



ICAE

Instituto Complutense
de
Análisis Económico

Life care annuities to help couples cope with the cost of long-term care

Manuel Ventura-Marco

Department of Financial Economics and Actuarial Science, University of Valencia, Valencia. (Spain)

Carlos Vidal-Meliá

Department of Financial Economics and Actuarial Science, University of Valencia (Spain) and research affiliate with the Instituto Complutense de Análisis Económico (ICAE), Complutense University of Madrid (Spain)

Juan Manuel Pérez-Salamero González

Department of Financial Economics and Actuarial Science, University of Valencia, Valencia. (Spain)

Abstract

This paper examines the possibility of including cash-for-care benefits in life care annuities (LCAs) to help retired couples cope with the cost of long-term care (LTC). It aims to assess how much it would cost to add an extra stream of payments to annuities for couples should either or both require LTC. We present an actuarial method based on array calculus to value this type of LCA. The impact of introducing the LTC contingency on the annuity is assessed by comparing the initial benefits in both cases. The difference in the initial benefit arises due to the annuity factors used to compute the benefits. We also analyse how willing couples would be to choose this type of LCA. Using Australian LTC transition probability data for a realistic calibration and assuming independence of the risks involved, we numerically illustrate the model and the theoretical findings implied. The paper highlights the importance of reporting the expected years both spouses will be alive (joint life expectancy) and the expected years the surviving spouse will be a widow(er) (survivor life expectancy) broken down by health state, given that this information makes the computation of the actuarial factors transparent and provides highly useful information to help the couple understand the need to be protected against the cost of LTC services.

Keywords: Australia, Couples, Joint life expectancy, illness-death multistate model, Life Care Annuities, Long-Term Care Insurance, Retirement

JEL Classification G22, H55, I13, J14, J26

ICAE Working Paper nº 2203

May, 2022

ISSN: 2341-2356

WEB DE LA COLECCIÓN:

<https://www.ucm.es/icae/working-papers>

Copyright © 2022 by ICAE.

Working papers are in draft form and are distributed for discussion. It may not be reproduced without permission of the author/s.