Long-Term Care Options and Their Effects on Wealth Holding of the Elderly

This study was based on the strategic bequest motive model first introduced by Bernheim, Shleifer and Summers[BSS] (1985) and designed to examine whether the elderly with and without children behave differently when allocating their wealth in order to maximize utility regarding their future long-term care. The results of this study do not support the hypothesis, however, some findings are suggestive for future policy studies.

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In the U.S. there is a variety of long-term care options, but each is not equally available to all elderly. The different long-term care options have different advantages and disadvantages and parents entering retirement will want to assure not only high quality care but flexibility in choices. Among several key differences between long-term care by children and that provided by others is the periodic pay requirements of nursing home care whole children may expect to be compensated through ex post bequests. Because the elderly with children face the additional care option, they are expected to take the advantages and disadvantages of this form of care into account in the financial plans for their retirement. The elderly structure their resources in order to assure future access to good quality care, given financial constraints and the options available. The study is motivated by the strategic bequest literature first introduced by BSS. The model hypothesized that parents attempt to obtain as much attention as possible from their children with give constraints.

The data used for this study are from the Social Security Administration's New Beneficiary Survey, linked to SSA Master Beneficiary Records. The sample is of nondisabled married male retired-worker beneficiaries, both spouses age 63 and older, and with no other person living in the household. This selects a group for whom financial planning against uncertain long-term care needs is an issue. Using Ordinary least Squares, the percentage of wealth held in bequeathable form are examined. Nonbequathable wealth is defined as the present value of pension and social security benefits for which each individuals and spouse is eligible.

Independent variables are structured to take account of lifetime wealth accumulation, consumption expenditures, presence of minor children, and parent's age and health status. The variable of focus is the existence of adult children. The model was tested on the full sample and the three groups with different wealth levels.

Although no evidence supporting the model was found, wealth allocation behavior was found to be different at different levels of wealth. The model appears least suited for the highest wealth group. This may be because long-term care financing may not be a major concern to those elderly. On the other hand, wealth allocation behavior of elderly in the low wealth group conforms to the expected influence of Medicaid provisions for financing long-term care. Theses couple were more likely to hold additional wealth dollars in bequeathable forms that could be excluded or transferred in establishing eligibility. Findings also suggest myopic consumption behavior on the part of this lowest wealth group. It may be the elderly with moderate wealth who gain most by behaving strategically as the model suggests.

References

Bernheim, B.D., Shleifer, A., & Summers, L.H. (1985). The strategic bequest motive. Journal of Political Economy, 93 (6), 1045-1075.

Endnotes

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