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"A KNOWLEDGE COMMUNITY FOR THE SOCIETY OF ACTUARIES"

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Results from the SOA Long-Term Care Think Tank

by Emily Kessler

Author's Note: We acknowledge use of the WIFM concept as presented in Alan Stonewall and Elizabeth Moore's paper "Improving Pension Funding and Disclosures: What's in it for Me?" presented at the SOA's Symposium on the Future of Pension Plan Funding and Disclosure and to be published in an upcoming SOA monograph.

Overview

The Society of Actuaries' Long-Term Care Insurance (LTCI) Section sponsored a multidisciplinary "Think Tank" event in Washington, D.C. on July 27-28, 2005. This event was intended to focus on the most significant issues and trends that may impact long-term care (LTC) risks, care delivery and protection in the future. Participants were challenged to think strategically and creatively about how various aspects of the LTC market can be better managed for the benefit of all stakeholders.

The Section Council was very interested in having a wide variety of perspectives represented at this Think Tank. The invitation to participate was sent to individuals with backgrounds and experience in underwriting, claims, actuarial, marketing, group, and legislation/regulation as well as CEOs, the academic/think tank community, health care service providers and consumer groups. Professionals from the private LTC market represented the majority, but not all, of the event participants. (A listing of participants can be found in Appendix A of the full report.)

The report has been prepared for the SOA's LTCI Section Council and event participants. Over the next few months, the Section Council will be discussing the "big ideas" that emerged as a result of this event to determine how to move them forward. As appropriate, sister actuarial organizations, event participants and others in the industry will be invited to collaborate on the next steps.

Think Tank Structure

Risk, Delivery, Protection

In considering how the LTC market would evolve over the next five to ten years, event participants were asked to think about what would change in terms of LTC *risk*, *delivery* and *protection*.

- *Risk* was defined as the risk that an individual would require living assistance of some sort. New treatments for disease and changes in morbidity, for example, affect risk.

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- *Delivery* (or delivery of care). If assistance is needed, how will that living assistance be provided? Care could be provided by family members, friends or paid providers. It could be provided at home, at a hospital, in an institution (e.g., continuing care communities, assisted living facility) or through another venue.
- *Protection* is defined as any of the private or public options available to individuals to protect themselves against LTC risks. This protection could be provided in two ways. First, it could minimize need for care in the first place (e.g., vaccinations for Alzheimer's Disease). Second, it could finance care if care is needed (e.g., Medicaid, LTCI, reverse mortgages).

Only when we understand how these three aspects are evolving can we understand where the market is headed.

Survey

The "risk/delivery/protection" framework was first presented to participants in a survey that participants took prior to attending the seminar. That survey was designed to get participant opinions on how the system might evolve over the next five to ten years. The results of the survey determined what issues were further explored in the Think Tank.

The survey asked questions regarding approximately 50 specific trends. The trends were loosely grouped in broad categories of economic/regulatory changes, medical care/ delivery, consumers and insurers. For each trend, participants were asked: "What is your perception of the likelihood of significant activity or change over the next five to ten years in each of these issues or trends?" Secondly, participants were asked: "Assuming this activity or change in a particular area were to occur over the next five to ten years, please indicate the most relevant level of impact for each of these issues and trends as they pertain to risk, delivery and protection."

A more detailed discussion and complete set of the survey responses is included in Appendix B of the full report. Highlights of the survey results appear at the end of this article.

Key Drivers for the System

In discussing the survey results, Think Tank participants came to a consensus as to six significant issues or trends that are driving changes in the LTC system. Participants used the survey results, their interpretation of and reaction to those results, as well as other knowledge to develop the issues on which to focus the rest of the Think Tank discussion. The six trends that were focused on, and some topics that fall under those trends, are:

- Public Funding
    - Medicaid Funding Crisis
    - Medicare Reimbursement Policy
    - Public Values/Expectations
    - Intergenerational Wealth Transfer
- Changes in How/Where Care Delivered
    - Tight Labor Market
- (Likely) Morbidity Improvement
    - Changes in Alzheimer's Disease
- Demographic Age Wave
- Availability of Capital
    - Global Perspective
- Underwriting/Anti-selection

These six trends became the focus of the discussion as participants first further fleshed out the issues and their implications and then worked out alternatives for potential solutions.

Stakeholders

Once we had identified what was driving the system, we could then talk about the system's stakeholders. Broadly, we decided to categorize stakeholders as:

- *Consumers*. Consumers include patients (those currently receiving care) and insureds (those who have purchased protection but are not yet receiving care).
- *Financiers*, or more simply, those paying for care. This includes a wide range of people including consumers and their families, insurers and taxpayers/ government (both federal and state).

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- *Caregivers*, which includes both familial and nonfamilial caregivers. While familial and nonfamilial caregivers are included in the same category, it was acknowledged throughout the Think Tank that the needs of these groups are often different.
- *Society*, which we represented by the taxpayers and government (both federal and state.
- *State regulators* who regulate insurance products.

The value of the house is excluded from Medicaid, but Medicaid has, technically, the right to recapture the home value once the estate is settled.

Different individuals could play several stakeholder roles, such as consumer, taxpayer, caregiver and financier. Individuals can also play different roles at different points in their lives.

WIFMs

To be able to talk about stakeholders, and how they react to each other and to changes in the system, we used the concept of "WIFMs," or "What's in it for Me?" Each stakeholder has wants, needs or desires from any LTC system. Any change in the system has to be viewed through the lens of each stakeholder's needs and desires. For shorthand, the participants in the Think Tank used "WIFMs" as a way of discussing those needs and desires.

When changing any system, it's important to understand the WIFMs of the stakeholders. Any changes made to the system should satisfy as many of the WIFMs of the major stakeholder groups as possible, or should at least not violate the most significant ones. Often WIFMs will be contradictory both between stakeholders groups and within individuals who have multiple stakeholder roles (e.g., the individual acting as both patient and taxpayer).

Consider improvements to the Medicaid system. Taxpayers won't like any improvements that increase taxes. But, caregivers, both familial and nonfamilial, may like the improved level of protection available. So, these groups have different views of improvements to Medicaid. Moreover, any individual is likely to play several roles in the system: consumer, taxpayer, caregiver, and financier—either simultaneously or at different stages of life. So, any individual may have very different views of the changes to the Medicaid system, for example, depending on whether he is looking through his taxpayer lens or his lens as a consumer of LTC services.

In order to understand the various frameworks stakeholders will use to evaluate market changes, participants in the Think Tank outlined the major WIFMs for different stakeholder groups. The summary of stakeholder WIFMs is found in Appendix C of the full report.

Big Ideas

Participants spent the afternoon of the first day working with the trends and stakeholder WIFMs to determine possible directions for the LTC system. Each table was assigned one of the six macro trends described above and was asked to discuss the effects of each trend with respect to all aspects of the LTC market. Participants were asked to consider how this trend would affect risk, delivery and protection. Finally, they were to keep in mind the different stakeholders and their WIFMs. A detailed summary of these discussions is found in Appendix D of the full report. These discussions were to flesh out the issues raised by the trends, and how these issues might affect stakeholders. Once those issues are known, we can move to find possible solutions.

Based on their discussion of the previous afternoon, participants returned the next morning to develop concrete solution proposals. Participants split into five tables; each table brainstormed various ideas for possible development. The brainstorming exercise was intended to be "blue sky;" current regulations, market barriers, et cetera, were ignored. A complete list of the brainstormed ideas is found in Appendix E of the full report.

Once each table identified its two or three favorite ideas, they developed these and tested them against stakeholder WIFMs. Also, tables identified potential stumbling blocks to the realization of each particular idea. Each table presented its ideas, and all participants then voted for their favorite idea. All ideas that were presented are summarized in Appendix F of the full report.

Two of the five favorite ideas involved repackaging or rebranding existing Medicare/Medicaid benefits. The other ideas were more long term in nature. The five ideas that got the most votes were:

- Reform Medicaid to Take out the "Loan" on Home Value (29 votes)
- Short-Term Product with Government Catastrophic Insurance (26 votes)
- Repackage Medicare/Medicaid Benefits as "Medicare Part E" (18 votes)
- Tax Incentives for LTC Insurance (15 votes)
- LTC Financing Reform/National LTC Initiative (15 votes)

A. Reform Medicaid to Eliminate the Government's Role as Home Value Lender

This proposal focuses on changing a current Medicaid practice. The value of the house is excluded from Medicaid assets when determining eligibility for Medicaid, but Medicaid has, technically, the right to recapture the home value once the estate is settled. This can be well after the LTC recipient has died, if there is a surviving spouse or disabled adult children. This proposal is to eliminate the government's role of providing interest-free loans by establishing a private and/or government loan system to capture house value, similar to Fannie Mae. This private system would loan money on the house and the LTC consumer would be able to elect how to spend that money on care. When determining pure eligibility for Medicaid, the house would not be an exempt asset, although the value of the house would be considered net of any outstanding loans. The effect would be the same, but the government would not be the lender.

More details on a similar concept are found in Appendix G of the full report.

B. Short-Term Product with Government Catastrophic Insurance

In this proposal, individuals would be required to privately purchase LTCI (or another product) to cover a short-term period of need, with a taxpayer-financed program providing coverage beyond the short-term period. The group proposed a three-year period, but this detail would need to be worked out. Key features of the proposal are as follows:

- Each individual would be required to carry short-term LTC coverage, much as states have been moving to require auto insurance or banks to require fire insurance on mortgaged properties.
- While the short-term coverage would be mandatory, the government (taxpayers) would pay for short-term coverage for those of low means. In this case, housing value would be counted in the means testing.
- Insurers and others would offer products to cover the three-year period. By limiting the coverage period, other possibilities for coverage could open, including reverse mortgages and bonds. Reverse mortgages might be limited to those 55 and older. Bonds could be provided by a Fannie-Mae type organization.
- The government program would cover LTC needs beyond the three-year period. This program would be universal (not means-tested). In this way, the government is assuming catastrophic losses, with "catastrophic" being defined as the term of coverage.

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When testing the stakeholder WIFMs for this proposal, the team felt that stakeholders would react in the following manner:

- Consumers would have a mixed reaction to the proposal.
- Society would also have a mixed reaction; there is a great deal of political risk in this proposal.
- Nonfamilial caregivers would see the proposal as positive.
- Familial caregivers would have a positive reaction to the program.
- Third-party payers such as insurers would have a mixed reaction (probably similar to their reaction to Medigap/Medicare).
- Regulators would have a mixed reaction.
- Capital markets would have a positive reaction.

C. Medicare Part E

Some parts of LTCI are provided through Medicare, but most are provided through Medicaid. Medicaid has the stigma of being a welfare program, while Medicare is seen as universal medical coverage, with no attached stigma. Medicare and Medicaid interact with each other in a complicated and difficult to understand manner. This proposal would pull all LTC benefits together and put them under the Medicare umbrella ("Medicare Part E"). Existing benefits would be repackaged and rebranded to increase understanding with minimal additional cost. Medicare Part E coverage would be mandatory (similar to hospital insurance). Medicare Part E supplemental plans could be offered by the insurance industry similar to traditional Medigap plans. These would be voluntary plans on the part of participants.

D. Tax Incentives for LTC Insurance

Different variations of this idea were discussed. This included above-the-line tax deductions and 401(k)-style plans to pay for LTC. Additional variations were for using IRC Section 125 to permit pretax savings for LTC or to purchase LTCI. One idea was that the tax incentives might vary based on the benefit design and the amount financed (more incentive for funding more care).

In terms of WIFMs for stakeholders, most stakeholders would find this positive with the taxpayer/government/politician stakeholder finding this negative because of lost tax revenue. Participants in the Think Tank thought this could be fixed by considering affordability and flexibility. A revenue source would need to be identified and the tax effects would need to have a proven benefit in a cost/benefit analysis.

E. LTC Financing Reform/National LTC Initiative

These were two separate proposals that were similar.

The first part of LTC financing reform would be to restrict and enforce Medicaid regulations so that Medicaid only provided coverage for needy. Vouchers to purchase coverage would be provided to low-income patients. Those who could not qualify for private insurance would have a risk pool available. Some sort of catastrophic coverage would be included, possibly with a means-tested element.

As part of the LTC financing reform, government/insurer partnerships similar to Medicare Advantage could be established. These would encourage private LTCI coverage and allow the insurers to leverage branding, credibility and backstop. Insurers in return would provide products for coverage gaps.

The other idea, a national LTC initiative, is a public/private partnership that offers simplified, standardized plans. Optional benefits would be allowed under this system. The private policy pays up-front cost and the taxpayer (government) picks up tail risk. This initiative would not mandate private coverage for the up-front cost. ❋

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Appendix B: Highlights of the Survey Results for the SOA Long-Term Care Think Tank

Highlights of survey results are summarized below.

Economic/Regulatory

Under the economic/regulatory heading, survey respondents felt the strongest likelihood of change or activity would be relative to federal policy addressing the Medicaid funding crisis. Other "likely" changes (in the minds of the respondents) included:

- Changes in Medicare reimbursement policy;
- Changes in federal tax policy;
- Increasing regulatory complexity at the state level;
- State regulation on pricing stability;
- Emergence of state partnerships.

In almost universal agreement, the one change that respondents felt was extremely unlikely was the adoption of a universal LTC program. This is the only one of the survey questions on which there was universal agreement that this was an unlikely change.

Changes in Medicare reimbursement policy and the Medicaid system were seen to impact both delivery and protection systems. Other changes, such as changes in federal tax policy, increasing regulatory complexity at state level, state regulations on pricing stability, and the emergence of state partnerships were seen as mainly affecting protection systems.

Medical Care and Delivery

Survey respondents felt very strongly, and were in strong agreement, that changes in medical care and delivery were highly likely. Likely changes or areas of activity relative to medical care and delivery included:

- Tight labor market for home health care providers;
- Increased ability to identify genetic markers;
- Changes in the treatment of Alzheimer's Disease and other dementias;
- Increasing number of assisted living facilities.

Reponses were mixed as to how the respondents thought changes to medical care and delivery might affect risk, delivery and protection. Not surprisingly, the most likely impact was seen to be on care delivery. Few changes in medical care and delivery were seen as having an impact on protection. The one area that was seen to have an impact on all three areas of risk, delivery and protection was changes in treatment of Alzheimer's Disease and other dementias. The only other factors affecting risk were big picture changes: morbidity improvements and mortality improvements.

Consumers

The consumer issues most likely to see activity and/or change in the next few years (again, in the eyes of the survey respondents) were:

- Demographic age wave (aging of the population);
- Need for consumer education;
- Ability to access LTC policies through workplace benefit programs (e.g., group LTC, worksite marketing);
- Change in generational characteristics of consumers (attitudinal, risk, etc.).

The demographic age wave was seen to affect all of risk, delivery and protection (with risk being the least affected of the three areas). And the ability to access LTC policies through workplace benefit programs was seen as impacting protection. But, of the other areas where participants felt change was likely, there was no agreement whether risk, delivery or protection mechanisms would be affected.

Insurers

When considering the insurance market there were not as many strong trends shown in the survey as to what changes there would be, or how these would affect the system. This may be partly because some respondents may not have had a sense of where that market was heading (many more respondents declined to answer the survey questions in this section).

Of those respondents who answered these questions, the most likely changes were seen as:

- Increased attention to managing claims according to policy provisions;
- Anti-selective knowledge on the part of consumers;
- Impact of technology (on sales/marketing, administration, marketing, etc.);
- Need for agent training;
- Improved underwriting techniques;
- Investment markets/returns.

Not surprisingly, these changes were seen to potentially correlate with changes in protection mechanisms, but as noted earlier, this was the section of the survey where there was the least agreement and where the fewest responses from survey respondents were given. In discussions with the participants at the Think Tank, improved underwriting techniques and the availability of capital (a new item), were seen as crucial factors affecting the LTC system in the future. Availability of capital refers to the willingness of capital markets to fund LTCI (e.g., buying insurer stock, issuing bonds to cover the liability). It was noted that capital availability is difficult for this product partly because of the nature of the product (long tail on the liability) and also because of general global demands for capital that provide other, more desirable investments. ❋