Land This Plane: A Delphi Research Study of Long-Term Care Financing Solutions

Sponsored by
Society of Actuaries

Prepared by
John O'Leary
O'Leary Marketing Associates
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Executive Summary

Introduction

In January 2013, the Long-Term Care Think Tank launched a comprehensive study with the goal of articulating solutions to the nation's long-term care (LTC) financing challenges. The project, called "Land This Plane," was conducted by the Long-Term Care Think Tank, and sponsored and supported by two of the Society of Actuaries' professional interest sections: the Long-Term Care Insurance (LTCI) Section and the Forecasting and Futurism Section. The Long-Term Care Think Tank was established in 2005. Its broad purpose was to provide a forum for a broad coalition of LTC experts from inside and outside the insurance industry to discuss the looming LTC financing crisis. The hope was that the group would research and discuss needed changes, and would publish solutions with broad public and private support.

Using the Delphi method, this study recursively polled a diverse group of actuaries, public policy experts, regulators, and insurance industry executives, to explore their opinions on a wide range of LTC financing issues and potential solutions.

The study explored key macro issues such as the role of government, the role of private insurance, the need for social insurance, the regulatory environment, and the future of Medicaid. It also examined a range of insurance product concepts that may provide more affordable LTC financing options. Product ideas included a high-deductible plan to provide catastrophic coverage, a short-term care insurance concept to provide affordable transitional coverage, a Medicare-like social insurance option, and participatory LTC plans including "mutual long-term care," and "universal long-term care." The study also examined the ideas of a national LTC savings plan, a national LTC reinsurance program, as well as changes to the federal tax code and the National Association of Insurance Commissioners (NAIC) Model Act.

The Delphi method was chosen because it provided the opportunity for respondents to anonymously take positions, explain their rationale for those positions, and listen to and react to opposing views. As the study progressed, the more persuasive ideas and concepts gained popularity. While no single financing solution emerged, key directions became clear. This is the final report of findings and recommendations coming out of the study. The hope is that rather than being an end unto itself, this report will be an important step forward in stimulating reasoned discussion and additional research and analysis on the critical issue of the financing of LTC needs in America.

Findings and Conclusions

***A systemic overhaul of the LTC financing system is needed*.** A significant majority of the panelists agreed that a systemic overhaul of the LTC financing system is needed. The current system is simply not working effectively or efficiently for a majority of consumers, insurance carriers, or the government. The overhaul needs to clarify, define, and structure today's somewhat disjointed system of private and public funding options for the American consumer. The reformed system should be comprehensive and have a goal of maximizing the efficient use of available resources at the individual, family and public levels. It should provide incentives for Americans to plan for the future, purchase or enroll in affordable and appropriate products, and adopt healthy behaviors. It also needs to encourage and support personal responsibility and family caregiving. Most importantly, the economics should be sustainable over the long term.

Private insurance needs to be part of the financing solution**.** The panelists unanimously agreed that private insurance needs to be an integral part of the LTC financing solution. Panelists were wary of a completely public solution because of cost, potential ineffectiveness, and inability to gain public support for what might be perceived as another entitlement program. Private insurance could provide a much-needed additional funding source for many people, but both the supply of and demand for private insurance need to increase. There was less consensus on exactly how to do this, but several ideas received positive consideration, including changes to regulations, new product designs, government incentives, public awareness campaigns, and changes to professional standards.

Social insurance is needed as part of the solution**.** The most surprising finding of the survey is the overwhelming degree to which the panelists agreed on the need for a social insurance component as part of the ultimate LTC financing solution. It appears that panelists felt that private insurance and savings, while essential components of the LTC financing solution, would not be sufficient by themselves to satisfy all the financing requirements without a supplementary social insurance component. Among the range of social product concepts evaluated by panelists and that emerged with strong support were a high-deductible, long-term care insurance concept to cover catastrophic situations, and a health savings account (HSA)-like LTC savings fund.

The government needs to take an active role in the LTC financial solution. Over 90 percent of panelists agreed on the need for the government to take an active role developing and implementing LTC financing solutions. Panelists consistently discussed the need for a logical, consistent, defined LTC system. That system should have incentives that encourage planning, positive behaviors, and the appropriate use of personal assets, and that provide a safety net for LTC when all else fails. Panelists agreed that the government should be active not just in defining the overall system but in proactively modifying the parts of the system, like Medicaid, that are not incenting planning. Panelist responses and commentary also indicate support for standardizing regulations on a national basis, and endorsing and supporting a social insurance program but not necessarily running or funding it. Commentary favored the government providing incentives for a vital private market that would allow for and enable private innovation within the context of a logical overall system.

Consumer education and tax incentives are critical to the solution**.** The study suggests that government's active role should extend beyond designing the overall system to providing education, incentives and leading regulatory change that encourage planning-oriented behaviors. There was overwhelming strong support for a national LTC awareness program and for tax incentives to support the purchase of LTCI products as key ways the government should encourage and incent a more effective LTC system.

The Medicaid program is overdue for a major reform**.** Panelists consistently and emphatically agreed that major changes are required to the Medicaid program as related to LTC. Those changes consisted of tightening eligibility for Medicaid so the program doesn't allow people with significant assets to divest them to the benefit of heirs and still qualify for LTC reimbursement. Also, panelists felt that benefit restrictions need to be changed across all states/jurisdictions to enable Medicaid to pay for services in a full range of settings, including home and community care, if appropriate and cost-effective. Panelists seemed to believe that, in many states, Medicaid provides disincentives for families to plan to fund LTC and incentivizes the use of more expensive and less desirable institutional care versus home- and community-based care. Many panelists suggested that reforming Medicaid is the essential first step in the overall LTC system overhaul.

LTC regulations and legislation need substantial revision**.** Panelists were in strong agreement that regulations and legislation governing LTCI should be revisited and revised to consider consumer realities and needs. The NAIC Model Act, state partnership regulations, and other federal and state legislation were originally designed to provide much-needed consumer protections. Unfortunately, in so doing they have encouraged, and in some cases required, product designs that are out of reach financially for middle-income Americans. Panelists indicated a need for regulatory change that encourages simpler policies that are affordable and accessible to a broader population.

Incenting personal and family responsibility should be part of the solution. Panelists overwhelmingly indicated that a reformed LTC system should incent household and family participation in long-term caregiving situations. Comments from panelists suggested the use of innovative tax credits to encourage family- and community-based caregiving as a way to minimize formal services and keep costs under control. Panelists also supported incenting healthy lifestyles with the thought that such behavior could mitigate the need for LTC services; albeit there was continued uncertainty about exactly how those healthy incentives should be implemented.

Use of retirement savings accounts to fund LTC protection should be incentivized. Panelists overwhelmingly favored the idea of modifying federal tax rules to enable funds in tax-deferred savings accounts (401(k), 403(b) and IRA accounts) to be used on a tax-free and penalty-free basis to fund LTC protection products, including LTCI. Panelists agreed that tax incentives are an attractive way to encourage consumers to leverage existing savings mechanisms to protect against the costs of LTC.

***Improvements in LTCI products, marketing and sales are needed*.** Panelists agreed that the risks of needing LTC, the potential costs of LTC services, and the available LTC financing solutions need to be better communicated both overall and at the point of agent interaction with consumers. Life and health insurance agents and brokers as well as financial advisors need to include the risks, costs and LTC funding options in their consumer presentations.

NEXT STEPS

The conclusions from the study begin to raise a wide range of questions about public funding options, private insurance product concepts and pricing, consumer receptivity, program design, and administrative feasibility that beg answers. The author suggests that the following next steps can begin the move toward resolution of some of the more critical ones.

A national plan for LTC financing. Until now, the private insurance industry and the relevant public sectors have operated largely independently with respect to LTC funding, with the exception of partnership insurance plans that work with Medicaid. Although some would disagree, this study seems to support the need for an overall national plan that defines the LTC playing field, delineates roles of the respective players, provides decision-making frameworks that can help consumers through the maze of funding options, and helps align incentives appropriate for all concerned. While the scope of developing and implementing such a plan is daunting, and the stakeholders are many, the idea is one whose time is upon us. While many panelists' comments suggest this is a government responsibility, a joint committee of industry, government and other key stakeholders might be an appropriate starting point.

New LTC funding options. There is much more to do in prioritizing and evaluating the new product concepts explored in this study. While panelists favorably evaluated the high-deductible catastrophic concept and the LTC savings fund, both concepts require additional concept refinement and definition, preliminary pricing, consumer feasibility testing, and financial impact analyses. It would also be appropriate to continue to evaluate several of the other concept options that were viewed favorably by panelists, to determine their potential role in the overall LTC financing system.

Regulatory reform. Making updates to the NAIC Model Act, state partnership regulations, and related LTC regulations will be a significant but much-needed undertaking. The first step in that would be an in-depth analysis of potential changes with the goal of enabling more affordable and accessible products for middle-income Americans.

Medicaid reform. Prior to undertaking a reform of Medicaid, a definitive analysis to determine the financial and economic impact of both tightening Medicaid eligibility and modernizing the Medicaid benefit on a national basis should be conducted.

Tax-deferred savings. Similarly, an economic impact study should be considered to determine the potential upside of attracting new consumer dollars to LTC protection products, versus the foregone revenues of providing tax-free and penalty-free withdrawals from tax-deferred savings vehicles. That study could also analyze the potential impact of tax credits for the purchase of LTCI, including the impact of increases in private insurance participation on reductions in state and federal Medicaid expense, and the potential for personal and family planning and caregiving incentives to be incorporated into the overall LTC system reforms**.**

LTC awareness and education. Lastly, it is suggested that a national marketing and education campaign be developed to inform Americans on the need to plan for, and the costs and risks entailed with LTC situations.

In addition to this executive summary, the complete report includes a detailed summary of findings and recommendations. The quantitative and qualitative responses as well as the questionnaires for each of the three rounds of the study are available as separate downloads.

Background

Long-Term Care Funding

Over the past two decades, a number of financing options have been available to help pay the costs associated with LTC services, including personal savings and assets, private LTCI, and the public Medicaid program. Efforts have been made to educate the public on the need to plan for possible LTC expenses and their potential costs, and federal and state tax incentives have been available to encourage the purchase of private LTCI.

It was thought by many that private LTCI would play a prominent role in financing LTC for the growing numbers of baby boomers as they aged. That role would supplement financing by personal savings and retirement accounts, which for many middle-income families would not be sufficient to pay for LTC. It was also hoped that LTCI could mitigate the use of Medicaid as an LTC financing vehicle, as it was already under fiscal pressure at state and federal levels. Many insurance companies entered the market to meet this need and pursue this business opportunity.

Unfortunately, over time, it became apparent that the traditional model of LTCI products was more expensive for consumers and more risky for carriers than many originally thought. Market penetration lagged expectations. That, along with the extended low interest rate environment and the difficulty of predicting “long-tail” potential future claims, raised concerns for a number of carriers.

Several prominent carriers made the decision to discontinue selling the traditional LTCI product, and a market consolidation ensued. Many existing policyholders were impacted by premium increases, and, in general, consumers now face higher premiums, more restrictive underwriting practices, and less robust product benefits than had been offered in the past.

As with many market consolidations, some market segments were either not affected, or have actually prospered. Companies that focused on higher-income consumers have gained market share as average premiums have increased. Products with different economic fundamentals, including hybrid products that combine an LTC benefit with life or annuity products, have shown significant sales traction. With that said, many believe that there is still an unmet need among middle-income consumers for LTC financing options.

Meanwhile, public LTC financing solutions are in a state of uncertainty. The CLASS Act, which was a part of the Affordable Care Act, was repealed in January 2013 due to concerns about its long-term actuarial soundness. Coming out of that repeal, a bipartisan Federal Long-Term Care Commission was established to address LTC issues including LTC financing. The bipartisan commission ended its deliberations in September 2013 and issued a final report. The commission studied and generated a wide range of interesting approaches for dealing with the impending LTC crisis but was not able to come to consensus on financing recommendations. This may reflect the inherent difficulty of the LTC financing problem and the wide divergence of opinion as to how best to solve it, both within members of the commission and in our society as a whole.

In addition, questions about the long-term fiscal position of the two public programs most related to LTC, Medicare and Medicaid continue to be raised, particularly given the future demographic shifts of our aging population. While advances in medical science are extending life expectancies, chronic conditions are predicted to accompany those extended lives for many. Meanwhile, the 78 million baby boomers continue to age, most without the resources, or even a plan for dealing with the LTC that 7 in 10 of them will ultimately need.

Overall, the United States does not currently have an integrated plan for how the future LTC needs of its aging population will be funded.

It is with this as context that the Long-Term Care Think Tank took on the task of studying the issue of LTC financing solutions via the “Land This Plane” project. The hope is that this report will be a timely, topical, and positive contribution to the conversations aimed at solving one of the most important issues facing the United States now and perhaps over the next several decades.

LAND THIS PLANE: STUDY METHODOLOGY

The Long-Term Care Think Tank, under the sponsorship of the Society of Actuaries' LTCI Section and the Forecasting and Futurism Section, conducted the LTC "Land This Plane" Delphi study. The LTCI Section provided subject matter expertise, while the Forecasting and Futurism Section provided oversight of the study methodology. The Long-Term Care Think Tank conducted and managed the study under the auspices of a volunteer Project Oversight Group (POG), comprised of members of the Long-Term Care Think Tank, the LTCI Section, and the Forecasting and Futurism Section.

Within the LTCI Section and the Long-Term Care Think Tank, there are many experienced industry leaders with valuable perspectives on how issues facing the industry should be resolved. The issues and the proposed methods for dealing with them can be contentious, which was one of the reasons why the Delphi method was selected by the POG to research this issue.

As background, Delphi studies are often a useful technique when a controversial or difficult policy decision is being studied, but there isn't a proven model or theory to rely on for direction. In cases like this, the opinions of expert panels have been found to be very useful. The Delphi method provides a framework for gathering the opinions of experts through anonymous rounds of questioning and feedback. By making the opinion gathering anonymous, panelists can state and then review and revise their views as the study progresses, without feeling pressure to support a prior publicly expressed opinion.

The first Delphi study was published by Project RAND in the 1950s to project potential science and technology breakthroughs by the year 2000. That expert panel included science luminaries Isaac Asimov and Arthur C. Clarke, and, not surprisingly, many of their forecasts were accurate.

The Society of Actuaries has employed the Delphi method on studies spanning over 20 years, including a 2004 study looking at which economic variables were most likely to influence the economy over a 20-year time frame. Halfway through the study period, several of the projected scenarios have already occurred. A 2009 Blue Ocean Delphi study focused on untapped and unexplored opportunities in the life insurance industry over a 10-year time frame.

The panelists selected by the Long-Term Care Think Tank members of the POG included a mix of actuaries, public policy experts, regulators and insurance industry executives. Panelists' commentary is extensively included in this report, and the depth and thoughtfulness of the responses are readily apparent.

Round 1 began in January 2013 with a combination of 30 multiple choice and open answer questions. By the time the first round closed, there were over 100 pages of quantitative results and written comments. From the first round responses, the POG distilled six high-level principles about LTC financing and developed a second round of 50 questions. These were designed to drill down to elicit panelists' responses to more specific actions that either industry or the government could take. This second round closed in June 2013 with more than 80 pages of responses.

In the third round, the panelists received summarized results of the second round responses and almost 80 new questions to answer. Those questions included deeper ongoing reactions on the general principles as well as quantitative and qualitative responses on several product concepts including high-deductible long-term care, Medicare-like LTC, an HSA-like LTC savings plan, and a national reinsurance plan. The third round of the survey was completed in September 2013.

The Delphi technique has proven to be a useful way to explore expert opinions on the high-level issues of LTC financing, and on panelists' reactions to specific concepts and solutions, as well as the thinking behind those reactions. There is a wealth of learning in this study, not just in the polling numbers but also in the panelists' comments. This report highlights the most important of those, but readers are encouraged to review the actual study results in the separate downloads for a more complete picture.

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Detailed Study Findings

This section includes results from all three rounds of the study, including analysis of specific polling results as well as summaries of relevant qualitative comments. All panelists' results and comments are included in the separate downloads for each report.

A Systemic Overhaul of the LTC Financing System

Significant Findings

A significant majority of panelists in both round 2 (82 percent) and round 3 (86 percent) indicated that a systematic overhaul of the LTC financing system is needed.

In addition, 100 percent of panelists in both rounds 2 and 3 indicated that private insurance is a necessary component of that future system.

Regarding the nature of the overhaul envisioned, 100 percent of the panelists in rounds 2 and 3 agreed that the revised system should consistently incent responsible LTC planning. Panelists also overwhelmingly indicated that the system should incent household and family participation in LTC situations, and more than three-fourths of panelists supported the idea that the system should incent healthy lifestyles with the thought that such behavior could somewhat mitigate the need for LTC services.

Principle: A Robust and Efficient LTC System

The following principle was proposed to the panel for discussion:

All aspects of the long-term care financing system need to incentivize family and household participation, responsible planning and behavior, and the most efficient use of long-term care resources. An all-encompassing system should include incentives to plan for the future, purchase appropriate products, use appropriate care settings, and adopt healthy lifestyles to mitigate the need for LTC services.

Questions: System Overhaul

Do you agree that a systemic overhaul of the long-term care financing system is required?

Do you agree that the private insurance market is a necessary component of a future long-term care financing system?

Do you agree that the system should be designed to consistently incent ...

- Responsible long-term care planning?
- Healthy lifestyles?
- Household and family participation in long-term care situations?

Tracking Panelists' Evaluations by Round						
	Round 2			Round 3		
	Agree	Disagree	Ratio A/D	Agree	Disagree	Ratio A/D
Systemic overhaul	82%	13%	6.3	86%	5%	17.2
Private insurance needed	100%	0%		100%	0%	
System should incent:						
Planning	100%	0%		100%	0%	
Healthy lifestyles	74%	12%	6.2	79%	9%	8.7
HH & family involvement	84%	4%	21.0	86%	5%	17.2

Overall Assessment

The study was based on the premise that too few Americans are prepared to handle their own prospective LTC needs, and that current government programs will not be able to provide for everyone who will rely on them. The study addressed several facets of this issue. How can morbidity be improved and care delivered more efficiently so that less aggregate care is needed? What can be done so that private insurance is financially accessible to more people? Does it make sense to create a social insurance option for LTC? If so, what should the social insurance program look like? What changes are required to Medicaid? What can be done to encourage people to better prepare for their own LTC needs?

Panelists, via their commentary in many different sections, pointed out that American consumers need an LTC system that makes sense. There should be appropriate incentives to help them think about and plan for the future, along with a personalized "roadmap" to help guide them along. While no single solution to the crisis emerged as a "silver bullet" to address all aspects of the problem, the panelists did coalesce around several key principles and concepts, as seen in the following pages. Additional study and focus on those principles and trends may lead to significant improvement in LTC financing for consumers, carriers, and other stakeholders.

Panelists' Select Comments (See Also Active Government Role)

Panelists were asked to provide specific ideas about how the system can be improved to encourage personal and family planning, and more efficient use of resources. The following are some of the salient answers. (Complete answers are available in the separate report downloads.)

Incentives for Individuals, Families and Communities

There has been some research on how small "communities" of people can earn credits for helping each other including their own families and then pay it forward. Maybe this type of model can help create and encourage family-based or more small community-based care.

Development of a private LTCI product under which each day (following benefit eligibility certification and satisfaction of the waiting period) that a claimant uses informal care or family providers, a day is added to the policy's lifetime maximum benefit.

Best way is to provide a family tax credit of some kind for family hours spent caregiving. Recognize major opportunity for fraud, so airtight documentation system essential; probably needs monthly and annual limits, and some kind of training component—i.e., like Alzheimer's habilitation training.

Care sharing concept where part-time family caregiver could earn asset protection credits under the Partnership Program so that savings can be left to their heirs.

Tax deductibility for LTC expenses; a tax credit for unpaid family caregivers; a reduction in the value of houses and cars that can be excluded from assets when applying for Medicaid.

For LTCI: Rather than an elimination period, why not require x *hours of "family care" before the policy provides* y *hours of paid care. The "family care" could be provided by a family member, a friend, a church member, etc.*
The provisions of the Partnership Program should be extended to families that care for benefit-eligible individuals. This will require some form of equivalency, such as a two-year LTCI Partnership policy equals a three-year informal care approach, but something can be worked out.

Publicize the need for (and praise families holding) family discussion to understand each person's preferences (should they need LTC); the expectations of other family members as regards giving care and their willingness and conditions for giving care. Publicize and encourage discussion of topics such as home modification; relocation to be closer to public transport or family (either move closer to the potential recipient or to the potential caregiver); shared housing costs (e.g., parent contributes to the cost of a home with an additional bedroom); change of occupation to accommodate caregiving, etc.

AN ACTIVE GOVERNMENT ROLE

SIGNIFICANT FINDINGS

Nine out of 10 panelists, in both rounds 2 and 3, agreed that the government must take an active role developing and implementing an LTC financing solution. They agreed that actions should include a national LTC awareness program (90 percent agreement); improvements to the LTC Partnership Program to make it more flexible and consistent on a nationwide basis, and in so doing encourage simplified, affordable products that are accessible to middle-income Americans (83 percent agreement); and enactment of tax incentives to encourage the purchase of LTCI products (82 percent agreement). The panelists were not in favor of legislation or regulations that would impose filial responsibilities on adult children to care for their parents (82 percent disagreement).

PRINCIPLE: ACTIVE GOVERNMENT ROLE

The following principle was proposed to the panel for discussion:

The government must take an active role in the long-term care financing solution. Federal and state governments should actively "promote the general welfare" for the benefit of their citizenry as well as their own fiscal health. They should do this by educating and influencing people to promote responsible planning and healthy behaviors related to their future LTC needs.

DETAILED DESCRIPTION

There is consensus among the "Land This Plane" panelists that government must be an active part of the LTC solution on several fronts. The government should take several measures to promote responsible planning such as public awareness campaigns and tax incentives. Furthermore, there is agreement about the need for a government safety net and social insurance program as detailed in other principles.

On the other hand, there is an emerging consensus in the public policy/advocacy world that government cannot be the only solution, and that individuals must take responsibility for LTC planning and for their own behaviors related to their health and LTC.

QUESTIONS: AN ACTIVE GOVERNMENT ROLE

Do you agree with the government role as outlined in the principle above?

Do you support a government-sponsored public awareness campaign for LTC?

Would you support a less restrictive Partnership Plan with Medicaid that still provides asset protection but relaxes some of the insurance requirements (for example, not requiring 5 percent compound inflation)?

Do you support a program of tax incentives to purchase LTCI?

Do you support a recommendation for regulations or legislation that imposed filial responsibilities on adult children to care for their parents?

Tracking Panelists' Evaluations by Round: Active Government Role						
	Round 2			Round 3		
	Agree	Disagree	Ratio A/D	Agree	Disagree	Ratio A/D
Active government role	89%	10%	8.9	91%	7%	13.0
LTC awareness campaign	77%	23%	3.4	90%	10%	9.0
More flexible Partnership	76%	24%	3.2	83%	17%	4.9
Tax credits for LTCI	85%	15%	5.7	82%	18%	4.6
Impose filial responsibility	18%	82%	0.2	15%	85%	0.2

Overall Assessment

The crucial questions on the definition of an active government role for LTC not only yielded strong consensus on the areas where the panelists thought the government role should be more versus less active, but also some of the richest qualitative comments in the study. Those comments provide not just overall directional opinions but detailed thought and ideas on how those opinions can be executed. Readers are directed to the separate downloads for the round 2 and 3 surveys to review the complete comments.

With regard to next steps, the broad agreement on the need for a strong national educational campaign seems like a cornerstone recommendation. However, as several of the panelists pointed out in comments, an awareness campaign without a realistic financing framework that contains affordable choices that are understandable and appealing to consumers is not likely to work. Several noted that efforts to date obviously have not worked because consumers still do not see the problem or recognize potential solutions.

So, perhaps the system overhaul recommended in the first finding, which theoretically should result in a logical, integrated system that makes sense to consumers, carriers and stakeholders alike, should precede the kinds of changes suggested by this section. Awareness campaigns, tax incentives, and partnership products without an overall system that includes pathways to consumer-acceptable solutions are not likely to be successful. Conversely, a systemic set of solutions that meet true consumer needs and wants as they age could provide the basis for success of a more active government role.

Panelists' Select Comments: Active Government Role

Favorable/Like

The playing field is a mess and CANNOT be solved by private-only actions. The free market needs to have some guidelines that only federal presence can define.

The government's role should be more (to) organize a workable LTC system with ample choice of settings, services, and adequate financing. It should incentivize higher- and middle-income people to save for LTC and, if they don't tax them in a progressive way, to finance basic needs. The government also needs to make sure programs are well run.

We need government to help us with respect to LTC financing. It is obvious that the LTCI industry, which has seen some of its largest carriers demutualize, is driven by the mandate that it must increase shareholder value, not remain in an unviable financial position that may not turn around anytime soon. In light of such facts, government must assume a leadership position with respect to LTC and LTC financing. It can do so by working hard to help all of *us define and underscore the main problems, by working toward the identification and adoption of helpful national legislation, and by looking to reduce regulations where feasible.*

They are the only entity that can clearly incentivize or disincentivize individuals to the proper behavior.

The government has a constitutional right and obligation to "promote the general welfare," which entails promoting healthy lifestyles, good choices and responsible behavior.

In general, the majority of the population is currently ignoring this problem or believes that they will end up relying on their family or the government. There needs to be awareness that the government cannot sustain paying for LTC for the middle class through Medicaid and that we need to take individual responsibility or else it could end up becoming unfairly a "shared" responsibility.

Unfavorable/Dislike

After seeing how the feds have screwed up medical coverage, I don't think they should be involved—except to offer tax incentives and promotional material. If the feds cannot deliver the mail, how in the world can we expect to see them devise LTCI?

The role of government as stated above does not go far enough. Governments have the role of creating the appropriate frameworks for an LTC solve in both the public and private spheres.

Government's role should go beyond education and ensure that Medicaid is appropriately structured and that the private insurance market can indeed provide solutions to the various markets. Education without teeth is not effectively bending the participation curve.

Government can play an important role in situations of "market failure" so we need to look at the role of government as more than just providing education and general welfare.

The federal government can barely fulfill its constitutional obligations. Let's not add a new unconstitutional burden.

With the fiscal mess this country is in right now it is critical that some third party (not political party) put together an unbiased fiscal analysis of the costs inherent in the system today as is, including obviously state and federal expenses (maybe private expenses as well) and compare them to a well-designed and instituted plan such as is being formulated here. We cannot put forth another unfunded program. It should more than pay for itself even with tax incentives.

Panelists' Select Comments: LTC Awareness Campaign

First, there needs to be a comprehensive set of affordable, accessible LTC financing solutions for which individuals can adopt/purchase before instituting a widespread public education campaign.

MUST be authored by a consortium of public and private members—past campaigns such as "Own Your Future" mostly failed, because of the content, lack of clarity, and lack of DIRECT focus on LTC, as recommendations in LTC were "buried" along with other info, AND not clear and direct to STRONGLY SUGGEST LTC planning, regardless of whether people purchase LTCI or not.

Connect the dots between not planning for LTC can mean taking dollars out of the state budget that could have gone to educate their children and grandchildren, pay for more public safety officers, provide more affordable transportation, etc. A big part of the education must be that employers must lead, not follow, in offering LTCI so we *can get people covered while they are healthier and the insurance is more affordable for them and eligible family members. The campaign should emphasize the partnership.*

Believe there is leverage with a message that links today's lifestyle actions to tomorrow's chronic illness.

The message is simple. WHAT DOES IT MEAN TO NOT PREPARE.

Focus on planners age 45 to 64, online campaign supported by high quality PR. It must be continuous over decades (cf. seat belts save lives) to have an impact, and have a clear, measurable message and desired action. Generally, increased "awareness" or "knowledge" won't cut it.

I'd stress family conversations to anticipate potential needs, impacts, etc. I'd target both elders and their children, as each could initiate the conversation and each has to be open to such a conversation. Non-profits and for-profits could create tools to have such conversations (some tools already exist). I suppose the program should continue as long as it seems to be making a difference. It would seem likely to take a long time to affect culture.

Panelists' Select Comments: LTC Partnership Program

The level of benefits should be more flexible.

Suggest inflation protection and why it is important, but don't require it and do not say negative things that make people think if they don't get inflation protection the coverage will not do any good. The Partnership will only protect assets up to the amount paid by the policy.

Asset disregard should be available for those who plan for the care and fund ahead of time regardless of how they do so. Insurance products should not be the only avenue but self-pay and HSA accounts should as well.

Not only lower fixed inflation options, but more innovative options such as step-rated inflation, as Transamerica has adopted, or an option that provides variable inflation based on investment returns, as Hancock Benefit Builder does, NEED to be legitimized AND Partnership-eligible, to provide protection that is more likely to be price-stable.

Why not let any LTCI policy be a Partnership Plan? Why set up the bureaucracy needed for a Partnership? Let all dollars paid by the LTCI policy count toward the Medicaid offset.

Allow family member care sharing to count toward asset protection.

I don't think the Partnership Program is a good model. It presupposes that people want to be on Medicaid. People with money should not want to be on Medicaid.

Panelists' Select Comments: Tax Incentives

Expanding the current voluntary savings programs (401(k), etc.) to fully encompass LTC or LTCI (with proportionately increased savings limits). Same itemized deductions as current plus tax credits for premiums paid by lower-income buyers.

Tap into HSAs for LTC needs and allow them to be transferred to family members as well as interchanged between family members to incentivize the family unit to provide basic levels of care. This is the high-deductible plan in a nutshell. Families are faced with the LTC financing crisis and therefore a solution needs to consider the entire household.

Provide a tax credit for the purchase of a long-term care plan. The size of the credit could be based on income to help lower the costs.

The current tax system provides massive subsidies for health insurance (especially employer-sponsored) but very little for LTC insurance. That seems inappropriate. (By the way, the current tax system also provides huge advantages for life insurance and annuities.)

To take it to the next level: We need the government to allow pre-tax funding of an LTC fund. When young workers are encouraged to fund this, just as they do their retirement funds, they will begin to think seriously about the event. For this discussion, it is fundamental to recognize that most actuaries in the LTCI industry do not own LTCI insurance (at one LTCI conference, I asked for a show of hands from those who owned an LTCI policy—about 20 to 25 percent of those attending raised their hands!). Sure, any ad campaign will help. But why do we think it will do a lot of good when even actuaries in the business don't buy?

How about a lifetime tax credit? The credit would be adjusted upward each year with the CPI, but would decrease with age (i.e., the age at which the LTCI coverage was purchased). For example, the tax credit might be $1,500 at age 20 and $150 at age 65. At whatever age you purchase LTCI, the dollar amount of the tax credit increases every year due to the CPI. People are rewarded to get in early; at the younger ages, the larger tax credit does not hurt federal coffers so badly because the young people may not be able to use the entire tax credit.

There is no evidence these tax incentives materially increase take-up. They fly in the face of most tax reform models (which eliminate targeted tax subsidies in exchange for lower rates). However, if we are going to try them it is important that they be designed as credits (which benefit middle-income buyers) rather than deductions or exclusions (which benefit high-income buyers).

Panelists' Select Comments: Filial Responsibility

Ridiculous and impossible to monitor. Political suicide.

Just because someone is related, that does not make them responsible for the other's debts. However, estate recovery is appropriate.

How can you require a child living in California to help their parent in New York? What if the parent does not want their child's help? What if the child has much worse physical health than their parent?

Maybe there could be a limit on how much was gifted, the excess above that limit being accessible for parental LTC.

The objective of such a law should be to promote a culture of family responsibility. The law's penalties don't need to be very harsh to do that. There should also be ways for people without means or without good relationships of their parents to be exempt.

Panelists' Select Comments: Other Government Actions

When people apply for SS/Medicare, lay out the risks of not financing LTC. Establish a look-forward asset monitoring. If people finance two years of LTC coverage or set aside a similar amount in a dedicated account, then they can preserve a higher level of assets if they need the government insurance program after two years of LTC. If not, then they can keep fewer assets.

This was one of the most positive and thoughtful attempts at discussing next steps that I've seen in a while—good job! I believe that any comprehensive discussion of LTC financing also has to include shorter-term planning *solutions. Appropriate use of other assets, such as home equity, can play an important role to fill gaps and pay for services and supports before people are so severely impaired that they are eligible for LTCI. We need to encourage prevention and early intervention, as well as crisis management.*

Parents are more likely to plan/take more responsibility when they can see how those actions will benefit their children or take them off the hook.

The government could create a ONE-TIME program for people who are currently uninsurable. The government could create a type of stop-loss reinsurance for carriers, especially those which take additional risk (such as longer benefit periods). The government could create model approaches for caregiving pacts. However, removing the home exemption from estate recovery is probably the #1 thing the government can do.

Insurers should be required to create websites that allow their clients to test various design changes, seeing the impact on their premium and also future claims implications.

Three important steps: Create an integrated acute/LTC Medicare benefit for long-duration needs with no LTC coverage for short-term needs. Close Medicaid loopholes for the middle class. Provide simple, clear, consistent message: You must buy a standardized LTC plan that coordinates with Medicare (not "awareness" or "education").

What about offering a small supplemental SS benefit or a reduction in Medicare Part B premiums if a senior citizen maintained an in-force private LTCI policy?

Changes to partnership are all excellent opportunities that will be all the more impactful if the overall system changes occur first.

Social Insurance as Part of the Solution

Significant Findings

Perhaps the most surprising finding of the survey is the degree to which the panelists agreed on the need for a social insurance component as part of an ultimate LTC financing solution. A significant majority of panelists agreed in both round 2 (81 percent) and round 3 (84 percent) that a social insurance program is a necessary component of a future LTCI system.

While fewer panelists (73 percent) embraced the specific social insurance principle presented (see below), 9 in 10 panelists agreed they could accept social insurance as part of a compromise toward comprehensive reform of the LTC system.

Principle: Social Insurance

There is a need for the government to take an active role establishing a limited LTC social insurance program to help finance care for people who can't purchase private long-term care insurance due to either cost or underwriting issues. It will be open to all, but designed to meet the specific needs of the "middle income." It would be part of a public-private combination approach to long-term care financing but not the single stand-alone solution.

Questions: Social Insurance

- Do you agree that a social insurance program is a necessary component of a future long-term care insurance system?
- Do you agree with the social insurance principle as described above?
- Even if you do not agree with it, could you accept the social insurance principle as a part of a compromise toward a comprehensive reform of the LTC system? (Round 2)
- What characteristics of a social insurance (SI) program do you believe are necessary? (Round 2)
    - Mandatory participation
    - Catastrophic coverage
    - First-dollar coverage
    - Institutional coverage only
    - Home- and community-based coverage only

Tracking Panelists' Evaluations by Round: Social Insurance						
	Round 2			Round 3		
	Agree	Disagree	Ratio A/D	Agree	Disagree	Ratio A/D
Social insurance required	81%	18%	4.5	84%	11%	7.6
Social insurance principle	62%	26%	2.4	73%	14%	5.2
Could accept SI principle	90%	10%	9.0			

When asked in round 2 what characteristics of a social insurance program they believed were necessary, panelists indicated a strong preference that the social program should cover catastrophic LTC expenses and that it should be mandatory. Panelists did not think it should cover first-dollar expenses, or be limited to either institutional coverage or home- and community-based care.

Necessary Characteristics of a Social Insurance Program		
	YES	NO
Catastrophic coverage	81%	19%
Mandatory participation	78%	22%
First-dollar coverage	11%	89%
HCBS coverage only	15%	85%
Institutional coverage only	9%	91%

Background

When asked in round 1 of study about the desirability of social insurance, about one-third of respondents agreed with the concept as presented and approximately the same number were not favorable to it. However, the commentary revealed confusion over wording and the specific definition of social insurance. With that in mind, this definition of social insurance according to the Actuarial Standards of Practice (ASOP 32) was presented in round 2 along with some background, context and examples for how social insurance could work.

Social Insurance Definition

Social Insurance is an insurance program where: The program, including benefits and financing method is prescribed by statute. The program provides for explicit accountability of benefit payments and income, usually in the form of a trust fund. The program is financed by contributions (e.g., taxes or premiums) from or on behalf of participants, which in some programs are supplemented by government income from other sources. Investment income on program assets may also be used to finance the program. The program is universally (or almost universally) compulsory for a defined population, or the contribution is set at such a subsidized level that the vast majority of the population eligible to participate actually participate.

Market Context

Many individuals and families are caught in the middle between the high cost of LTCI and qualifying for Medicaid. There are between 45 million and 60 million middle-income families who fall into this category. A significant number will need LTC, but will not have enough money to pay for these services.

Rather than divest all their assets, limit their income, and transfer to Medicaid right away, consumers need additional solutions, not all of which will be available from the private market. Appropriately designed social insurance, with the right incentives, makes sense as part of a network of related, flexible financial approaches. Included would be changes to Medicaid to tighten eligibility and cover a full range of home- and community-based services.

Panelists' Select Comments: Social Insurance

Overall Social Insurance Program

Not a cash benefit.

Mechanisms to avoid anti-selection.

Broad range of coverage settings (NH, AL, home).

Basic level of coverage, i.e., $50 per day for four years.

A Social LTCI program MUST be catastrophic only.… If we want a public-private solution in which some LTC coverage comes from the government and some comes from insurers, we need to create a situation in which the insurance component can be sold. That can occur ONLY with a catastrophic-only government program….

Financed by taxes on a limited portion of income.

Grade in eligibility based on asset levels.

Mandatory back-end safety net.

Front-end benefit should be for care coordination with modest and limited cash support to facilitate a care plan.

Low cost.

Social Insurance Product Concepts

While evaluation of general principles was an important part of this study, the study also wanted to get panelists' opinions and reactions regarding specific product concepts.

Significant Findings

While there was increasing acceptance of the idea of inclusion of social insurance in the LTC financing solution, there was less agreement on the specific concepts that should entail (see below). However, there was solid agreement on two of the concepts presented, as over two-thirds of the panelists favored the viability of the high-deductible plan, which would provide coverage for catastrophic events like Alzheimer's and Parkinson's disease. There was similar agreement on the LTC Savings Fund. Favorability for these two concepts was consistent with prior positive reactions to both ideas. In round 2, 81 percent of panelists agreed that catastrophic coverage should be included in a social insurance program and the idea of a tax-favored LTC Savings Program was favored in both round 1 (78 percent of panelists) and round 2 (89 percent of panelists).

Sixty percent of the panelists agreed that the short-term care concept was a viable one, and just over half thought the Medicare LTC concept (FLTCi) was a viable one. Interestingly, a much higher percentage of panelists thought the FLTCi concept was viable from a consumer and carrier point of view, but only 39 percent thought it was viable from a government point of view. That may reflect the underlying concern of many that to create a Medicare-like program for LTC was a step beyond where they wanted the government to go even if many thought the concept was a viable one from a consumer and carrier perspective.

Sixty-three percent of panelists agreed that the term LTC plus a side fund (universal LTC) concept was a viable solution for LTC financing, and 53 percent agreed that the mutual LTC concept was viable. These concepts were both considered viable from a carrier perspective but fell short on consumer viability. That said, there were some concept changes suggested from panelist comments that could potentially enhance the consumer appeal of both ideas.

Social Insurance Product Concepts: Viability Ratings							
	Agree	Disagree	Ratio A/D	Consumer Viability	Carrier Viability	Govt. Viability	Positive Impact
LTC Savings Program	68%	25%	2.7	81%	87%		66%
High-deductible plan	67%	26%	2.6	74%	86%		77%
Short-term care	60%	35%	1.7	79%	80%		65%
FLTCi-Medicare LTC	52%	43%	1.2	75%	75%	39%	52%
Universal LTC	63%	28%	2.3	56%	90%		44%
Mutual LTC	53%	28%	1.9	53%	80%		40%

Overall Assessment

Because of the mandatory nature of the proposed LTC savings concept, it was decided for the purposes of this report to group it with other social insurance concepts even though technically it is a savings program, not social insurance. Of these concepts, the high-deductible plan along with the LTC Savings Plan garnered the most support. Nearly 70 percent of the panelists agreed that these two concepts were viable solutions to the nation's LTC funding crisis, and in both cases, the ratio of those who agreed to those disagreeing was nearly 3 to 1. There are several key issues that emerged from the analysis of the social insurance product concepts.

Savings versus insurance. In rounds 1 (78 percent) and 2 (89 percent), there was considerable support for the idea of a tax-qualified LTC Savings Plan. In round 3, the concept was fleshed out for panelists to evaluate. While it received solid support, panelists were not as enthusiastic as in prior rounds. Reviewing panelists' commentary, it appears that their objections came from three areas: that savings, while a good thing, would not yield sufficient returns to fund much in the way of LTC expenses, and therefore would need to be supplemented with additional insurance or government funding; that the mandatory nature of the program was not thought to be viable politically; and that the low retirement savings rates by most Americans today represented significant challenges that needed to be overcome.

Nevertheless, this option was popular enough to continue to be included in the mix of solutions. Continued work needs to be done with consumer research to address the issue of adequacy and the possibility of adding some kind of insurance component. Of note, one panelist indicated that this was the ONLY mandatory option he/she would favor because it involved his/her own money.

***Mandatory/voluntary/mandatory offer*.** In round 2, the Long-Term Care Savings Fund Program (LTC-SFP) and the Long-Term Care Transition Financing Program (LTC-TFP) were both presented as mandatory programs. The thinking behind mandatory was that up until now, voluntary LTCI programs simply had not generated sufficient participation to address adverse selection issues and enable sufficiently low premiums to attract a mass audience.

Much of the panelists' negative commentary around those plans centered on the issues of whether a mandatory program was appropriate or viable in the current political environment. With that in mind, the concept of making the products a "mandatory offer" was introduced in round 3. The rationale for that approach was that making the "offer" highlights the importance for consumers to at least consider the problem. That should lead to higher participation and, at a minimum, higher awareness of the need to plan. While panelists appeared to react positively to the "offer" idea, there were still many who raised the issue that anything less than mandatory participation would necessitate underwriting, and that would limit participation. The conclusion is that this is an issue that needs further study. While the mandatory issue is politically volatile, research could be conducted that lays out the choices to consumers in ways that show the economic trade-offs as well as the political ones.

Catastrophic versus "up-front" coverage. In response to findings from round 2 that indicated a strong preference for catastrophic coverage as part of a social insurance program, round 3 included a high-deductible plan to provide catastrophic coverage for panelists to evaluate. Based on round 3 results, that preference continued. The high-deductible approach garnered more support than the short-term care approach, both overall (67 percent versus 60 percent), in the ratio of agree to disagree (nearly 3 to 1, versus less than 2 to 1), and in potential impact on the LTC crisis (77 percent positive versus 65 percent). That said, panelists actually rated the short-term care approach more viable from a consumer perspective (79 percent versus 74 percent). Panelist commentary suggested that for many middle-income consumers, they might exhaust their resources before they get to avail themselves of the catastrophic benefits. On the other hand, the short-term product, while limited in terms of total benefits, would provide consumer value because of higher potential for use along with more affordability.

Medicare LTC and the federal role in LTC. In round 2 of the study, two-thirds of the panelists supported the idea of a Medicare-supplement-style program for LTCI. That concept presupposed a government-sponsored LTC benefit but would leave gaps for private insurers to fill, as with the Medicare acute care benefit. With that in mind, this study proposed the FLTCi concept, which outlined a mandated government-supported high-deductible catastrophic plan with private insurance providing gap-filling optional supplements. Just over half of the panel (52 percent) agreed that this was a viable approach. However, almost as many panelists disagreed this was viable (43 percent), yielding the lowest ratio of agree to disagree of any concept in the study. Seventy-five percent of the panelists thought the idea was viable from consumer and carrier perspectives, but only 39 percent agreed it was viable from a government perspective.

In their unfavorable comments, panelists indicated a number of reasons why they thought the concept was not viable from the government perspective. Those reasons included "government creep," the potential for increased costs to government and taxpayers, too strong of a role for the government in LTC and specific disagreements with the structure of this proposed concept. See the FLTCi unfavorable comments in this report, and round 3 responses in the separate round 3 report download.

Participatory LTC policy designs. In round 2 of the study, mutual LTC and universal LTCi were introduced as innovative concepts that could be made possible by changes to the regulations and legislation governing LTCI. The rationale behind both of these concepts was that they would balance consumer needs for affordable protection with carriers' needs for predictable and manageable economics. In round 3, 63 percent of panelists thought that the LTC term with a side fund concept (universal LTC) was a viable option for funding LTC, whereas only 53 percent thought the mutual LTC concept was viable. Both were thought to be viable from a carrier perspective by more than 80 percent of the panelists; however, both were less favorable on consumer viability as only 56 percent thought the universal concept was viable from a consumer perspective and only 53 percent thought the mutual idea was viable for consumers. In reviewing panelists' comments, there appear to opportunities to improve consumer viability for both ideas. Regarding the "universal LTC" concept, the concept was thought to be confusing and requiring too many difficult consumer decisions. Work needs to be done to simplify that concept and can be accomplished using consumer focus groups.

The mutual LTC concept was thought by panelists to be heavily carrier-oriented, but the idea of mutual LTC was thought to be a good one, if carriers were able to guarantee a benefit floor for consumers. Again, more work needs to be done to hone this concept to make it more consumer-acceptable given some of the comments.

LTC Savings Program: Concept Description (LTC-SF)

The concept description for the LTC Savings Program that panelists were asked to evaluate is below:

This would enact mandatory LTC health savings accounts to help pay for long-term care expenses or LTCI. Similar to current health savings accounts, the LTC-SF would be funded by pre-tax contributions to a long-term care account, using payroll deductions and/or other regular deposit vehicles such as automatic bank withdrawals. The monthly premium would vary by income level as a percent of wages. Although they would not be specifically excluded, this program would not be targeted to Medicaid-eligible persons, as their long-term care expenses would be covered by Medicaid.

The LTC Savings Fund account would grow tax-free and distributions from the account would be tax-free, as long as they were used to pay long-term care expenses for the individual or spouse, or to pay for long-term care insurance for either/both. There would be penalties for non-LTC related withdrawals, except for extreme hardship. Individuals/couples would be communicated to on a regular basis, regarding their options to purchase qualifying long-term care insurance or other protection based on the adequacy of their account balances and their potential projected long-term care expenses.

Funds from 401(k) or IRA retirement funds could be used/transferred to the LTC Savings Fund Program without penalty or tax implications. Any payments made out of this account for long-term care services would trigger a dollar-for-dollar "Medicaid asset disregard." Any account funds not used for LTC could be designated for legal heirs or related family members with the tax-free stipulations. Funds from this account could be used to pay deductibles or copayments in conjunction with any qualifying long-term care insurance program.

The LTC-SF is not intended as a total solution, but rather as an integrated part of a total financial LTC financial solution. Of note, the concept of an LTC savings account was favored by nearly 90 percent of respondents in the second round.

Questions: LTC Savings Program

- Do you agree that the Long-Term Care Savings Fund, (LTC-SF) as described, represents a viable approach to funding LTC in the United States?
- Do you agree that it is viable from a carrier perspective?
- Do you agree that it is viable from a consumer perspective?
- What do you think that the impact on the LTC crisis would be if this concept was adopted?

Panelists' Select Comments: LTC Savings Program

Favorable/Like

Overcomes objection to putting money aside—having it go to heirs.

This is the only circumstance in which I approve of mandatory participation, because your own money won't get spread to be used by others.

The opportunity to self-fund or insure the LTCI risk.

Encourages early planning—or at least thinking about the issue earlier.

Any payments made out of this account for long-term care services would trigger a dollar-for-dollar "Medicaid asset disregard." Any account funds not used for LTC could be designated for legal heirs or related family members with the tax-free stipulations.

1. Like the HSA concept with its positive tax consequences to the consumer. 2. The mandatory nature of the program, i.e., everyone participates. Better than #1: this is more a reward for those who do the right thing. It will force people to save and therefore plan.

It rewards people who find other ways to cover, reduce or avoid the cost of their care as the accounts can be inherited. It would reduce the cost of Medicaid. Care recipients would presumably have (more) control over care *provider choices because they'd be using their own money. It does not seem as though it would create a significant number of additional government employees or suppliers.*

Not clear, but I assume LTC premiums could be paid out of this fund. If so, I like everything about it.

Makes sense to provide HSA-like benefits to all Americans, not just HSA owners.

Easy to understand due to other financial programs that exist. Good to be mandatory.

If people have socked away money in these accounts, it could really encourage them to use care efficiently; it gives kids a financial incentive to provide informal care.

Benefits would affect Medicaid. Self-funding is a plus. Encourages self-responsibility.

The existence of the HSA should be mandatory, the payment in should not. Those with a zero balance would not enjoy the tax-favored benefits of pre-funding nor would they be able to qualify for asset disregard and Medicaid program eligibility without a tracking mechanism to show they have spent. Also need to add the ability to pay for catastrophic LTC insurance coverage through the HSA for family members. This program has the incentives, the funding advantages, and the opportunity for both government and private insurance to participate and appreciate the advantages.

HSA-like design that would allow the purchase of LTCI from those funds. Penalties for inappropriate withdrawals.

Take out the word "mandatory" and I would be in complete support.

Could this be structured in a way so that people in the middle-mass market could roll over money from their IRA/401(k) into an LTC-SFP, and would further have an incentive to do so? Getting people in that cohort to have some savings earmarked for LTC and standing between themselves and Medicaid is the key.

Requiring everybody to save for LTC would force them to think more about the issue. A little nest egg like this would reward children who took care of their parents.

Unfavorable/Dislike

It should not (and cannot) be made mandatory. It is quite appropriate to provide incentives, but much less so to mandate private savings (for any purpose).

How does this address low-income earners? More tinkering with the tax code—ugh!

Does not solve the impending LTC problem since the low income would not have coverage. Minimum impact on future Medicaid spending.

Mandated savings will be difficult politically.

This product does not spread risk across a population and primarily maintains LTC costs as an individual/family burden.

As has been the problem with getting an above the line deduction for TQ LTCI premiums, this would be a tax expenditure that would contribute to increasing the federal deficit. Would be very difficult to pass Congress given the country's current and foreseeable future fiscal situation.

May require contributions to be made on behalf of the working poor out of general tax revenues. May be difficult to put through Congress as HSAs have fallen out of favor with the ACA—however that is short-lived (three years at most).

If an LTC event occurs for more than six months or a year, the insured will not have enough money to pay for further care and issues with Medicaid would still persist. Perhaps you could layer on a private insurance component and deduct from the savings a monthly charge for private LTC insurance that has a deductible equal to the accumulated savings or a one-year deductible.

Not sure how mandate makes it similar to HSAs. Seems to be more similar to IRAs, 401(k)s, etc. Not clear why I need both an IRA and LTC-SFP. Could be more efficient to have one pre-tax savings account with LTC distributions taken tax-free.

Most Americans already contribute very little to their retirement savings accounts, so it is hard to imagine where they are going to come up with the money to put into these accounts.… .I'm also unsure what type of actual protection this would provide for the average middle-income participant—possibly this would also serve as a small pot to facilitate a transition. As such, benefit triggers would need to be carefully crafted to make sure that these funds could be used BEFORE beneficiaries are in a costly, catastrophic care situation.

It seems most likely to favor the wealthy. I would prefer a tax-credit approach.

The insureds are vulnerable as to timing when they need their LTC services. If they need such services at a time when the account value is low because of economic conditions, they are disadvantaged.

While this approach has promise, it does not benefit from risk pooling of an insurance-based product and therefore represents an individual solution to a national problem.

Again, the work needs to be done, reviewed and shared that would allow the design as a part of the overall package could be at worst revenue/expense neutral.

Pre-funding some of the costs is nice but would not be adequate for real long-term care expenses of any magnitude. Problem is how to convince people that a little is nice, but not enough. Campaign parallel here is Social Security and the brokerage industry. They don't attack Social Security, they build on it: "Social Security is not enough."

Saving for LTC is like trying to out-run a forest fire. We already have the "self-insurance" objection that is a huge stumbling block to sales because people have no idea that if the historical trend continues, LTC is going to cost as much as $30,000 a month in 30 years in most parts of the country and more in higher-cost areas.

High-Deductible Plan: Concept Description

The concept description for the high-deductible plan that panelists were asked to evaluate is below:

This approach would provide baseline insurance coverage for long-term catastrophic LTC situations like Alzheimer's disease, stroke, arthritis, and similar chronic diseases. It will cover long-term care expenses for home- and community-based services, assisted living and nursing home services, respite care, and care coordination. As with LTCI today, payments would be subject to monthly and lifetime maximums, and premiums would be age-based.

However, to keep premiums affordable, consumers would be responsible for paying for the first one, two or three years of care (their choice), and premiums would vary accordingly.

Consumers could qualify for "healthy living" credits to shrink their deductibles, similar to good driving credits that reduce auto insurance premiums. These "healthy living" credits would be determined based on performance against annual health risk assessment factors like BMI, BP, cholesterol, and glucose levels. HD LTC would be a "mandatory offer" plan, meaning that all individuals would be presented with the opportunity to purchase this plan either at their worksite (as an option in conjunction with their health care plan) or through the health marketplaces (also known as exchanges) currently established for health insurance. It would also be available for sale by any licensed LTC agent. It would be offered in conjunction with the LTC-SF or with any other complementary social insurance.

For tax purposes, premiums for this plan would be subject to the same treatments as health insurance premiums. This plan is intended to be underwritten by private insurance carriers, but would be federally sponsored and regulated as with the Federal Long-Term Care Insurance Program (FLTCIP).

Questions: High-Deductible Plan

- Do you agree that the high-deductible LTCI approach, as described, represents a viable approach to funding long-term care in the United States?
- Do you agree that it is viable from a carrier perspective?
- Do you agree that it is viable from a consumer perspective?
- What do you think that the impact on the LTC crisis would be if this concept was adopted?

Panelists' Select Comments: High-Deductible Plan

Favorable/Like

I think there is an opportunity for people to self-finance a portion of their care up front and that the real worry is on the catastrophic cost side.

Up-front private/back-end public seems like a good partnership—win/win.

Covers catastrophic situations; potentially, more affordable than shorter elimination periods; consumer choice of waiting periods; healthy living discounts.

The insurance premiums for a three-year elimination period would be much more affordable than for today's typical 90-day elimination period.

Provides a critical backstop for individuals who may experience a catastrophic event and draws away outlier risk for LTCI plans to stabilize rates.

Your premium payments will most likely be lower than if you paid for all of your own care. This plan might work better with some tweaking (e.g., you cannot let people pick between paying for one, two or three years of care—everyone would choose to pay for only one year of care. But ... how can the government afford to pay for the share that has been outlined for them?

Provides catastrophic coverage at a much more affordable premium. Encourages the use of informal and family caregiving during the deductible period. Mandatory offer would hopefully force people to at least think about the need to plan for LTC expenses … even if they don't buy a policy. It would at least raise public awareness.

The basic concept of catastrophic social insurance sold by private carriers is a good one. So is the concept of selling through exchanges.

1. Catastrophe coverage is inexpensive and should appeal to many people. 2. It encourages savings to pay the uncovered expenses and because it protects against disaster for the middle class; encourages savings. 3. Voluntary. 4. The involvement of private enterprise, with public oversight, maximizes the chances of sound financing. 5. It can be integrated with the acute care program, which can therefore make investment in long-term wellness efforts more viable for the acute health care insurer. 6. I like the ongoing reward for healthy living. 7. The high deductible makes underwriting less critical. 8. Benefits are not forfeited if you give family care. In this regard it is different from the linked products. With linked products if you give family care, hence don't exhaust the core benefit, you never reach the extension of benefit.

I like the idea of giving persons who really understand risk an option to pay the bulk of their early LTC expenses themselves. But LTCI is unlike a medical plan, where the insured is confident that sooner or later he will be using services. A high-deductible LTCI plan could mean that a number will pay lower premiums but not live long enough in a state of dependency to collect. While insurance people understand the benefits of such an arrangement, as would people who are financially sophisticated, there is high risk that the product would generate poor public relations for the industry. Some consumers would complain that they were bankrupted before the policy kicked in; others, that they did not really understand what they were buying.

Unfavorable/Dislike

Is it practical for lower income/asset people and if you create a safety net will you get FLTCI planning attorneys?

It's not really social insurance. Too voluntary. The credits for healthy lifestyles don't make sense—even those folks deteriorate in condition at end of life and need LTC and some will be more likely to die quickly younger and need less LTC. This is really a proposal to promote LTCI not social insurance.

Will crowd out private insurance; no funding solution for the low income; possibility of few carriers interested; still too expensive for retirees.

Many people will not have resources to cover the gap so not sure what is in store for them.

Having only high-deductible plans could result in individuals still having to spend down and relying on Medicaid during the elimination period.

Healthy living credits as described are difficult to evaluate and incorporate into the rate given that these items listed are correlative, not casually, associated with decreased need to be in claim.

Consumers will have a difficult time trying to determine how much of a waiting period they want/need. Can easily see people paying for years thinking they are covered only to find out they have a three-year wait. Needs to be carefully marketed.

Concerns about whether consumers are interested in purchasing high-deductible policies—not enough data/experience.

It doesn't address the main risk problem of the uncontrolled long tail. I prefer coverage for the front end with catastrophic covered by a government backstop. Consumers would need another policy to cover the first few years.

It makes sense with the exception of "healthy living" credits to shrink their deductibles, similar to good driving credits that reduce auto insurance premiums. These "healthy living" credits would be determined based on performance against annual health risk assessment factors like BMI, BP, cholesterol, and glucose levels. With auto, a legal system makes safe driving behavior easy to verify. Tracking "healthy living" would be an administrative nightmare.

I would suggest that a base plan based on a payroll tax such as the Medicare tax now with tax incentives and/or opt-out for those that buy a supplemental program would be better and MUCH more palatable in today's political environment. Another government-mandated insurance purchase is a non-starter in today's political world.

This is almost right, but as designed is not true catastrophic insurance. It is rather a sort of "donut hole" insurance where consumers are responsible for first dollar and last dollar, with insurance covering some mid-range risk. Who would protect against true catastrophic that exceeds the lifetime limits in this design? This plan also ignores the question of low-income subsidies. What does it do for those who do not make enough money during their working years to either pay premiums or save for first-dollar costs?

By itself, it doesn't make sense unless we make it possible for people to buy short-term care and also home equity must be at risk.

The ACA ALREADY has a ton of resentment and resistance; tacking on something that most people feel instinctively they don't need will likely be VERY unpopular. It also may give people the illusion that they've planned fully for long-term care; many would still go broke or obligate the families with just catastrophic coverage.

It seems odd that the healthy living credits apply to deductibles, not premiums. Also, I would expect the listed criteria to vary by age since the chosen measures all have distinct age patterns, even for healthy individuals. Moreover, low BMI is often due to developing frailty, which is definitely not healthy.

It's not clear if any underwriting would be allowed. I think there has to be, or it has to be made a mandatory requirement to purchase.

Short-Term Care: Concept Description

The concept description for short-term care that panelists were asked to evaluate is below:

This program would provide a limited LTC benefit to help consumers pay for long-term care expenses including home- and community-based services, assisted living, respite care, and care coordination. The benefits would be modest, with the idea that it would encourage efficient use of informal and family care services, as well as provide care management assistance. It would utilize copays to stretch benefits further, and is intended as a supplemental, interim approach to help people and families during the first one to two years of a long-term care situation, as opposed to a complete financial solution. Short-term care insurance (STCI) would be a "mandatory offer" plan meaning that all individuals would be presented with the opportunity to purchase this plan either at their worksite (as an option in conjunction with their health care plan) or through the health exchanges currently being established for health insurance. It would also be available for sale by any licensed LTC agent. It would be offered in conjunction with the LTC-SF above and/or with any other complementary social insurance program. The monthly payroll deduction would vary by age, but because of the limited nature of the benefit, would be more affordable *than solutions that are more robust. This plan is intended to be underwritten by private insurance carriers, but would be federally sponsored and regulated as with the Federal Long-Term Care Insurance Program (FLTCIP).*

Questions: Short-Term Care

- Do you agree that the short-term care insurance approach, as described, represents a viable approach to funding long-term care in the United States?
- Do you agree that it is viable from a carrier perspective?
- Do you agree that it is viable from a consumer perspective?
- What do you think that the impact on the LTC crisis would be if this concept was adopted?

Panelists' Select Comments: Short-Term Care

Favorable/Like

Like this because it provides a "something is better than nothing" answer and it helps consumers when they most need it, at the beginning of an episode. As long as it is marketed correctly, and does not over-promise protection; should not mislead.

Like about STCI: 1. If the monthly benefit is low enough, it encourages savings to pay the uncovered expenses. 2. Voluntary. 3. The involvement of private enterprise, with public oversight, maximizes the chances of sound financing. 4. It can be integrated with the acute care program, which can therefore make investment in long-term wellness efforts more viable for the acute health care insurer.

We are generally hesitant to have mandatory coverages, but my sense is this program should be mandatory. Financial support should be available for lower- income purchasers.

It fills a need and is a good product, but doesn't solve Long-term care needs.

It will insure most people adequately, especially if we keep the Partnership concept in it to protect assets equal to benefits paid out.

This is a better option than high-deductible LTCI. I am not sure why it would be referred to as "mandatory" if there is no requirement that it be purchased and the premiums are not going to be the result of a tax on income. "Universal" or "ubiquitous" might be more accurate descriptors. If this program is mandatory, then there is little need to have commissioned agents or brokers involved. The cost that would be required to compensate them could better be applied to paying claims. It should be feasible to sell short-term coverage on a direct basis. Full LTCI coverage, geared to the more affluent, may require the services of agents/brokers and would be more appropriate for their services, as well as giving them compensation that is meaningful.

Again, on one hand it legitimizes LTC planning; on the other hand, it gives the illusion of a "comprehensive" solution when it is not.

Unfavorable/Dislike

Dislike about STCI: 1. A major part of the cost of LTCI is that it pays for core housing which the insured, if healthy, would have provided at his/her own cost. This design does not address that major cost element. 2. Ambiguity about whether premiums are intended to be level (I think so) and whether underwriting is required (I think so) or there are other ways to discourage deferring the buying decision I'll presume that there MUST be underwriting. 3. The *affordability might be overstated. It seems to require "inflation protection" of one type or another. 4. Employer burden.*

Concerns that it is underwritten by private insurance carriers.

Very concerned about participation.

This would only work with a catastrophic backstop provided by government.

It could be a base program for all funded by payroll tax. For same reasons as above I don't believe another government-mandated insurance coverage is doable in today's political environment.

Don't like the idea of low benefits, high copays for lifetime. Prefer meaningful benefit amounts and more consumer cost sharing but a finite benefit with a public sector backstop better than the current Medicaid Partnership. Perhaps a federally administered and funded but privately insured backstop that emphasizes care at home but uses all the industry's best practices for managed LTC.

The mandatory offer does not work without some form of current impairment underwriting. Furthermore, those that are currently impaired would sign up, deplete their policies, and sign up again. This is CLASS-lite with the same issues and sustainability concerns of the full version of CLASS.

Medicare LTC (FLTCi): Concept Description

The concept description for the Medicare LTC Program (FLTCi) that panelists were asked to evaluate is below:

This approach calls for the federal government to establish a mandatory long-term care insurance program, similar to Medicare, with a standardized set of basic LTC benefits (Part A) that would be available to all. In addition, there would be a standardized set of supplemental benefits (for example, Parts B–F) that will dovetail with the basic plan. These LTC "gap" plans will be available for extra premiums from private insurance providers similar to the way Medicare supplement plans are marketed. In effect, this approach combines plan design elements of two concepts explained above—a high-deductible plan as the base plan that everyone would get, with clear carve-outs for standardized plans, including a short-term care plan, to fill the gaps and pay deductibles.

Unlike Medicare where the basic benefits under Part A and B are broad, the FLTCi Part A benefit would be limited in scope, to keep the Part A coverage affordable. The FLTCi Part A plan would cover long-term care expenses for assisted living, nursing home, and home- and community-based services (HCBS), along with a care coordination benefit to help consumers find care appropriate to meet their needs. As with LTCI today, benefits would be subject to monthly and lifetime maximums. Actual benefit amounts will be determined by empirical analysis of average LTC service costs and utilization.

FLTCi Part A would be funded by payroll deductions or other regular deposit vehicles such as automatic bank withdrawals for all working age adults. As with Medicare, the benefit would not be available until insureds reach age 65. The chart below outlines a potential structure for such a program.

> *Part A: Base Plan: Facility care, HCBS and care coordination benefits to be based on national average costs and utilization data.*

Supplements would include:

Part B: Inflation protection indexed to CPI; 3 percent, 5 percent level.

Part C: Informal care pays for personal care from family and friends.

Part D: Return of premium returns premium to estate if insured dies before LTC use.

Part E: Short-term care insurance (STCI) pays deductibles, copays uncovered expenses from the first dollar; similar to Medicare supplement policies.

While FLTCi Part A would be a national, federally mandated plan, private insurance companies would do the administration with federal regulatory oversight (similar to Medicare Advantage plans). The FLTCi plan would be accompanied by a long-term care educational campaign.

Questions: Medicare LTC (FLTCi)

- Do you support the idea of a Medicare-supplement-style program for long-term care insurance, that is, one that presupposes government-sponsored long-term care benefit but leaves gaps for private insurers to fill?
- Do you agree that the Medicare-like long-term care program (FLTCi), as described above, is a viable approach to funding long-term care in the United States?
- Do you agree that it is viable from a carrier perspective?
- Do you agree that it is viable from a consumer perspective?
- Do you agree that it is viable from a government perspective?
- What do you think that the impact on the LTC crisis would be if this concept was adopted?

Panelists' Select Comments: Medicare LTC (FLTCi)

Favorable /Like

Like the idea that it is like Medicare in design/style; anything that can be done to play off Medicare is I think a positive from a marketing point of view. Like that deductibles will make the base plan less expensive.

MANDATORY NATURE OF THE PROGRAM takes care of major selection issues, and the impact of mandatory social security on poverty rates among elders is enormous. Pre-funding for the need on a mandatory basis is the most efficient way to solve this problem.

I like the idea of universal coverage. In principle, I like the idea of a broad social insurance program, but given the challenges with Medicare, I think this is unlikely.

It provides a simplified, national structure to financing LTC and a platform through which to require appropriate cost sharing by income.

This is the best idea for fixing LTC financing because it circumvents the distribution problem and ties LTC coverage to other necessary life decisions. The problem with LTCI is that it isn't integrated into a "normal" lifecycle decision point. Read Nudge *for more on this subject.*

The general idea of mandating LTC makes sense to me. The idea of allowing supplemental coverages to provide beefier, more costly benefits also appeals.

Mandatory base coverage would eliminate adverse selection and keep premiums more affordable.

Provides for Medicaid for all irrespective of asset and income levels—although we know that this would be what drives premium. The post-65 focus may be limiting but enables it to be more affordable—not completely though.

People would accept it more as part of Medicare but they won't accept Med supp AND this. I would like to see this replace Medicare supplement as LTC is such a greater risk than balances to Medicare. People can buy Medicare Advantage and this plan.

I think the concept of a Medicare LTCI offering is a natural and a good one. Its alignment with Medicare health would mean greater understanding of subscribers. And it would bring together short- and long-term health care into a continuum, which is what is needed. The current separation of short- and long-term health care, which began in the early 1990s as a result of insurers treating LTCI as a non-health life coverage, has been the cause of much market failure, including low take-up rates and high expenses.

Unfavorable/Dislike

I don't know that there's enough money in the federal coffers to pay for it.

It will be seen as the total solution. It will be expanded. It will expand the nanny state. It will not be affordable. It puts benefits in the hands of politicians. It will kill the responsible private LTC insurance industry.

A mandatory program, which is what I take this to be, would depend on taxation. That is not something I think we can afford right now. No one is sure what ACA will cost, but many think that the subsidies required to insure many millions of persons who cannot afford health care themselves will drive the cost up for everyone else. I see this as a good option further down the road (2018). I'm not sure it is a step in the right direction at this time.

With costs increasing faster than incomes, WHO will pay for the benefits? Taxpayers are already feeling overburdened by government-run programs.

There is no indication of how the federal program would be funded nor who would be eligible for benefits. The first step in program design would be to choose between pre-funding and PAYGO. This was not done here. Also, use of national average costs would provide poor match to the local area costs for beneficiaries.

Cost is the big issue—as seen in the CLASS effort. Medicare provides comprehensive health care benefits so the expectation might be that this new LTC program would also be generous—which would be very expensive. Mandatory participation would be essential but this would require substantial payroll deductions from families that already are struggling with flat incomes. There might also be a desire to subsidize some of the premiums which would add more taxpayer costs. I'm also not sure if you'd get any support for this from the disability community—they would need a separate (and likely expensive) solution. Since it would require pre-funding, this solution would not address the huge challenges we face with aging boomers.

1. It is not so inexpensive because inflation prior to the beginning of the claim must be covered and because it covers core housing costs. 2. Benefit creep is likely due to politicians and special interest groups. 3. Inadequate financing is typical of such programs and probably can't be avoided. 4. It is not necessary if we require that a *voluntary program be offered. 5. It is unfair to those who don't want LTC services. Why should they have to save for something they don't want? Why should they have to support others?*

Too complicated and not politically feasible.

I think the basic concept of a government program with possible insured supplements is good, but I don't like the specific example. I think the base benefit should be a long elimination period option, possibly with a low daily benefit.

The choices for supplemental coverage should include higher daily and lifetime maximums than available under Part A.

1. Supplemental benefits are subject to the underwriting and claims adjudication of another insurer (the base insurer). 2. Administration of inflation benefits as distinct from the base benefits may be difficult at best. Suppose the base policy allowed benefits up to $200 per day, claim expenses are incurred in a year where the supplemental inflation benefits in total would pay up to $250, and the actual expenses per day were $150. What portion would be paid by the base policy, and what would be paid by the supplemental policy? 3. There is a failure to align interests between the base and supplemental insurers. (a) The supplemental return of premium gives incentive to the policyholder to reduce the claims filed under the base policy and increase them under the supplemental policy. (b) The supplemental STCI reduces the base policy incentives provided by having an elimination period and copays.

Not sure I like the supplements. Perhaps inflation protection and informal care should be part of the base plan and costs should be reduced by adding in copays. Supplements could pay more of the copays.

I think the products should be reversed; the average American cannot handle the first two years and may not buy the supplement. As a country we wouldn't put them on the street and since 80+ of claims last around two years we would put informal funding at risk again. Why not have the mandatory plan be an STC plan and allow supplements to cover the more catastrophic losses? If a person can prove assets and coverage they can opt out of the government program, but cannot ever shelter assets to transfer if they do have a problem with care the government somehow becomes responsible for.

I worry about a system where each person's benefits are not correlated to their contributions, as it is for a private system. There should be investigation to see how this could be accomplished within the constraints of a public program.

Universal LTC/Term Plus Side Fund: Concept Description

The concept description for universal LTC/LTC term plus side fund that panelists were asked to evaluate is below:

Term LTC insurance with an investment side fund combines insurance with investment in one product, similar to a universal life insurance policy. Premiums for this product would be divided in two parts: Part one would be used to purchase one-, five-, or 10-year LTCI term policies, up to a predetermined age (assume age 65). The second part of the premium would be deposited into an individual LTC investment account and the policyholder would have options for how the account will be invested (similar to 401(k) accounts).

The term policies would cover LTC expenses the same as current LTCI policies, if a claim occurred. The premiums for the insurance component of the product, at younger ages, would be significantly lower than for today's policies; however, premiums would increase, in some cases dramatically as the insured ages.

At a predetermined age (again, assume age 65), the insured would be able to decide among several options for using the proceeds of the investment account. The default would be to draw it down on a monthly basis to pay for, or supplement paying for, a level funded long-term care policy. However, the insured would also have other options, including continuing to grow the fund and pay the higher term insurance costs, extending the elimination period as the insured ages to mitigate the annual increase in the term insurance premiums, or reducing the benefit duration or periodic benefits, again to reduce premium costs.

Similar to the Long-Term Care Savings Fund (LTC-SF) described elsewhere, this product is intended to be a mandatory offering.

Questions: Universal LTC/Term Plus Side Fund

- Do you agree that term LTC insurance with an investment side fund, as described, represents a viable approach to funding long-term care in the United States?
- Do you agree that it is viable from a carrier perspective?
- Do you agree that it is viable from a consumer perspective?
- What do you think that the impact on the LTC crisis would be if this concept was adopted?

Panelists' Select Comments: Universal LTC/Term Plus Side Fund

Make Concept More Viable for Carriers

Do not fix the predetermined age. People will prefer choices of the age, with or without the side fund.

Expensive policies are already a problem for expanding coverage into a broader spectrum of consumers. This policy by definition includes costs that would make the policy even more expensive. It doesn't seem appealing as we see the market today.

Term LTCI coverage charges should not be guaranteed so that carriers could react to experience trends. Perhaps maximum coverage charges could be included in the contract so that the carrier has some flexibility to adjust LTC cost-of-insurance (COI) charges, but not unlimited flexibility.

Allow the fund to begin a lifetime LTC solution rather than an age-65 decision. Pre-funding early is much more advantageous than a term product plan to age 65. Plus how do you price for the anti-selection at age 65 if it is guaranteed to be offered?

Even a mandatory offering, besides being unlikely to pass in Congress, will take some of the underwriting challenges the carriers are now facing and magnify them, especially if people have the chance to buy higher levels of LTC or an investment account, with loosened or limited-if-any underwriting.

Make Concept More Viable for Consumers

Scrap this ... it is complex and will not encourage anyone not already planning to do so.

This is a complex idea that I think the average consumer will have a difficult time following. Universal life is not a widely accepted concept, and this is more difficult.

Not sure you can. The benefits after age 65 are too uncertain.

Yearly cost of insurance to age 75 then level.

Stabilize premium increases at older ages to minimize rate shock.

Perhaps have some minimum premium alternatives to avoid a lot of LTCI-to-age-65 being purchased. Index the interest rates so consumers can be confident that they will be treated fairly.

My concern is the potential complexity of such a product and the ability for most consumers to fully understand it. Stand-alone LTCI is complicated enough to market. This product would also require the consumer to understand all the investment options for the side fund as well the decisions they will need to make at age 65 when the term LTCI coverage converts to level premium LTCI coverage.

Challenge is to make it understandable and affordable/not a solution for all—like a combo product that is more expensive and harder to understand.

Not much, because the whole approach is wrong. It is too complex for the average consumer, and not amenable to mass market solutions, which is what we need. We need basis protection, marketed clearly, available direct, with good customer service support, at affordable prices. This will only help brokers in niche markets.

Add a schedule of age-specific caps to the COI.

This concept increases the risk of consumer harm and would be considered a regulatory risk. It is very complex thus difficult for the consumer to understand and make an informed buying decision. Although the concept does make some sense, it needs to be thought through from a consumer protection standpoint so that it can meet the goal of providing appropriate coverage to mitigate the risk of LTC costs for a majority of the middle class. It does not provide the coverage as a federal program previously discussed.

MUTUAL LTC: CONCEPT DESCRIPTION

The concept description for mutual LTC that panelists were asked to evaluate is below:

Purchasing a mutual LTCI policy entails entering into an insurance contract where buyers pay a fixed regular premium for life. As long as they continue to pay the premium, the policy remains in force (i.e., is non-cancelable). The premium rate depends on standard underwriting criteria. In exchange for the premium, buyers receive a fixed number of shares in a fund, which is jointly owned by all insured policyholders. Premiums are deposited directly into the fund. If the insured dies or lapses, the money paid in premiums remains in the fund for the benefit of the remaining policyholders. Insureds would be able to draw from the fund to help pay for LTC events, according to how much money is in the fund and how many shares they have purchased. Like traditional LTCI, drawing benefits from the fund would be subject to ADLs, EPs, BPs, maximum daily benefits, coinsurance, and so forth.

From the policyholder's perspective, the policy would be similar to a traditional LTC policy. The difference is that rather than paying a premium subject to rate increases for a fixed benefit, insureds would pay a fixed premium for an expected benefit that would continuously be adjusted according to the company's claim experience. The public is naturally suspicious of traditional LTC companies because they recognize that the more an insurance company denies claims, the more money it makes. In mutual LTCI, this conflict of interest does not exist—the benefits associated with good morbidity directly accrue to the policyholders. Conversely, bad experience also directly impacts the payable benefit. Insurance companies should be more interested in selling mutual LTCI because it is less *risky for them. They would no longer be in the business of making huge bets on future interest rates, morbidity, lapses and mortality. Rather, they would be in the business of professionally managing the fund's assets, fairly adjudicating claims, and providing care management services.*

Questions: Mutual LTC

- Do you agree that mutual long-term care, as described, represents a viable approach to funding long-term care in the United States?
- Do you agree that it is viable from a carrier perspective?
- Do you agree that it is viable from a consumer perspective?
- What do you think that the impact on the LTC crisis would be if this concept was adopted?

Panelists' Select Comments: Mutual LTC

Make Concept More Viable for Carriers

This is a carrier product, not a consumer product.

It would be an insurance company option. It should be more like a participating policy with dividend options: cash, lower premiums, increase benefits, etc.

I think participating approaches make a lot of sense and I would like to see them revived.

Why not just make it easier for stock companies to have participating policies similar to mutuals? Also, the suspicious attitude of the consumers would most likely not be helped with this structure.

Like the approach but think consumers won't. I'd put a "floor" on the defined benefits such that the consumers know they will definitely receive at least a certain amount and the rest is "flexible" as needed. Give consumers the right to "buy up" periodically if benefits need to be cut. Either accept the benefit cut or accept the premium increase (opposite of how it is done today with a rate increase).

Little. Sounds like a carrier's dream. The consumer assumes most of the risk; the carrier gets to manage a lot of money and gets to scoop that portion of the premium otherwise going to third-party administrators (TPAs). What would make it less viable from the carrier's perspective is if the consumer were guaranteed of a floor below which benefits could not fall, regardless of the pool's experience. But this would be reminiscent of variable annuities, and no carrier is likely to go there voluntarily.

Have even a marginal minimum benefit, that carriers are confident would not provide rate increase pressure.

Make Concept More Viable for Consumers

Have to have some guarantee on benefits. Are early claimants at a distinct advantage over the later?

The governance structure should be more spelled out with assurances that consumers are represented and that mechanisms are in place to make sure the benefits promised are funded and fiscally viable.

1. Again, I am not sure you can, as the consumer does not know what benefits he can count on. 2. Also, as I said in round 2, the longest surviving policyholders may find the pool depleted by the time they need care. 3. Individual policyholders do not have incentive to keep morbidity low because keeping it low does not benefit them. It only hurts other policyholders.

Benefits are guaranteed after age 80.

Problem with this approach is that it doesn't appear to leverage the principle of insuring risk because each individual has their own account.

The consumer will need some idea of what their benefit will be. What if they should have bought more coverage, and could have purchased it long ago (if they had only known)? What about the underwriting? Make it guaranteed issue if purchased when the employee is hired.

Like this—a predictable premium is comforting. And, the risk side is that they wouldn't collect if they died before they used their accumulated benefit since it will be pooled in the "commons."

I'd want to be sure that other alternatives would still be available. Presuming that guaranteed benefit and guaranteed premium policies will be offered in the same market, how can a consumer make a sound decision as to which product to buy? It seems as though pricing assumptions and scenario testing would be important. For example, insurers could be required to disclose what would happen if interest rates were to drop to 3 percent for years 5 to 15. A guaranteed cost insurer would describe what would happen to benefits, and a guaranteed benefit insurer would describe what would happen to premiums. We would need rules as to how benefits vary when the fund falls short of original expectations. Would: • The maximum daily/monthly benefit drop? • The elimination period be lengthened? • The benefit period be shortened? • Future benefit increases be reduced (I'm assuming that a benefit increase feature could exist) • Ancillary riders be impacted (such as survivorship)? Would clients have option to pay more to avoid a decrease? Perhaps only by purchasing at their attained age with full underwriting? The benefit level should be fixed when the person goes on claim (with future benefit increases). There shouldn't need to be fluctuation post-claim. Such fluctuation could wreak havoc, requiring changes to plans of care in mid-stream.

When bad experience quickly emerges, those at the end of the claim stream would be left without. There would need to be protections built in for this not to happen. There is a hint of a CCRC environment here without the provider structure.

VERY difficult here, both for consumers and agents, to have faith in this kind of system—attempts to have a variable benefit in LTC have failed so far, EVEN THOUGH they had merit, as the prospects have believed that only the insurance companies will benefit, and they will not.

TAX-DEFERRED SAVINGS AND NATIONAL REINSURANCE

SIGNIFICANT FINDINGS

The study evaluated two other important concepts: the idea of changing the federal tax code to enable funds in tax-deferred accounts to be used to pay for LTC protection, and the idea of a federally established LTC reinsurance program to backstop catastrophic LTC claims for carriers.

Nearly 8 in 10 panelists favored the idea of modifying federal tax rules to enable use of funds in tax-deferred savings accounts (401(k), 403(b), and IRA accounts) to be used on a tax-free and penalty-free basis to fund LTC protection products, including LTCI. From a panel point of view the ratio of agree to disagree was 7 to 1, meaning it had very broad consensus among panelists. It was thought to be highly viable from both a consumer (88 percent) and carrier (95 percent) perspective, and was thought to have a positive impact on the LTC financing situation by 75 percent of panelists.

Just over 6 in 10 panelists agreed that the national reinsurance concept was viable—a little more than 2 to 1 compared to those who disagreed. About 8 in 10 panelists agreed that it was viable from a consumer and carrier point of view; however, the lower overall viability may have been due to the perception of lower viability from a government perspective (see panelist comments below).

	Agree	Disagree	Ratio A/D	Consumer Viability	Carrier Viability	Positive Impact
Tax-deferred savings	77%	11%	7.0	88%	95%	75%
National reinsurance	61%	27%	2.3	81%	79%	62%

Tax-Deferred Savings: Concept Description

The concept description for use of tax-deferred savings for LTCI that panelists were asked to evaluate is below:

This proposes changes to federal legislation that would enable funds from tax-deferred personal savings accounts to be: 1. Rolled over on a tax-free/penalty-free basis, into qualified long-term care insurance or other qualified long-term care protection products (i.e., the Long-Term Care Savings Fund (LTC-SF) proposed above or other); or 2. Withdrawn on a tax-free or penalty-free basis to pay directly for long-term care services. Rollover and withdrawal rules and processes would apply as with current 401(k) programs.

We recognize a number of hurdles with this proposal. It may not be seen as revenue neutral in the short term and as such may encounter legislative opposition in some quarters. Overall participation in personal savings accounts is less than deemed adequate particularly among the "middle class." As such, it may be considered "competition" for already limited resources and another benefit for the upper class.

However, when viewed in context there are some very desirable aspects. It provides positive incentives for consumers to plan for long-term care using familiar and highly adopted financial vehicles. It provides the opportunity for expanded product opportunities between traditional LTC insurers and financial planning organizations. It provides the potential to offset foregone tax revenues with significant Medicaid reductions in the mid and longer term.

Tax-Deferred Savings: Relevant Background

Currently consumers cannot withdraw funds from their tax-deferred savings accounts (for example 401(k), IRAs) on a penalty-free basis, prior to age 59 1/2 except for a very limited number of exceptions (account owner death, disability, terminated employment age 55 plus, and in some cases first home purchases and medical expenses that exceed 7.5 percent per year). Those reasons do not include the purchase of LTCI or other qualified LTC protection products.

Questions: Tax-Deferred Savings

Do you think the proposed legislative change described above represents a viable approach to addressing the LTC funding issue in the United States?

Do you agree that it is viable from a carrier perspective?

Do you agree that it is viable from a consumer perspective?

What do you think that the impact on the LTC crisis would be if this concept was adopted?

Tax-Deferred Savings: Assessment

The tax-deferred savings concept was recommended by the LTC Commission and has been favored by LTC advocates on both sides of the political aisle. The idea of being able to withdraw funds from tax-deferred savings accounts on a tax-free and penalty-free basis to help pay for LTC protection seems to have a lot of potential, given panel votes. That said, it is important when reviewing this concept to keep in mind panelist comments on the related concept of the LTC Savings Fund, where panelists pointed out that this approach will tend to favor those at the higher end of the economic ladder, and that any plan of this type will need to confront the issue of the budget impact. Heretofore, the ideas that use tax incentives to encourage purchase of LTCI have not received a lot of legislative traction due to the potential of lost tax dollars. The findings of this study suggest that further analysis is warranted to model the economic impact of potential low tax revenue versus the potential offset of increased private coverage offsetting future Medicaid costs.

National Reinsurance: Concept Description

The concept description for a national LTC reinsurance plan that panelists were asked to evaluate is below:

This concept calls for the establishment of a federally sponsored Long-Term Care Reinsurance Corporation (LTCRC) as a non-profit entity to provide affordable reinsurance for catastrophic LTC claims to LTC insurers. The LTCRC would establish and manage an LTC catastrophic fund (LTC Cat Fund) to provide reinsurance for individual long-term care claims that exceed certain levels—for example, $500 K. (Actual level TBD based on empirical analysis.) The fund would be primarily financed through the issuance of LTC bonds as well as participating LTC insurer fees. The purposes of the LTCRC and the LTC Cat Fund are several:

- *To enable the spread of risk of catastrophic LTC claims beyond individual carriers*
- *To encourage insurers to enter or return to the market by capping needed capital requirements*
- *To encourage private insurers to minimize risk charges and hence be able to offer more affordable LTC coverage for consumers*
- *To provide consumers with a higher level of assurance and certainty on rates and claims-paying ability due to federal backing of qualifying LTCI plans.*

National Reinsurance: Additional Background

Given the profitability challenges and other risks in the LTCI industry over the past several years, not only have several insurance companies withdrawn from the LTCI market, but some reinsurers have as well. There have been some instances in other types of insurance—most notably catastrophic property and casualty insurance—where similar circumstances have occurred, and public or quasi-public organizations have been established through legislation, along with, in some cases, catastrophic funds, to help provide market stability and risk spreading. Three examples in particular are noteworthy.

In Florida, the Citizen's Property Insurance Corporation was established to issue hurricane insurance, and the Florida Hurricane Catastrophic Fund (FHCF) was implemented to backstop private insurers at a time when high claims from Hurricane Andrew caused insurers and reinsurers to back out of the market. In California, the California Earthquake Authority (CEA) was established after extensive claims from the Northridge earthquake, as a privately financed, publically managed entity to provide California citizens with earthquake insurance.

Finally, following 9/11, Congress responded to the disruption in the terrorism insurance market by passing the Terrorism Risk Insurance Act of 2002 (TRIA). TRIA created a temporary Terrorism Insurance Program (which has subsequently been extended twice) in which the federal government would share some of the losses with private insurers by offering a reinsurance facility should a foreign terrorist attack occur. All three approaches have pluses, minuses, supporters and detractors. However, learnings from their experiences may be able to be applied to stabilize the LTCI marketplace.

National Reinsurance: Key Questions

- Do you think that the federally sponsored long-term care reinsurance approach, as described above, represents a viable approach to addressing the LTC funding issue in the United States?
- Do you agree that it is viable from a carrier perspective?
- Do you agree that it is viable from a consumer perspective?
- What do you think that the impact on the LTC crisis would be if this concept was adopted?

National Reinsurance: Assessment

The idea of a federally sponsored national LTC reinsurance concept did not receive an overwhelmingly strong endorsement by the panel despite the idea that some kind of national backstop to defray catastrophic claim risks might be essential to re-vitalizing carrier interest in the market. Reviewing panel commentary, there was a strong tendency among panelists to negatively react to the idea of a federal organization stepping into what was perceived as an insurance function. In this study, panelists tended to react negatively when the federal role went beyond a structuring, definitional and support role and to actually doing, as the state of Florida did for hurricane insurance and California did for earthquake insurance.

Given the highly technical nature of this problem, one potential indicated action would be to convene an actuarially oriented “carrier panel” to look at this issue and come up with recommendations as to how best to manage catastrophic LTC risks (via insurance, reinsurance or other facilities).

Panelists’ Select Comments: National Reinsurance

Make More Viable for Carriers

I prefer the government just directly covered catastrophic LTC. It's simpler and reduces needless administration.

I'd say that this is essential for increased carrier participation in the LTCI market; may be essential to keep the few remaining carriers in the market.

I would rather see creative ideas used to entice more private competition, which would be preferred to another government entity.

Any time the government gets involved we lose our freedom.

Get the government out. Are you familiar with the PCIP program (where the feds were going to cover high-risk individuals for medical expenses)? The program has been abandoned, no more entries are allowed, and there may *not be enough funds to pay for the current insureds. You CANNOT allow a bunch of politicians to dictate success. They can too easily back out of the responsibility that they appeared to dedicate themselves to at some earlier time.*

Not sure that it can be satisfactorily changed. LTCI insurers learned the hard way that policyholders with unlimited benefits filed for claim earlier and continued on claim longer than policyholders with limited benefits. If the government benefits turn the program into unlimited benefits, the insurers will experience higher claims than otherwise expected.

I like specific stop-loss so that if a claim reaches a certain point, it goes to the reinsurance company, but you could also combine with an aggregate stop-loss.

Not sure whether a fund open to the public that would offer LTC bonds would be desirable to investors, unless the fund were to be marketed both here and abroad. After all, LTC insurers don't want the risk, and they understand it. There might be a market for high-risk takers, but these firms would expect junk bond returns at a minimum. The cost of such bond yields would add to the cost of insurance. I think that in addition to carrier fees, the fund should receive an infusion from the federal government. Given federal spending on Medicaid alone, well over $100 billion in 2012, the placing into the fund by the federal government of an amount needed to help establish a backstop so that insurers could write and issue coverage without undue capital strain would seem a pretty sensible proposition. If the fund were to grow, and it will, the government would most likely be able to recover its initial grant.

I don't know if the reinsurance structure can be made financially viable, especially given the reactions of virtually ALL of the reinsurers that exited the market for LTC.

Make More Viable for Consumers

This is a federally sponsored bailout of the LTC insurance market—there is no tolerance for this.

Purchase their own LTCI policy from someone who is in the market and not using this approach.

This design would seem to favor affluent buyers because less-affluent buyers would buy smaller policies that would not breach the limits. Tying it to the initial maximum monthly benefit would be more fair in this regard, because it would remove favoritism for policies with large maximum benefits. But, it would still favor longer benefit periods that are more often sold to affluent people. Profit margin on the extended risk should be restricted as the insurer is taking limited risk.

IF you view taxpayers as consumers this is a lousy deal since carriers won't be at risk and will probably end up doing stupid stuff that wastes everyone's money.

It could make consumers feel better about rate stabilization.

This is a good thing for consumers, unless the charges going back to consumers for such protection were to be unreasonable.

This approach makes a lot of sense, especially if combined with more modest LTCI policies (three years of coverage) that focus on catastrophic expenses.

Make More Viable for Government

Don't put the government in a risk management position on a reinsurance pool. Perhaps allow credit guarantees for reinsurers.

What is the government role beyond organizing the fund? There should be no government guarantees or subsidies. This should be funded exclusively by carriers.

The government will not commit long term.

Reinsurance can mean very different things in the policy world. Reinsurance in its pure sense involves buying a service that reduces risk in exchange for a price. Reinsurance is this context is provided by a secondary insurer. The government can also provide reinsurance of this type. However, when government is providing reinsurance, the model often involves a government subsidy. Exactly what type of reinsurance is meant here needs to be clarified. Another model could involve private reinsurance with the government backing up the reinsurance providers.

Establishment of a national LTC cost index so that part of the total LTC claim risks can be sold as investment vehicles.

Political will to spend time on something arcane and largely invisible to voters.

Agree to be a reinsurer only if the government is also the INSURER.

Government should stipulate that use of certain actuarial assumptions must adhere to NAIC rating stability standards and that carrier practices must exhibit good underwriting judgment. Otherwise, the fund would be subject to claims from results having less to do with random experience than with anti-selection.

Since Medicare and Medicaid are being integrated to better manage risks, this type of insurance should be included in the risk management approach, to avoid cost shifting to the private sector.

Medicaid Reform: Medicaid Needs to Be Tightened and Modernized

Significant Findings

Medicaid tightening: At least 4 out of 5 panelists in both rounds 2 (86 percent) and 3 (80 percent) of the study agreed with the principle that Medicaid eligibility needs to be tightened so that people with significant assets will not be able to divest them in order to qualify for Medicaid LTC reimbursement.

Medicaid modernization: In rounds 2 (67 percent) and 3 (86 percent), an increasing number of panelists indicated support for the principle of modernizing Medicaid on a national basis, to enable the program to pay for care in a full range of settings including home- and community-based care, and end the program's "institutional" bias.

Medicaid Principle

The concept description for reforming Medicaid that panelists were asked to evaluate is below:

Medicaid needs to be changed to tighten eligibility by closing loopholes, strengthening eligibility requirements, and enforcing the rules strictly. At the same time, it also needs to be modernized to enable care on a national basis in the full range of settings. This includes home- and community-based care if appropriate and cost-effective.

Background and Detailed Assumptions

Medicaid tightening: Asset exemptions should be eliminated with the exception of the asset exemptions linked to Partnership LTCI plans. Asset look-back periods should be lengthened from the current five years to eight years. Most importantly, loopholes enabling certain asset transfers within the look-back period need to be closed. Benefits from period-certain annuities and life insurance policies need to be available to states to repay costs incurred by Medicaid, before being accessible to families. There needs to be strict enforcement of the enhanced rules.

Medicaid modernization: The tightening of Medicaid described here is envisioned as being implemented concurrently with a limited social insurance program, as described in principle 4. The social insurance program would provide care management services that would help individuals make the most appropriate choices regarding how and where to get care and how to best utilize their resources including benefits of the social insurance plan, and Medicaid. If somebody exhausts the social insurance benefits and spends down their assets according to their care-management plan, Medicaid would have the flexibility to continue to pay for care in less-expensive settings.

Questions: Medicaid Tightening and Medicaid Modernization

Given the round 2 scores and comments for and against Medicaid tightening, do you agree that the Medicaid program needs to be *tightened* as described above?

What do you think that the impact on the LTC crisis would be if this concept was adopted?

Given the round 2 scores and comments for and against Medicaid modernization, do you agree that the Medicaid program needs to be *modernized* as described above?

What do you think that the impact on the LTC crisis would be if this concept was adopted?

Tracking Panelists' Evaluations by Round							
	Round 2			Round 3			
	Agree	Disagree	Ratio A/D	Agree	Disagree	Ratio A/D	Positive Impact
Medicaid tightening	86%	7%	12.3	80%	11%	7.3	77%
Medicaid modernization	67%	12%	5.6	86%	5%	17.2	72%

MEDICAID ASSESSMENT

A large majority of the expert panel agreed that for overall LTC financing changes to be effective, the Medicaid program needs to be reformed in the ways discussed above. Regarding tightening Medicaid eligibility, many felt that it needed to happen as a precursor to virtually any other change. Whether or not a substantial portion of Medicaid expenditures actually go to middle- and upper-income people who have divested assets, panelists seemed to feel that the consumer perception of Medicaid as a fallback option is a major contributor to consumers not feeling they need to plan for LTC. Suggestions were even made that, once the actual tightening was accomplished, a marketing and public relations effort should be undertaken to let consumers know that for most of them relying on Medicaid was not a realistic option. Of note, several panelists made the point that tightening eligibility would actually be counterproductive without realistic private or social insurance alternatives in place.

With these thoughts in mind, the idea of studying middle-class consumer perceptions around planning for LTC, and the role that Medicaid as a fallback plays in their decision making would be extremely useful.

Another important study would be an economic estimate of the impact of removing the institutional bias of the program on a national basis. Would savings from greater use of less expensive home- and community-based services be offset by higher consumer utilization?

SELECT PANELISTS' COMMENTS: MEDICAID

MEDICAID TIGHTENING

I think tightening the abuses is extremely important. It distresses me to see attorneys who make their living helping people find loopholes to get Medicaid when they really are not eligible. At the same time, revising the way the eligibility works would make a lot of sense.

Whether the incidence of artificially qualifying for Medicaid is prevalent, the opportunity to do so causes individuals to not plan for LTC. The loopholes need to close and we all must agree on that.

The main issue with Medicaid LTC is that it needs to be simplified—with clear and consistent rules for everyone across the nation.

All states need to do estate recovery.

I think the Medicaid eligibility rules include very perverse incentives. They encourage people with modest resources to totally spend them down, leaving their surviving spouses in bad financial condition. The Medicaid system also *encourages people to get divorced to be eligible for benefits. A system with graded eligibility and costs makes much more sense.*

It leaves the "middle market" with fewer options since we don't know yet how to make private LTCI of a meaningful type available to them.

Removes the tool that most of middle America has for LTC risk. A replacement needs to be in place prior to tightening, which can be a social insurance or a private insurance program.

As many respondents suggested, Medicaid should be reformed so that family members have more incentive to provide care. The key modification would be to expose the family home to estate recovery with appropriate delays for surviving spouses, etc. If we tighten Medicaid in the above fashion (and ONLY if we tighten Medicaid in such fashion), we could then provide some home care services which, by softening the burden, could encourage more family caregiving.

Medicaid Modernization

While progress has been made, much more can be done to address a continuing Medicaid institutional bias.

There is a sense of fear that if Medicaid is modernized—add HCBS—then the need for LTC insurance solutions is reduced. This is not the case if Medicaid is completely reformed.

It makes sense to provide help in a low-cost setting. That said, managed LTC is lowering costs by putting a lot more pressure on family caregivers when seniors are cared for at home. Ideally, Medicaid should focus on supporting new, lower-cost institutional settings such as NORCs, villages, "assisted living without walls" or "nursing homes without walls" so that seniors have somewhere to go when caregiving at home becomes overwhelming or too isolating. Paying for meaningful amounts of home care is too expensive.

The emphasis on cost-effectiveness across settings is crucial.

This is dangerous ground. The objective is to lower costs. While "modernizing" will lower costs on a per-person basis, will it effectively be a new benefit, which will cause a flood of new people to apply to Medicaid?

Home care is not less expensive if one is having daily 12-hour shifts ... and the more attractive you make Medicaid with home care, the more people will flock to it.

Changing Long-Term Care Legislation and Regulations

Significant Findings

In round 2, nearly 8 out of 10 panelists favored making significant changes to the NAIC Model Act and other similar state and federal regulations to provide more flexibility to carriers to market products that would be more responsive to the changing LTCI market dynamics. Over 75 percent of the panelists also indicated that competitors having left the LTCI market is a major obstacle.

In round 3, panelists were asked to evaluate several potential ideas for greater cost sharing with consumers. Of the options presented, eliminating restrictions on periodic benefits, which would allow lower daily and monthly benefits, and making adult day care an optional benefit as opposed to building it into home care garnered the most support.

Principle: Modify Regulations

The description for modifying regulations and legislation that panelists were asked to evaluate is below:

In order to successfully promote the availability of LTCI in a robust and competitive market, the NAIC Model Act and Regulation needs to be substantially modified to take account of a new business paradigm for LTCI. The new LTCI business paradigm will entail re-engineering the overall product so that carriers will be able to balance acceptable risk levels with the need to offer meaningful consumer benefits at affordable premiums. The Model Act revisions will need to take account of these new business realities while maintaining appropriate consumer protections.

Questions: Modify Regulations Including NAIC (Round 2)

- Do you agree that the LTCI Model Act and Regulation needs to be fundamentally modified as described in principle 3?
- Do you agree that a critically important obstacle to a robust private insurance industry is the decline of insurance companies that are willing to participate in LTCI?

Questions: Modify Regulations Including NAIC (Round 3)

Insured Cost Sharing

Do you agree that regulations and legislation should be modified to allow products that require a larger portion of the costs of services to be shared with the insured, as follows:

- Allowable benefit periods of less than one year
- Elimination of minimum periodic benefit requirements
- Home care benefits that do not include payment for some care services currently covered

Which of the following home care benefits, if any, would you be in favor of requiring as options, but not mandated as part of standard home care coverage?

- Adult day services
- Personal care services provided by home care aides

Modify Regulations: Round 2 Results			
	Agree	Disagree	A/D Ratio
Modify NAIC Model Act	79%	12%	6.6
Decline of competition—key obstacle	76%	19%	4.0
Modify Regulations: Round 3 Results			
Benefit periods < 1 year	59%	34%	1.7
Eliminate periodic benefits	60%	19%	3.2
Unbundle home care	52%	29%	1.8
Adult day optional	74%	26%	2.8
Care by home aides optional	60%	40%	1.5

ASSESSMENT

In round 2 of the study, panelists agreed that the NAIC Model Act, and other related regulations and legislation (i.e., LTC Partnership and tax-qualified status) need to undergo major changes because the product and marketing restrictions they require no longer reflect the product and marketing approaches the industry requires. The evidence cited by panelists is that a number of carriers have decided to stop actively marketing LTCI products. For them, the long-term risks outweigh the potential returns. Three-fourths of the panelists agreed, in round 2, that the decline of insurance companies willing to participate is a critically important obstacle to a robust private insurance industry.

Throughout the study, panelists' comments cited the need for products that balanced affordability and meaningful benefits for consumers with predictable economic risks for carriers.

With that in mind, in round 3 the study explored some concepts for re-defining home care benefits to potentially make them more affordable for consumers and less risky for carriers. One way to do that, which would require changes to the Model Act, is to make consumer options some elements of home care that are now defined into the basic benefit. Fifty-two percent of panelists agreed that this was a viable idea, and 29 percent opposed it. In reviewing panel comments, there was some thought that this was asking consumers to make choices about benefit nuances far in advance, without the context they might need to make a reasoned decision. There was more panel support to the concept of breaking out adult day services, which 74 percent of panelists agreed was viable. This may have been because adult day seemed less like home care and more like part-time institutional care.

Regarding changing regulations to eliminate minimum periodic benefit definitions, the panelists agreed by approximately a 3-to-1 margin (60 percent versus 19 percent) that this was a good idea. Fifty-nine percent of the panelists agreed that having benefit durations of less than one year was a viable idea. The fact that more didn't agree to that concept was likely due to a feeling among panelists that benefit periods of less than one year were simply too short to be meaningful.

This principle is one that warrants additional work to determine, from the consumer point of view, what level of benefits for what cost makes sense. Is some protection better than none, and at what cost trade-off? Clearly, some of the restrictions in the current Model Act that were adopted with the best of intentions have proven to be out-modeled at best, and destructive to private LTCI at worst.

Background: Modify Regulations Including NAIC

The private LTCI market is not functioning as intended. Too few carriers are selling, too few consumers are buying, and long-term rate stability remains elusive. Several questions from the round 1 survey addressed how to expand and improve the private insurance market. Panelists were interested in innovative benefit designs and the availability of a broader range of benefit options. Some appealing designs were suggested (e.g., "care sharing"). However, several panelists expressed skepticism that the changes discussed would cause insurers to return to the market. According to some panelists, there is a more fundamental problem: How can there be competition and innovative product designs if there aren't any carriers to implement them?

Severity of the Problem

A significant number of insurance companies that have offered LTCI in the past no longer do so. Carriers who have left the market typically cite high risk, high capital requirements, and low profitability as their reasons for leaving. Unless there are fundamental changes that address the reasons why insurers have decided to leave the market, the private LTCI market may remain a high-end niche business without viable options for the broader population. This principle is a proposition about what could be done so that insurers are motivated to participate in an LTCI market that offers needed products and services to a broader range of consumers.

Details on Current LTCI Regulations

LTC coverage requirements: The Model Act and Regulation defines minimum benefit standards for LTC insurance. For example, it requires that:

1. LTC insurance provide at least 12 months of coverage

2. Home care benefits provide a benefit that is at least 50 percent of the facility benefit

3. Certain mandated benefits be covered under both facility and home care benefits

4. There is a mandated minimum benefit trigger

5. Five percent built-in inflation is part of the policy unless specifically declined by the applicant.

Premium funding mechanism requirements: LTCI premiums are to be either (1) level for life based on issue age or (2) increasing by age until the policyholder reaches 65 and then remain level for life. Insurers have a limited right to increase rates if experience is beyond moderately adverse. Moderately adverse is defined by each company based on the particular product risks and risk appetite of the company. Insurers must file a requested rate increase with each state where they have business.

Panelists' Select Comments: Modify Regulations Including NAIC

Offered but Not Mandated

Allow for flexibility. I'm sure there are many that will develop in the future that we cannot possibly try to legislate.

Home modifications (e.g., ramps, grab bars).

I fundamentally disagree with the idea of limiting home care services by limiting personal care services—that is the raison d'être for long-term care insurance—to pay for personal care. I could see breaking out adult day services because the care is being provided in a different location, even though the type of care is the same. The only problem breaking it out is that people have a hard enough time anticipating whether they'll need any kind of insurance protection at all—having them try to differentiate between being covered for home care but not adult day may be asking too much of them. How will they decide?

Allowing family members to be compensated for the personal care services in lieu of agency home care aides.

Robotic assistants.

Informal care or cash payments/home care paid at same rate as facility care.

These both should be included in all policies, not just offered as options. Any design should allow for maximum flexibility.

Improve the Way LTCI Is Marketed and Sold

Principle

The following principle was proposed to the panel for discussion:

The way that long-term care insurance is marketed and sold needs to be improved by supporting initiatives to "mainstream the message" that long-term care represents a significant and largely unplanned for financial risk that needs to be addressed by consumers.

Improving Marketing and Sales: Important Findings

In round 2 of the study, two-thirds of the panelists agreed with the principle of formalizing the requirement to communicate the LTC risk, and offering an overview of potential solutions to all insurance consumers. However, there was less support among panelists for ideas of requiring and mandating LTCI certification and LTCI training for agents, and requiring life and health carriers to offer LTCI as opposed to encouraging those kinds of behaviors.

In round 3 of the study, 86 percent of panelists agreed that the NAIC-recommended and Partnership-required LTCI training should be an integral component of continuing education (CE) requirements for life and health agents; and nearly as many (79 percent) agreed that knowledge of LTCI should be a core requirement of professional designations. There was less agreement among panelists for encouraging all life and health carriers to offer critical illness as part of their product portfolio (43 percent agreed) or considering critical illness accelerated death benefit riders to be LTCI for education and training purposes (50 percent agreed).

Improve Marketing and Sales: Round 3 Results			
	Agree	Disagree	A/D Ratio
NAIC/PART training should be integral to CE credits	86%	10%	8.6
LTCI knowledge should be core requirement of prof. designations	79%	2%	39.5
L&H companies encouraged to offer CI options	43%	40%	1.1
For training, CI accelerated death considered LTCI	50%	29%	1.7
Improve Marketing and Sales: Round 2 Results			
Agree mainstream message	67%	16%	4.2
Partnership certify agents to sell LTCI	39%	28%	1.4

L&H companies have obligation to sell LTC	26%	50%	0.5
Prof. designations should mandate LTCI training	39%	34%	1.2
NAIC should require training for CI riders	42%	24%	1.8
Improve Marketing and Sales: Round 1 Results			
Advisors have fiduciary to talk about LTC risks & costs	88%	05%	17.6

IMPROVING MARKETING AND SALES: ASSESSMENT

Among panelists, there was broad agreement about the need for improvements in the way LTCI has been marketed and sold. However, when looking at the details of how that improvement should occur, there was less agreement.

In comments, panelists suggested several different messaging approaches. Interestingly, more seemed to center on the protection of families from the issues and burdens of caregiving than on the financial protection of assets that has seemed to be a cornerstone of LTCI marketing approaches for many years.

From a producer perspective, 86 percent of panelists favored incorporating LTC training as part of CE requirements and 79 percent favored making LTC knowledge a core requirement of professional designations. These questions contemplate making it an agent's fiduciary responsibility to include LTC risks and costs in any financial planning conversation. The implication of these two findings is that agents would be morally obligated to mention LTCI in their conversations with consumers. The rationale for this approach is that not enough producers actually understand the LTC product and as such avoid raising the subject to their clients, to the client's detriment and that of the overall market.

In the comments, another approach, less favored by panelists, came up. It suggested removing and loosening some of the LTCI training requirements. The rationale here is that the complexity of the certification process and the actual training itself acts as a barrier that keeps many producers from dealing with the problem at all. For them it is too much work, not enough return. The potential suggestions offered by panelists included breaking the problem down into risks and costs of needing LTC, which assumed that virtually any life and health producer should be able to do, and then developing a referral process with LTCI specialists for specific personalized solutions.

The last interesting perspective is that the marketing problem is neither one of agent training nor a marketing messaging one, but something more fundamental: lack of a product/solution that resonates with consumers. In the commentary, several respondents described the idea that the products marketed to date simply have not been of interest to the majority of consumers. References made to what consumers are looking for as they age included this:

"They (consumers) are worried about outliving assets or not having the ability to care for themselves. Sell them a policy that helps extend assets, that gives advice and programs that extend healthy lives and that provides the LTC safety net if they fall."

With the idea that good marketing begins with a good product, an indicated action coming out of this set of findings would be basic consumer research to determine the extent to which this thought does in fact represent what consumers want and need as they age. The research could then go on to explore what product designs can help meet those needs.

Panelists' Select Comments: Improving Marketing and Sales

Communication Messaging That Will Motivate Consumers

Government and industry ads coordinated to tell a simple message. Medicare will not pay for LTC and you cannot qualify for Medicaid if you have resources [or have given away your assets in the last eight years].

Hit them often … more is better.

A government-led educational program on the need/cost.

Negative incentives described to them when they apply for Social Security and Medicare.

Impact of episode of care on family members.

Give real-life examples of success and failure in planning for LTC.

The risks, IF they are made real and we don't keep on taking care of people for free after they give everything to their kids.

There needs to be more recognition of the links between acute and long-term care.

The No. 1 reason consumers are buying LTCI today is to avoid being a burden on their children. This is especially true of the middle-market consumer who doesn't have more than a few hundred thousand in retirement savings, if that. Here's the message I like: "Long-term care insurance helps people plan for extended episodes of health care that would cause them to have to rely on their children or other family members for care." Then you have to demonstrate that it's more cost-effective to plan and never need LTC than to not plan and need a lot of it (little mistake vs. big mistake).

Eliminate the fuzziness around this issue. There are way too many nuances and caveats. Clear, simple messages work when they appeal both rationally and emotionally and are combined with an easy path to behavior change. Rational message: You must cover the front-end risk because we (the government) won't pay for it. Emotional message: If you don't, you risk burdening your family or experiencing poor quality care. Easy path: Standardization and/or compulsory participation in a limited plan.

I also believe it is EXTREMELY IMPORTANT to make people realize that not planning is taking valuable state dollars away from their children's education and all the other things for which we need state budgets to pay. FYI, HIPAA recognized chronic illness as well as terminal illness paid by ADBR so the benefits are tax-free. I do think training is severely lacking on this and combo riders. The prevailing way these are sold is to say give me $100K and I'll give you $300K for LTC, with no thought about how much the plan will pay monthly at claim time. Most will pay about 20 *percent if costs go to $30K a month in 30 years. The pool won't be much help if people can't make up the difference on a monthly basis at claim time.*

People are not offered LTCI because agents are not qualified to speak about it. They should all be qualified to speak about it. Then, every sale ought to call for the agent to discuss LTCI with the applicant and have the applicant sign off that they either discussed the opportunity or the applicant forced the agent not to talk about LTCI.

Required training and then required presentation as part of any asset-based program on the need for covering LTC risks.

The licensing and training requirements in the financial services industry are already complicated and arduous. I'd suggest that, rather than layering on another level of requirements, the whole thing be streamlined, but in a way that requires everybody to be aware of these risks.

Some level of knowledge needs to be taught, but I am concerned that excessive requirements will further limit the market. Companies will need to communicate the product effectively. Standardized industry communications may help too.

There is no place to explain why I am opposed to the "universal" eight-hour training. The reasons are as follows: 1. The responsibility is more to discuss LTC planning than LTCI. 2. People who take the training will still not be expert in this area unless they do it a lot. They especially won't be expert in LTCI. 3. Our society has a lot of specialists. People should be allowed to specialize and refer to others for LTCI. 4. As someone who is a highly rated teacher and has had over 1,000 students in LTCI training classes, I can tell you that the details don't stick.

Turning to your question, the key need is to encourage the clients to have discussions with their family members and to internalize how an LTC event for various family members would impact that family member and other family members. What would be ideal from various people's perspectives? What can be done in advance in order to be able to best handle such an LTC event? As regards LTCI, it is important to show people what they get for their money. Ironically, insurers don't do that well. I have software can allow people, in 15 to 20 minutes, to make an informed and well-documented final decision about whether they are interested in buying LTCI or not.

The following questions (3 through 6) don't have an option for expanded explanation. I am convinced that the requirement for NAIC/Partnership certification has given many producers the idea that LTCI is an area of complex specialization and driven them from the market. This needs to be resolved by simplifying the process, ending specific certification, and making LTCI training part of initial testing and license qualification. Ongoing re-certification should not be required. Or, if a non-LTCI-certified producer writes an LTCI app, having an LTCI-certified producer sign off on suitability review might be a workable alternative. Not all L&H carriers have a market interest in LTCI (i.e., mail order term life carriers). Not all professional designations have a relationship to the LTCI market.

Advisor education is indeed key, but requiring all advisors to be trained is like requiring all auto dealers to sell motorcycles. It is just overreaching. What they should require is that advisors ask the appropriate questions and partner with an LTC specialist. This awareness campaign is not overly intrusive and will ensure that clients are knowingly making a decision. Advisor requirements cannot take the place of an active insurance market where a demonstration of the risk to individuals and a value demonstration of the insurance product is offered.

LTC insurance problem is not the fact that there are not enough advisors talking about LTC, but that the products don't resonate with a vast majority of households.

Retirement planning consultation should be required to include LTC financing planning. The issue is not the communication message, the issue that there's no clear LTC financing direction.

The problem is not the message, but instead the adequacy, reliability, availability and pricing of product for the average American.

Based on many years in the biz, I do not believe that the lack of LTC planning is a result of ignorance, but due to a sense of hopelessness, because most people cannot afford a comprehensive solution so they don't even try to find one. LTCI has traditionally emphasized the catastrophic costs of LTC—which is reasonable given that this is what insurance is designed to solve. However, many of the proposed solutions, including affordable short-fat policies, do not cover these overwhelming expenses. It is therefore time to get away from catastrophe scenarios, and focus more on solutions and management strategies for middle-income families with limited resources.

Build products that people want to buy. People want to buy fire and homeowners' insurance (not just because the mortgage lender makes them). People wanted to buy life insurance (no one makes them). People wanted health insurance long before the government mandate. People are required to buy auto insurance, but buy more than is required. Hardly anyone wants to buy LTC insurance because it is a bad product that has been poorly marketed. People expect to live for a long time. They are worried about outliving assets or not having the ability to care for themselves. Sell them a policy that helps extend assets, that gives advice and programs that extend healthy lives and that provides the LTC safety net if they fall. This would be a lot easier than getting government mandates and tax incentives.

Positioning this as a health-related benefit—i.e., this product will help you stay healthy and minimize your chances of debilitating diseases, but if you get one and need care, will be there if you need it.

Panelists' Select Comments: Improving Marketing and Sales

Improve Effectiveness of Financial Advisors

If not already the case, ask their professional standards board to recognize the fiduciary responsibility.

Long-term care should be part initial license education. Because of the crisis nature, states should give extra credit or bonus credit for LTC CE.

Align economic incentives.

Incorporate LTCI knowledge requirements in the base agent licensing requirements.

Have reporting and star ratings of agents that a consumer can view (and how long they have been in business).

Government efforts to educate the public might be better spent on financial advisors.

I'm a CE provider and have served on the CA DOI Curriculum Board for eight years (just resigned). I've been involved with the CE requirement here for nearly 20 years. The fact is, CE has become a bar to agents entering the market. Depending on the state, way too much is required. Also, online and correspondence CE is an absolute joke. No one learns anything. BTW, I think holding a gun to financial advisors' collective heads over this issue is wrong.

From my perspective, these questions are mixing LTC and LTCI. I think all the fiduciary financial and legal professionals should be educated about the impact of LTC events. But leaving the sale of LTCI to specialists should *be a welcome approach. In that regard, people should NOT need LTCI training if they discuss LTC with clients, then advise clients to meet with a specialist.*

Prefer federalized sale of LTCI or salaried sales and not commissioned agents.

Change compensation.

Enable the partnering of advisors and specialists as a way to meet this requirement.

Financial advisors should sign a statement that they have covered the risk of long-term care with all of their clients. A mandatory body of knowledge should be included for each client to receive and, very importantly, to be sure that people know that most LTC isn't in a nursing home so they understand the impact on the family and that based on historical trends, LTC could cost $30,000 or more a month in 30 years.

Financial advisors should be well-apprised of the difficulties of self-financing LTCI risk. This would include use of tools that help to convey how much money would have to be set aside each month in order to achieve certain savings targets, and how those targets compare to actual service costs, in today's dollars and with inflation factored in. This will help to underscore the utility of simple risk-transfer products like LTCI.

There should be two choices: become an expert in LTC, OR work with someone who is one. The current structure of non-experts giving poor or misinformation about who needs LTCI, especially recommending against LTCI for the wealthy, is incredibly harmful for the public.

Give them shorter-term solutions as well as insurance options. From what I hear, financial planners are getting calls from families about paying for LTC when the problem arises. If there are ways to help them link to caregiving solutions and find ways to preserve assets under management, then they will see the benefits of LTC planning for the future—especially with younger, family caregivers.

Questionnaires and Results

The following supporting material is available for download on the Web page housing this report.

Questionnaires

Round 3 Questionnaire

Round 2 Questionnaire

Round 1 Questionnaire

Results

Round 3 Results

Round 3 Results Control

Round 2 Results

Round 1 Results