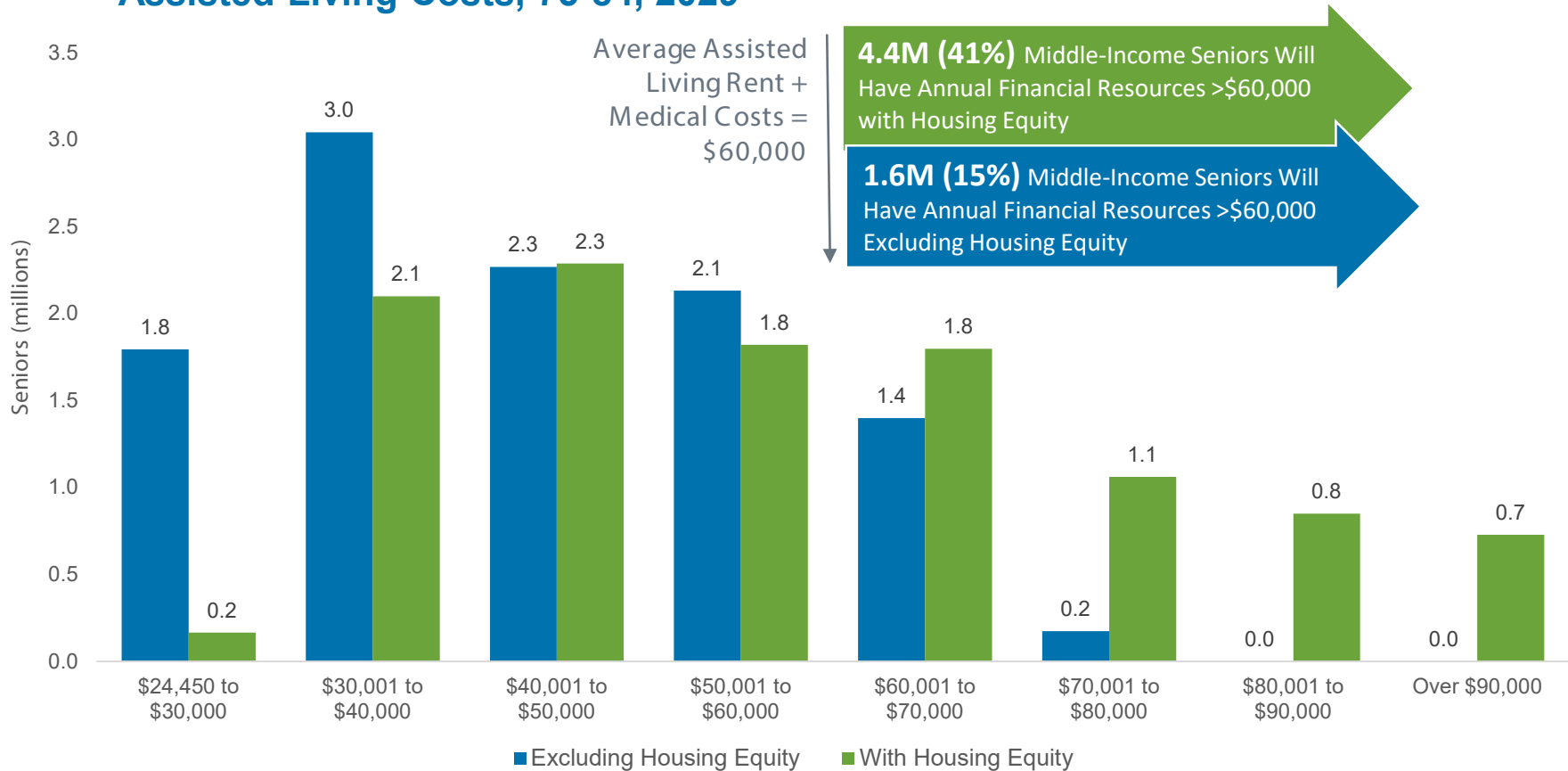
How Do We Address the Forgotten Middle?



Appendix

41% of Middle-Income Seniors 75 -84 May Have Sufficient Resources for Seniors Housing, With Home Equity

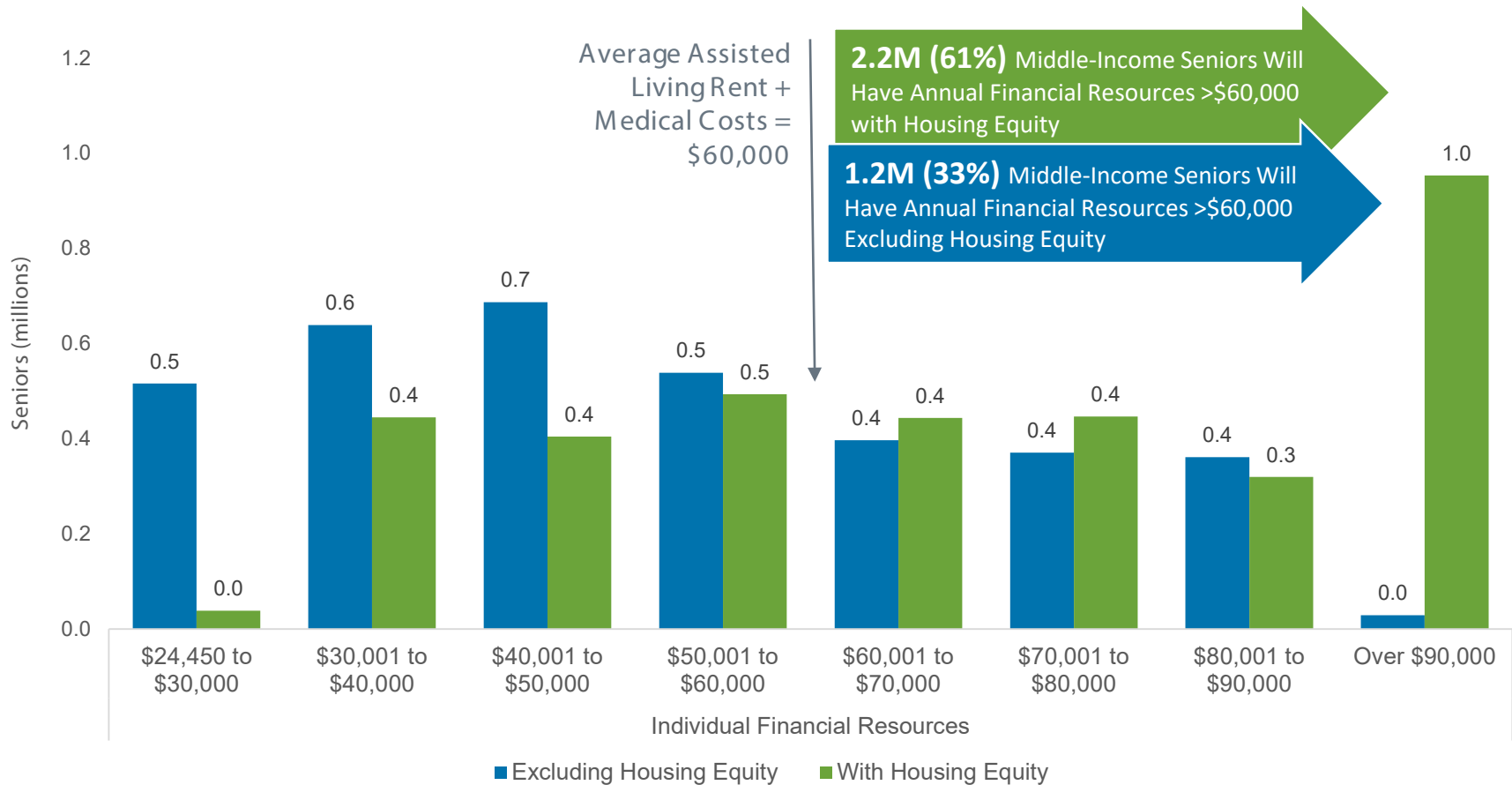
Projected Financial Resources of Middle-Income Seniors Compared to Assisted Living Costs, 75-84, 2029



Note: Numbers Depicted are in 2014 Dollars

61% of Middle-Income Seniors 85+ May Have Sufficient Resources for Seniors Housing

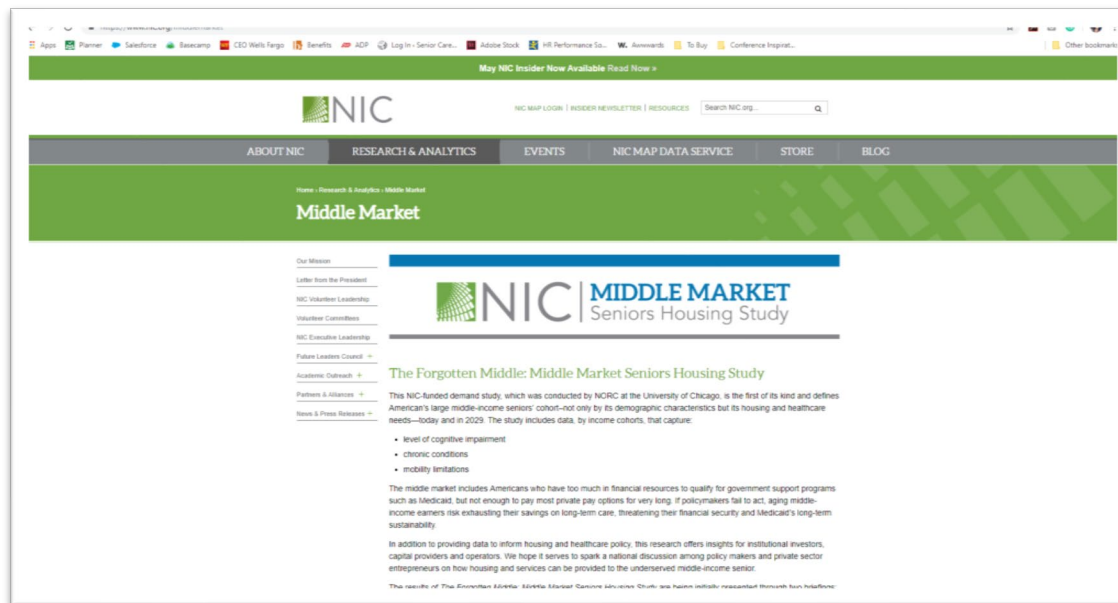
Projected Financial Resources of Middle-Income Seniors Compared to Assisted Living Costs, 85+, 2029



Note: Numbers Depicted are in 2014 Dollars

Middle Market Resources

To access all available Middle Market resources visit the Middle Market web page:



www.nic.org/middlemarket