Expanding Private Long-Term Care Insurance

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Challenge

- Social insurance approach not likely in short to medium run
- “Major” Medicaid reforms/cuts also unlikely
- What policy initiatives are most likely to grow private long-term care insurance (LTCI) market?

Why Don’t People Purchase LTCI?

Demand-side barriers

- Lack of information/shrouded attributes
- Misperceptions about need, costs, and coverage
- Myopia, or difficulty understanding future implications of today’s choices
- Consumer confusion/product complexity
- Mistrust of industry/contracts
- Medicaid “crowd out”

Supply-side barriers

- Adverse selection
- High selling costs
- Inefficient risk-bearing: common shocks

Is Medicaid Crowd-Out a Deal Breaker?

- Brown & Finkelstein use a simulation model that assumes high crowd-out
- Crowd-out is logical and likely at low asset levels
- Evidence less clear at the 30th percentile+ of assets
  - E.g., our team has a working paper suggesting a large incremental increase in LTCI purchase in moving from $50K to $100K in assets
- Even taking Brown & Finkelstein simulation estimates at face value, 40% of the population are still candidates for LTCI

Five Ideas for Growing LTCI Market

1. Product simplification via regulatory reform
2. Blending LTCI and health insurance
3. Publicly organized reinsurance
4. Expanded role of employer
5. Reconsideration of existing subsidies for LTCI purchase

Frank et al., SCAN Foundation, 2013.

1) Product Simplification

Create electronic Medigap-like market for LTCI plans

- Limit product choice to 5-10 plans, unlimited # of sellers
- Electronic market with decision aids
- Alter state regulations to allow high deductible products to be sold

Impact:

- Addresses complexity, confusion and aids comparison shopping
- Makes LTCI more like a commodity, lowers selling costs (20-30%)
- Reduces premium by 35%+

2) Link LTCI to Health Insurance

Linkage of LTCI to Medicare Advantage

- Could mandate MA plans offer LTCI
- Could use modified “opt-out” mechanism to encourage enrollment

Impact:

- Reduced sales costs and reduced claims costs make policies more affordable
- Leverage savings across LTSS & acute services

3) Expanded Employer Role

Mandate employers of certain size offer LTCI to their workforce

Impact:

- Economies of scale in selling $\Rightarrow$ lower premiums
- Eliminate medical underwriting
- Less adverse selection $\Rightarrow$ more stable premiums
- Filter products (reduced confusion/complexity)

4) Reinsurance Pools

Publicly organized and privately funded reinsurance pools (e.g., flood, earthquake)

Impact:

- Improved consumer confidence in LTCI
- Reduced risk premiums

5) Targeted Subsidies

Types or Deduction	Number of LTCI Claims	Public Money Spent
Medical Deduction Ages 50+	2.6 million	$1.4 billion
Self-Employed with LTCI	2.7 million	$1.0 billion
State Deduction/Credits	605,000	$0.1 billion

Re-orient subsidies to target the 20 million individuals aged 45-65 in the 30th to 50th percentile of lifetime income distribution

<u>Impact</u>:

- Increase LTCI up-take
- Grow LTCI market among individuals likely to later need Medicaid and thus lessen Medicaid burden

Concluding Thoughts

- Medicaid crowd-out of LTCI purchase important at lower wealth deciles but potential exists to grow the LTCI market in middle and top wealth terciles
- Steps such as LTCI standardization, blending health & LTCI, greater employer participation, and reinsurance can reduce premiums by as much as 35%, make LTCI purchase less burdensome, and ultimately increase take-up
- Re-allocate $2.5 billion in LTCI subsidies to target the “sweet spot” of the market
- Success? If we could grow the LTCI market from 10% to 20% without major increase in spending, this would be a huge policy victory