

LTC Financing: A Consumer Perspective



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October 15, 2007

**Perception:
People Think They're
"Covered"**

AARP Research

- AARP conducted telephone surveys in 2001 and 2006
- Purpose: to compare consumers' LTC perceptions with reality
- Little changed regarding public perceptions of long-term care services between the 2 surveys

LTC – It's Not What You Think

- Americans age 45+ know less about LTC than they think they do
- 3 in 5 Americans age 45+ say they are at least "somewhat familiar" with LTC services currently available
- 1 in 5 consider themselves "very familiar"
- These perceptions are not supported by respondents' knowledge of LTC costs

Knowledge of Costs

- Less than 1 in 10 (8%) correctly estimate the monthly cost of a nursing home within 20% of the national average cost
- Less than a quarter (23%) correctly estimate the cost of assisted living within 20%
- While most Americans age 45+ say they know someone close to them who needs LTC, personal experience does not improve ability to correctly estimate costs

Knowledge of Home Care Costs is No Better

- Only 9% come within 20% of the correct cost of a visit from an in-home aide
- Among those who make an estimate, 2 in 5 say it is based "on a hunch"

Knowledge of Insurance Coverage

- Almost 3 in 10 respondents age 45+ say they purchased LTC insurance
- This is unlikely – AHIP reports that only 5% of adults age 45+ have coverage
- Those who *think* they have insurance are more likely to say they feel “financially prepared” if they need LTC

Faulty Perceptions Lead to Poor Planning

- 7 in 10 of those who think they have LTC insurance feel financially prepared
- In contrast, only 4 in 10 of those without insurance feel prepared
- Those who are mistaken as to their insurance coverage may face unwelcome and unexpected surprises if they need LTC

Most Think Government Will Pay

- 59% incorrectly believe that Medicare will pay for extended nursing home stays
- 52% incorrectly believe that Medicare will pay for assisted living costs
- These respondents also are likely to face a financial shock if they need LTC

Source for this and preceding slides:

AARP: "The Costs of Long-Term Care: Public Perceptions Versus Reality in 2006" December 2006

http://assets.aarp.org/rgcenter/health/ltc_costs_2006.pdf

Denial: It Won't Happen to Me

Denial is Commonplace

- Most people don't want to acknowledge the realities of growing older, much less becoming disabled
- This fact, combined with faulty perceptions as to what coverage is available, hinders both individual and societal planning

**Our LTC System:
You Can't Always Get
What You Want**

What Americans Want

- People want to retain their independence and maximize their choices as they age
- Nearly 9 in 10 people age 50+ *with disabilities* strongly prefer independent living in their own homes to other alternatives
- They want more direct control over what LTC services they receive and when they receive them

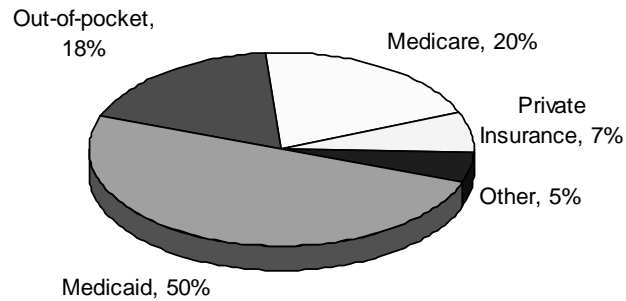
AARP: "Beyond 50.03: A Report to the Nation on Independent Living and Disability"
<http://www.aarp.org/research/housing-mobility/homecare/aresearch-import-752-D17817.html>

What They Get

- The vast majority of LTC services are provided informally by family caregivers
- AARP estimated the economic value of family caregiving at **\$350 billion** per year
- This amount exceeds total spending for Medicare or Medicaid
- Family caregivers experience stress and get little support

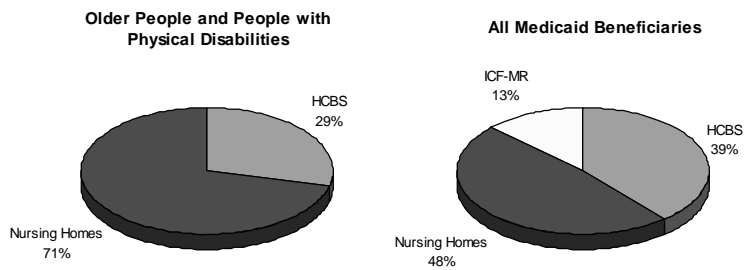
Gibson and Houser: "Valuing the Invaluable: A New Look at the Economic Value of Family Caregiving," AARP, June 2007
http://assets.aarp.org/rgcenter/il/ib82_caregiving.pdf

Formal Services – Who Pays? 2005 Expenditures



Source: Komisar and Thompson, "National Spending for Long-Term Care," Georgetown University Long-Term Care Financing Project, Feb 2007

What Public Programs Provide – FY2006



Source: Burwell, Sredi, Eiken, "Medicaid Long Term Care Expenditures FY 2006" Thomson Healthcare, 2007

Reality Comes Too Late

- By the time many Americans need LTC, they have failed to plan
- Family members help as long as they can
- Assets are depleted
- Medicaid – the last resort – doesn't guarantee home care or assisted living

Is Insurance the Answer?

Rational Consumer Choice?

- Why would you buy it if you think you already have it?
- Why would you buy it if you think Medicare will pay?
- If you've read about it in the newspaper, you probably have heard that:
 - Premiums are likely to increase
 - Benefits may not be paid
- When you find out the cost – for most, it's too expensive
- The cost seems especially high when you're convinced that you won't ever need it

Buyers and Non-Buyers

- Purchasers age 50+ have higher income and assets:
 - **Income:** nearly half of buyers have \$75,000+ compared to 3 in 10 of the general population
 - **Assets:** over three-fourths of buyers have \$100,000+ compared to 3 in 10 of the general population
- Buyers are much more likely to think they will need nursing home care:
 - two-thirds of buyers think they have a 50-50 chance of needing a nursing home, compared to about one-third of the general population age 50+
- Nearly two-thirds of buyers *overestimate* the cost of nursing home care
- 7 in 10 non-buyers *underestimate* the cost

AHIP: "Who Buys Long-Term Care Insurance: A 15-year Study of Buyers and Non-Buyers, 1990-2005" April 2007

Will People Change?

- Among non-buyers – 83% cite costs as an important reason they have not purchased private LTC insurance
- More than half (55%) cite concerns about premium increases and difficulty in receiving benefits as important reasons not to buy
- Factors that would make non-buyers *more interested* in LTC insurance included:
 - Ability to deduct premiums from income tax (83%)
 - Government continuing to pay for care after depleting insurance (77%)
 - Certainty that premiums would not increase (79%)
 - Thinking that future LTC need is likely (72%)

AHIP: "Who Buys Long-Term Care Insurance: A 15-year Study of Buyers and Non-Buyers, 1990-2005" April 2007

Assessing Risk

What Are Today's Elderly Likely to Need?

- Among people turning 65 in 2005:
 - 69% will use LTC
 - Average years of care – 3
- But:
 - 59% will use informal care only
 - 42% will use formal care at home – on average, 6 months
 - 35% will use a nursing home – half for 1 year or less

Kemper, Komisar, and Alecxih: "Long-Term Care Over an Uncertain future: What Can Current Retirees Expect?" *Inquiry* 42:335-350

AARP's Vision


Components of LTC Reform

- LTC is an insurable event with risk spread broadly across the population
- A universal LTC program based on principles of social insurance is desirable
- Existing programs should be improved to provide more services in the settings of choice
- Public education as well as personal planning and responsibility are critical
- Private insurance can enhance benefits for those who can afford it
- Better regulation and consumer protections will make private insurance more appealing

Long-Term Care Risk

Harriet L. Komisar, Ph.D.
*Health Policy Institute
Georgetown University*

Presentation at
Society of Actuaries, Annual Meeting
Washington, DC
October 15, 2007

Health Policy Institute, Georgetown University 


Overview

- What risk of needing LTC do people age 65 face over the rest of their lives?
- What role can LTC insurance play in spreading those risks?

Sources:

P. Kemper, H. Komisar, & L. Alecxih, "Long Term Care Over an Uncertain Future: What Can Current Retirees Expect?" *Inquiry* (Winter 2005/2006).

J. Feder, H. Komisar, and R. Friedland. *Long-Term Care Financing: Policy Options for the Future*. Georgetown University Long-Term Care Financing Project, 2007.
<http://ltc.georgetown.edu/papers.html>

Health Policy Institute, Georgetown University 

What is the risk of needing LTC for people age 65?

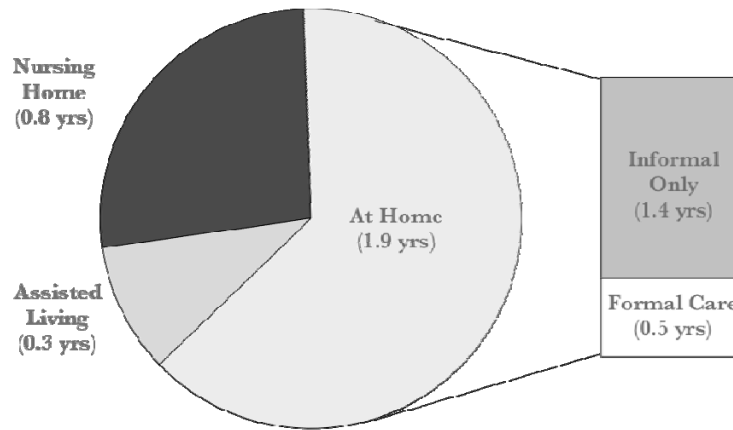
- Lifetime perspective: people age 65 in 2005 over the rest of their lives
- Micro-simulation model
- Because interested in risk, look at distribution (as well as averages)

Remaining lifetime LTC need for people age 65

	Men	Women	All
Percent of 65-year-olds who will need some LTC during the rest of their lives	58%	79%	69%
Average years of LTC need for all 65-year-olds	2.2 years	3.7 years	3.0 years

SOURCE: Kemper, Komisar & Alecxih 2005/2006.

How will LTC need be met?

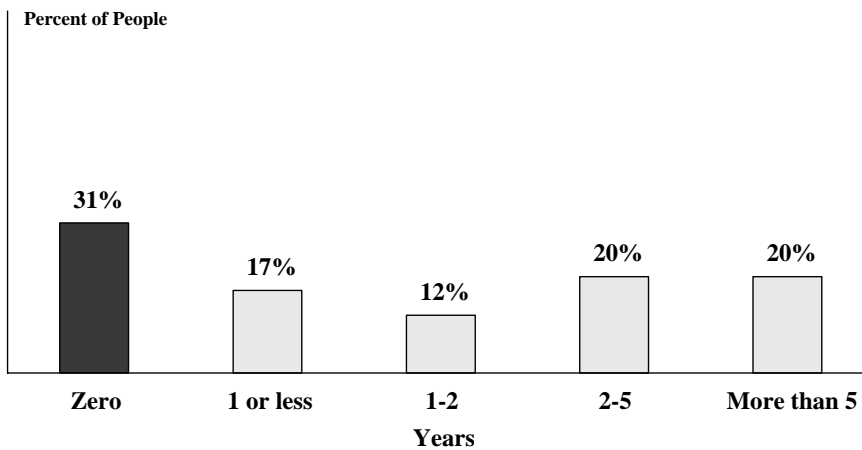


Average Years of LTC Need = 3.0

SOURCE: Kemper, Komisar, and Alexcik 2005/2006.

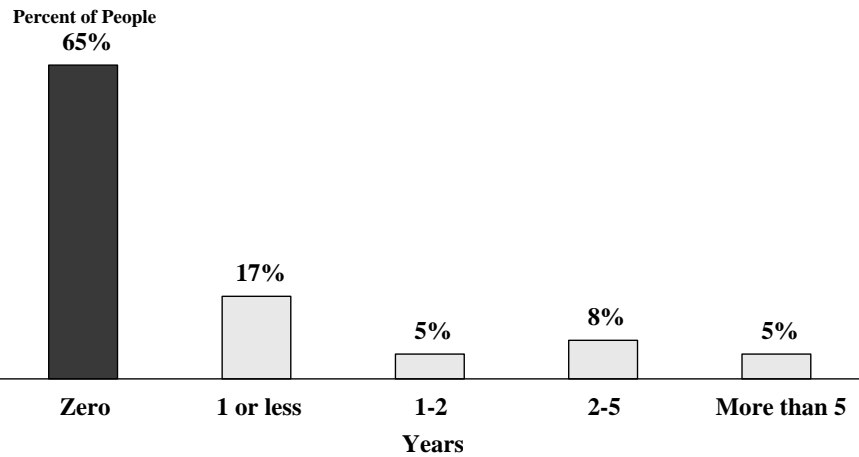
Years of LTC need vary widely

Estimated Years of Long-Term Care Need After Age 65



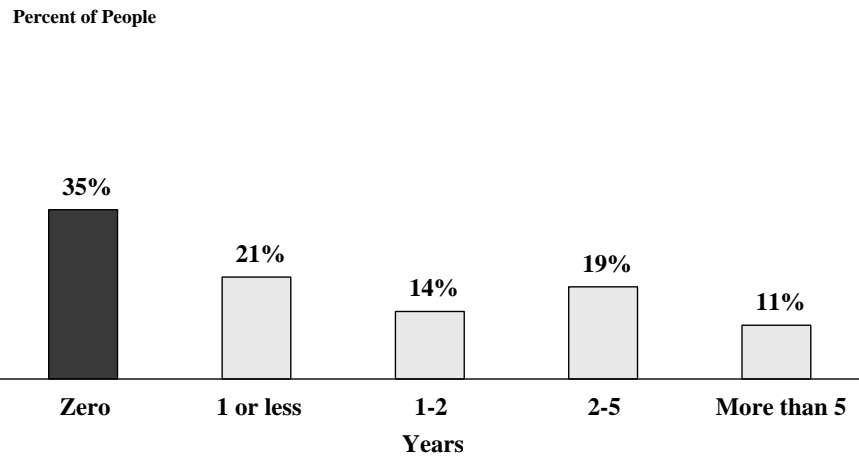
SOURCE: Kemper, Komisar & Alexcixh 2005/2006.

Years of nursing home use after turning age 65



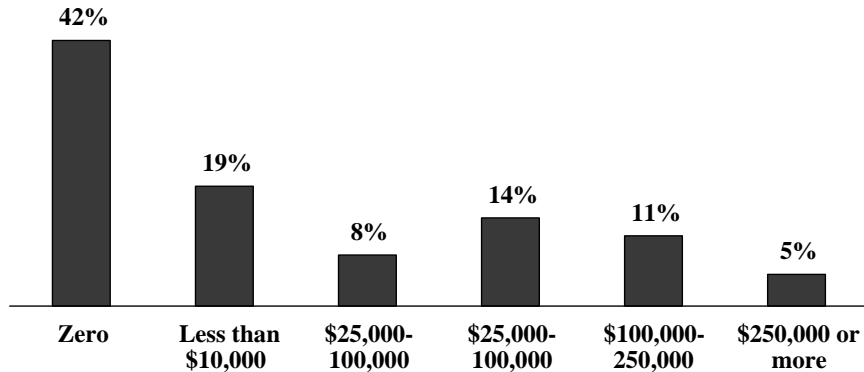
SOURCE: Kemper, Komisar & Alecxih 2005/2006.

Years of care at home after turning age 65



SOURCE: Kemper, Komisar & Alecxih 2005/2006.

Total LTC expenditures after turning age 65



Total LTC Expenditures

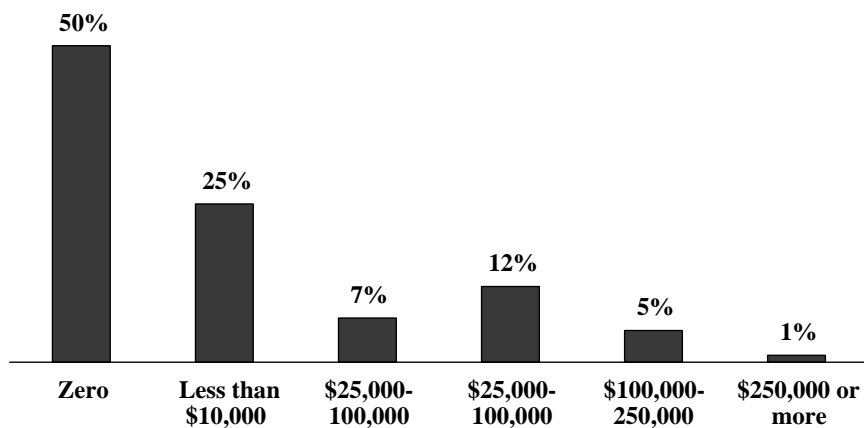
(present discounted value in 2005 dollars)

SOURCE: Kemper, Komisar & Alecxih 2005/2006.

Health Policy Institute, Georgetown University



Estimated out-of-pocket expenditures for LTC after turning age 65




Out-of-pocket Expenditures

(present discounted value in 2005 dollars)

SOURCE: Kemper, Komisar & Alecxih 2005/2006.

LTC risk is largely uninsured

- Medicare
 - Limited coverage of nursing facility and home health care
- Medicaid
 - Safety net
- "Informal" care
 - Plays a large role
- Private LTC insurance
 - Few people have: Estimated 3% of age 20+;
10% of age 65+
(Feder, Komisar, and Friedland 2007)

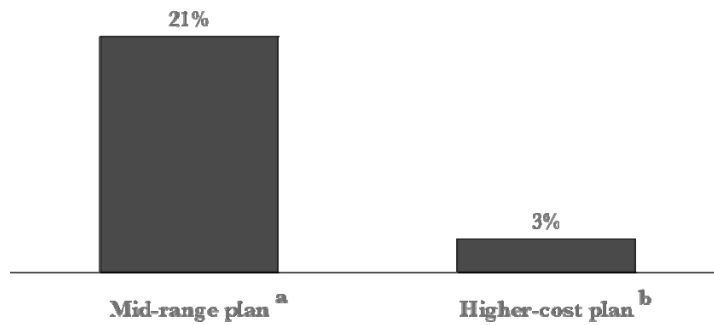
Health Policy Institute, Georgetown University 

Why is the current role of LTC insurance so small?

- Underwriting means many can't purchase it
 - Among people age 65-69, an estimated 28% would not pass underwriting (Merlis 2003).
- Demand is low:
 - Premiums are high relative to the resources of many
 - Uncertainty about benefit adequacy

Affordability is a major factor

Estimated Proportion of Households Age 60-79 Who Could Afford Selected Long-Term Care Insurance, 1998



NOTE: Assumes household can afford LTCI if the premium is not more than 7% of income and the consumer has at least \$35,000 in financial assets (based on the NAIC guidelines).

a. \$125 daily benefit for 3 years, 90-day elimination period, 5% compound inflation protection.

b. \$300 daily benefit for 5 years, 30-day elimination period, 5% compound inflation protection.

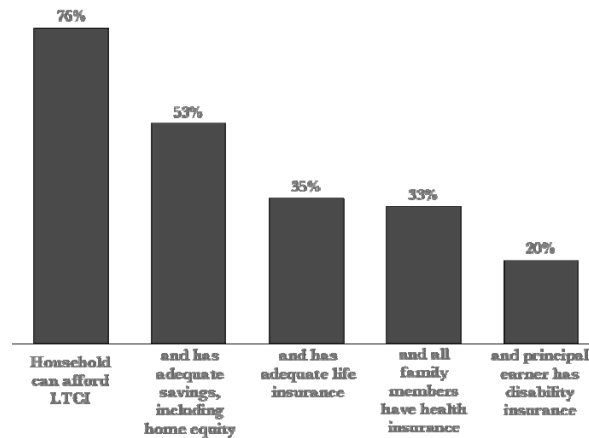
SOURCE: M. Merlis, *Private Long-Term Care Insurance: Who Should Buy It and What Should They Buy?* (Washington, DC: Kaiser Family Foundation, 2003).

Health Policy Institute, Georgetown University



Among younger people, other priorities come first

Estimated Proportion of Married Couples Age 35-59 Who Can Afford Long-Term Care Insurance and Meet Specific Criteria of Financial Health, 1998

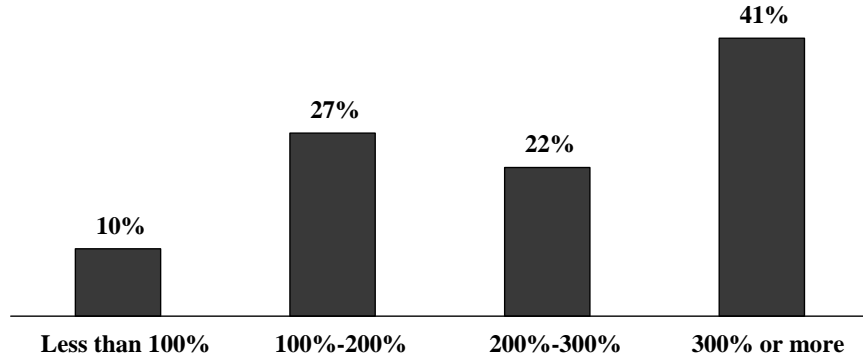


NOTE: Assumes household can afford long-term care insurance if the premium does not exceed a percentage of income that varies with age: 2% for ages 35-44, 3% for ages 45-54, and 4% for ages 55-59. Premium based on a policy providing a \$100 daily benefit for 3 years, with a 90-day elimination period and 5% compound inflation protection.

SOURCE: M. Merlis, *Private Long-Term Care Insurance: Who Should Buy It and What Should They Buy?* (Washington, DC: Kaiser Family Foundation, 2003).

Incomes are modest for most older Americans

Distribution of people age 65 & over, by household income relative to poverty level, 2005



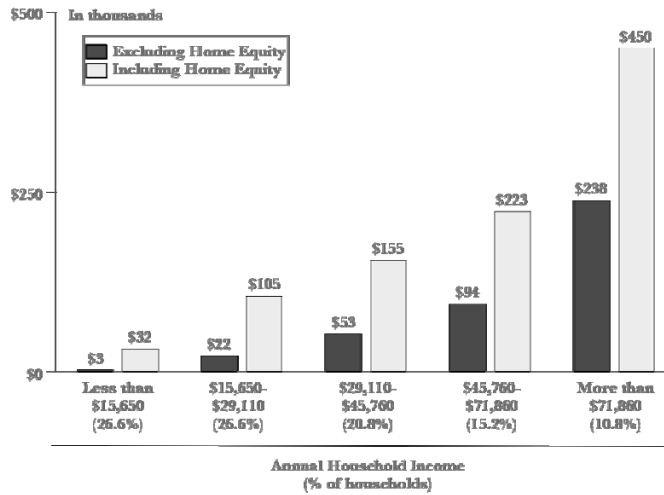
household income as a percentage of federal poverty level

Note: Based on civilian, non-institutional population age 65 or older. For people age 65 and over, the 2005 poverty thresholds are \$9,669 for single people and \$12,186 for couples.

SOURCE: Feder, Komisar & Friedland 2007 based on data from U.S. Census Bureau

Savings are limited for most retirees

Median Net Worth of Households with Householder Age 65-69, by Income Groups, 2006



NOTE: Income groups are household income quintiles for households of all ages.
SOURCE: S. Orzechowski and P. Sepielli, Net Worth and Asset Ownership of Households: 1998 and 2006, Current Population Reports P78-88 (Washington DC: U.S. Census Bureau, 2008).

In the future

- Like today, LTC insurance could play an important role for a minority of people but not for most
- A few trends may lead to more purchases in the future:
 - Somewhat higher financial resources (but affordability will still be a major barrier)
 - Greater awareness
 - More employers offering LTC insurance
- Policy changes to promote private insurance could boost demand a little
- But most people will still lack LTC insurance protection

A policy option: public insurance for LTC (providing basic benefits)

- Public, universal insurance providing basic benefit
- Could lead to greater demand for private LTC insurance than today:
 - Private insurance would supplement basic benefit
 - More affordable (because less to cover)
 - New public benefit would get attention and increase awareness

A final point:

Retirees face a triad of potential financial needs

- Potential need for financial resources
 - income needs (living expenses)
 - acute health care
 - long-term care
- Policy debate often focuses on only the first two
 - income security (Social Security, retirement savings)
 - health care (Medicare)
- Debate often misses the third big financial security risk: LTC

Long Term Care and Public Policy

SOA Annual Meeting

Mark E. Litow, Consulting Actuary
Milliman, Inc.

10/15/07

What Is the Current Situation?

- Government pays about 2/3rds or more of Cost (Medicare/Medicaid)
- Private Insurance is less than 10%
- Out-of-Pocket is remainder

Issues in Reforming LTC System

- Sustainability
- Type of Reform
- Access

Estimated Amount Spent on Health Care 2003 (in billions)

	Hospital	Nursing Home	Home Health	Physician	Rx	OTC Drugs	Dental/ Vision	Misc.	Admin	Total Private Mkt.	Total All
Individual <age 65	\$15	\$1	\$1	\$19	\$7	\$1	\$5	\$5	\$15	\$61	\$69
Small Group <age 65	40	2	3	50	18	2	10	11	28	147	164
Large Group <age 65	113	8	7	148	60	7	34	21	57	399	455
Medicaid <age 65	77	0	4	16	21	0	8	4	7		138
Medicaid >age 65	24	0	1	6	7	0	2	6	2		47
Medicaid - LTC	0	83	0*	0	0	0	0	0	6		89
Medicare - Program pd	131	24	16	79	4	0	0	10	6		269
Medicare OOP	8	0	0	15	0	0	0	0	0		23
Non-Medicare >age 65	0	30	6	3	33	8	31	5	0		116
Uninsured	37	0	1	25	5	1	1	6	0		75
Other Public	67	0	0	25	8	0	3	110	3		215
Total	\$511	\$148	\$38	\$385	\$163	\$19	\$93	\$178	\$124	\$607	\$1,660
2007 (Conservative Estimate)		\$170	\$60								\$2,300

* Included elsewhere

Spending Percentages in Country Relative to GDP (Approx. 2003)

Item	Percentage of GDP
Food	11.0%
Clothing	4.0%
Housing	11.0%
Household Upkeep	7.0%
Medical Care	14.5%
Personal Business	5.0%
Transportation	8.5%
Recreation	6.5%
Education	2.0%
Religion and Welfare	2.0%
Savings	1.0%
Other	4.5%
Taxes	23.0%

What Can We Learn From the History of Medicare? What About LTC?

- Supply vs. Demand makes a difference –
 - **Medicare** - utilization and cost for elderly care is not so much related to disease severity, but more to supply of providers and cost incentives.
 - **LTC** - disease severity is more significant, but supply vs. demand still significant.
- Reimbursement - **Medicare & LTC** - impact on provider participation
- Providers
 - **Medicare** - Greater involvement in primary care providers seems to result in lower total cost and higher quality, but current trend is for more specialist involvement.
 - **LTC** - use of guidelines (ALF, NH and HH) important.
- Eligibility and demographics – **Medicare & LTC** - deal with before it forces you to
- Technology – **Medicare & LTC** - will advance substantially with the incentive to do so (funding makes a difference)



What Can We Learn From the History of Medicare? What About LTC? (continued)

- Plan for Life Expectancy increases
- Private Market – potentially a viable option, but funding and selection approaches critical
- Potential cost shifting – if not careful due to provider actions
- Insurer inclinations – filling in the gaps, rate actions, portability
- Government inclinations – too much insurance, too many mandates, too much reliance on price controls and budget caps



Types of Possible Solutions for LTC

- Single Payer
- Multiple Government Entities
- Private Insurance / Voluntary
- Private Insurance with Mandates
- Individual Market Accounts
- Out-of-Pocket
- Pay or Play
- Voucher System



Government Mechanisms to LTC Control Cost

- Price Control / Budget Caps
- Restrict Eligibility
- Partnership Plan
- Out-of-Pocket Cost



Insurance Mechanisms to Control Cost

- Eligibility Provisions
- Benefit Limits
- Managing Care
- Cost Sharing



Consumer Mechanisms to Control Cost – Including Aging

- Savings / Investment Income
- Spending Restraint



What are Problems in General?

- Single Payor – Government: Solutions shift costs and/or limit access
- Private Insurance: Insufficient Safety Net
- Individual Medical Accounts (IMAs): What to do with those in care or need care in short term
- Out-of-Pocket: Catastrophic Need Not Addressed

One Possible Solution

- Integration of Ideas:
 - i. Government as Safety Net
 - ii. Private Insurance – covers as many people as feasible for catastrophic need
 - iii. IMAs – along with other income to fund private insurance, and out-of-pocket costs
 - iv. Transfer from current to new system over long period of time

A Possible Alternative Three Part System for Financing

- A. Finance
 - Elderly on current system
 - Ages 30-64 contribute to IMA (partial financing) – IMA tax free initially
 - < age 30, contribute to IMA and finance entirely except for small percentage in safety net

A Possible Alternative Three Part System for Financing

B. Insurance

At age 65 for <30 at entry:

- i. If no enrollees by age 65, government charges rate that is higher than the private market rate each year with money coming from IMA. Person is then covered by government safety net thereafter. Exceptions could be allowed with entrance at age 70 or 75 in certain situations to be defined.
- ii. If care occurs before age 65 and private insurance not yet purchased, the IMA must be used up first. Then income/asset test for entry to safety net.
- iii. If i. occurs, private insurance has been purchased and account runs out, High Risk Pool funds insurance.

At ages 30-64:

- i. Partial funding by government and IMA for private insurance.
- ii. Other rules apply as with <30 at entry relating to ability to purchase private insurance and/or safety nets from IMA; for government portion of contribution rule applies as for ages 65+.

For all ages 65+:

- i. Minimum benefit need is defined. Income/asset adequacy test defined for government share and High Risk Pool defined for private share.

A Possible Solution Safety Net Integration

C. Safety Net Issues

- Guaranteed fund for insolvent insurers (funded by industry).
- IMA funding for designated government money = .5-.75% of wages per year. Redistribution of some money to allow minimum account level for low income.
- IMAs not vested until age 65 – then 100%, or age of eligibility for benefit prior to age 65 or for private premiums as paid. IMAs after age 65, or if earlier age at which benefits are first paid, passes to heirs.
- Budget deficit occurs initially for premiums as paid, but should be covered by savings over time (savings from investment income, change in utilization).
- State of maintenance effort.
- High Risk Pool for people who cannot pass underwriting.

A Possible Solution - Other Issues

D. Insurance / Other Issues

- Definition of minimum insurance – varies by income?
- Limits on rate increases
- Account adequacy
- Transparency of costs / quality

Role of Actuary in Current or New System

- Present issues under any proposal (pros/cons)
- Demonstrate access / cost implications
- Price private plans
- Estimate reserves / liabilities
- Work on safety net issues
- Educate public / assist in debates
- Eligibility Issues
- Etc.