



THE COST OF LONG-TERM CARE: CANADA'S RETIREMENT SAVINGS BLIND SPOT

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HOOPP
Healthcare of Ontario
Pension Plan



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We know Canadians are already struggling to save for retirement – the median value of retirement assets for those ages 55 to 64 is just \$3,000. So, it's little wonder that **1 in 3 Canadians feels unprepared for their senior years.**

But life after work isn't just about covering the cost of food and shelter. Older Canadians must also account for healthcare costs that aren't covered by government programs.

Long-term care costs and other health-related expenses are a major blind spot for those who are saving for retirement. According to a 2016 survey by the Canadian Life and Health Insurance Association, nearly three-quarters of Canadians have made no provision for long-term care costs in their retirement planning.

Long-term care costs (e.g., cost of nursing homes, assisted living in seniors' residences, home care, etc.) will be devastating for single Canadians, particularly women, who are more likely to require this type of care. As Canadians live longer than ever, policymakers must look closely at how they're going to deal with a population that is unprepared to handle the high costs of health-related expenses in retirement.

Spending on healthcare

Health-related spending as a percentage of income has been on the rise since the 1990s, according to a study commissioned by the Healthcare of Ontario Pension Plan (HOOPP) and conducted by the University of Toronto. While the increase has been steady, certain groups are paying a lot more. Women, singles, and people with severe disabilities have faced the biggest jump in healthcare costs that aren't covered by the government.

Canadians with severe disabilities are much more likely to require assisted living or round-the-clock



3/4
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care – and women over 80 are nearly twice as likely to live in a nursing home or seniors' residence as men over 80. **According to our research, 25% of women over the age of 85 are severely disabled, versus 15% of men.**

In addition, out-of-pocket healthcare costs rise with age. Our study found that this is the **biggest expenditure for those over age 65.** Health costs such as insurance, dental, prescription drugs, home care and long-term care are not covered in retirement.



THE HIGH COST OF CARE

Are Canadians ready to pay the bill? Probably not, according to recent studies. Typical annual costs for long-term care can range from between \$25,000 to \$200,000 per year, depending on means testing (a process for measuring someone's income to determine if they are eligible for government assistance). By the numbers: the annual cost of care:

\$200K

private 24/7 care
by professionals



\$40K-\$100K

assisted living in
a private facility



\$25K-40K

government-run
nursing homes
(means-tested)



\$35K

family members
needing caregiving



Source: Fred Vettese, Chief Actuary, Morneau Shepell

How much is enough?

About half of middle-income Canadians born between 1945 and 1970 will experience a drop in living standards of at least 25% when they retire, according to a 2011 study by the Institute for Research on Public Policy. But that doesn't include the cost of long-term care – often overlooked by many Canadians.

Factoring in the costs of long-term care leads to a substantial drop in income replacement levels, particularly for Canadians ages 85 and up. So, while retirees might experience a modest dip in living standards, the problem becomes acute as individuals get older and require more care.

This is true even for people who have saved enough for retirement. People retiring with income replacement rates of over 80% can expect to see a dramatic decline in living standards when they need to tap into their savings to pay for the costs of long-term care.

For Canadians who are retiring with income replacement rates between 0 and 50%, the added costs of long-term care are overwhelming. Additionally, there is a significant group of Canadians for whom these costs will consume more than all their income.

Implications for policymakers

The costs of long-term care threaten the financial stability of Canada's aging population. While some are better able to absorb the impact, too few savers are factoring in the high costs of care when planning for retirement.

As costs rise, retirees will start to reduce out of pocket healthcare spending in ways that may lead to them foregoing necessary care. This will ultimately lead to worsening of chronic conditions and higher healthcare costs as the burden on the publicly funded system increases.

13.2%

of women in Canada can expect long-term care costs to financially wipe them out at age 85.

**For men,
that figure is 6.1%.**



3 KEY RECOMMENDATIONS FOR POLICYMAKERS

As our population ages, we must consider the impact that long-term care costs could have on the sustainability of the healthcare system.

- 1 **Account for all of the out-of-pocket healthcare costs.** It is vital to encourage Canadians and their financial advisors to factor in out-of-pocket healthcare costs in the retirement planning process. Policymakers must do the same. This includes addressing the effects of shortfalls highlighted in our study, and specifically, how women and low-income seniors could be affected.
- 2 **Ensure adequate income replacement.** Pension plan models that don't set an income replacement target won't work for Canadians and could contribute to senior poverty in the future. Income replacement should be offered to workplace pension plan members based on a percentage of pre-retirement earnings. Defined Benefit models are designed to do this and that model should be extended across all types of workplace pension plans.
- 3 **Consider a national action plan.** Canada needs to deliberate a plan of action that would address the growing needs of the most vulnerable seniors.

! FACT SUMMARY

- **12.5%**
The percentage of Canadian seniors living in poverty today
Statistics Canada
- **\$3000**
The median value of retirement assets for Canadians ages 55-64
The Broadbent Institute
- **1/3**
of Canadian adults are not prepared for retirement
2014 Financial Capability Survey
- **2000-2013**
Years in which Canadian RRSP contributions have steadily declined
Statistics Canada
- **2X**
There are twice as many women over 85 as men
Statistics Canada

