Home equity and purchases of long-term care services

By Editorial Staff *Thu, Dec 14, 2017*

Spikes in house prices significantly increased homeowners' use of both paid home health care and unpaid informal care but did not increase the use of nursing home care, the researchers found.

Retirees spend more on home health care and use more unpaid informal care when the value of their homes (and access to home equity) rises. But their use of nursing home care doesn't appear to be correlated with home equity, according to a study from the National Bureau of Economic Research.

In "Access to Long-Term Care After a Wealth Shock" (NBER Working Paper No.23781), Joan Costa Font, Richard Frank, and Katherine Swartz look at how changes in wealth, specifically housing wealth, affect decision-making around the three above-mentioned types of long-term care services.

"Housing assets represent 67% of the median per capita net worth of adults over the age of 66, and home equity is the primary self-funding mechanism for those who require long-term care," they write. Their finding adds new evidence to the theory that retirees rely on their housing wealth to finance some types of long-term care services but offers no evidence that they use it to pay for nursing home care specifically.

The researchers analyzed the impact of variations in housing prices from 1996 through 2010–a turbulent period for real estate–on the use of long-term care services. Between 1998 and 2006, housing prices (and thus housing wealth) rose significantly; then it dropped more than 20% on average between 2006 and 2010, according to data from the Health and Retirement Study and the Federal Housing Finance Agency.

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For instance, a $3,149 increase in wealth increased the probability that a homeowner would use paid home health care services by 0.25 percentage points. It was also associated with a 3% to 4% increase in the probability that a homeowner will use unpaid, informal care. In contrast, renters did not change their usage of long-term care services in response to changing local housing prices.

Half of adults who live to the age of 65 will eventually require long-term care services. Among those who do, these services will cost $133,700 per year in 2015 dollars, on average. For 5% of men and 12% of women, the total lifetime cost of long-term care will exceed $250,000. Medicaid covers about 35% of these costs. Elderly Americans and their families bear about half the cost of long-term care directly.

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