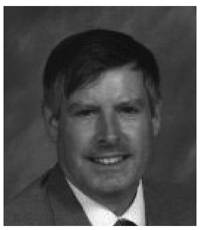
2015 National Academy of Social Insurance Roundtable: The Link between Retirement Security and Long-Term Care

By John Cutler



John Cutler, JD currently works both on long-term care insurance and related issues at the US Office of Personnel Management (OPM) as well as in the new health care reform office of National Healthcare Operations within OPM.

As part of the annual meeting of the National Academy of Social Insurance (NASI), the Society of Actuaries, along with the American Academy of Actuaries, hosted a roundtable on recent work of the SOA and Academy on Jan. 28, 2015, at the National Press Club.

The roundtable, entitled "The Link between Retirement Security and Long-Term Care," focused on recent work funded by the SOA in 2014. A call for papers on the topic of the link between retirement and long-term care resulted in acceptance of 12 papers for presentation at the SOA annual meeting in October 2014 and the resulting release of a monograph with those papers.

Within the public policy community there has been a recent increase in attention on long-term care (LTC), especially around financing. While many believe we have a good understanding of the growing need for LTC, we have fewer solutions. In addition, the policy community has not typically made much of a connection between LTC and retirement security. Thus, over the last several years the actuarial profession, through both the SOA and the Academy, has begun to focus attention on issues related to improving LTC financing and security, especially around the link between retirement security and long-term care.

The roundtable explored these issues through two panel discussions, first setting the stage and then moving toward possible solutions. The speakers for the first panel were:

- Anna Rappaport, an independent consultant well known for her leadership in the SOA, including heading up the their Committee on Post-Retirement Needs and Risks
- Cindy Hounsell (from the Women's Institute for a Secure Retirement, filling in for Sandra Timmermann, formerly of the MetLife Mature Market Institute) and
- Rich Johnson from the Urban Institute

Second panel speakers were:

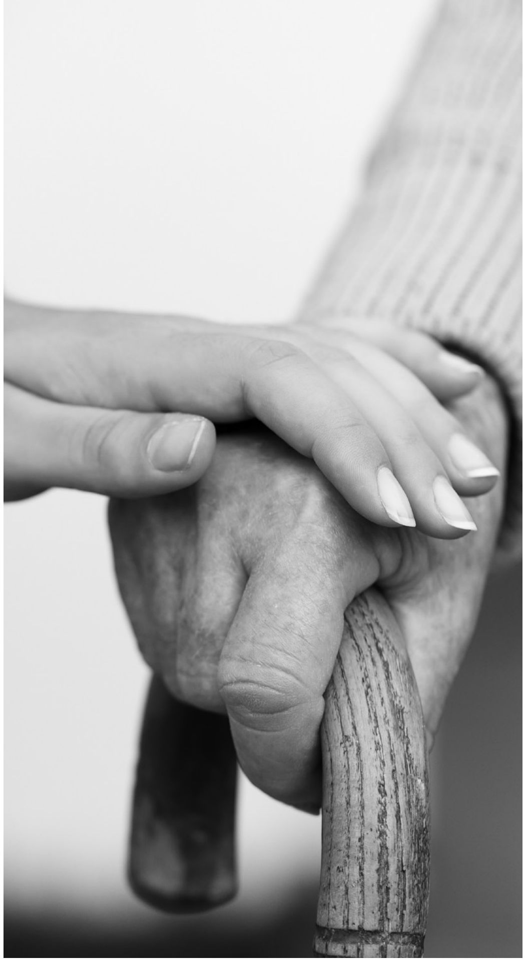
- Don Fuerst, senior pension fellow, of the American Academy of Actuaries
- Eric Stallard, associate director at Duke University's Center for Population Health and Aging and
- John Cutler, U.S. Office of Personnel Management

Andy Peterson, a staff fellow with the Society of Actuaries, moderated both sessions.

For more on the National Academy of Social Insurance (NASI) and its program, focused this year on Medicare and Medicaid, visit https://www.nasi.org/civicrm/event/info?reset=1&id=170

The SOA monograph featured at the Roundtable, "The Link between Retirement Security and Long-Term Care," can be found at *https://www.soa.org/Library/Monographs/Retirement-Systems/managing-impact-ltc/2014/mono-2014-managing-ltc.aspx*

Previous work of interest also includes the SOA's Delphi study, Land this Plane, found at https://www.soa.org/Research/Research-Projects/Ltc/research-2014-ltp-ltc.aspx



SETTING THE STAGE: FIRST PANEL DISCUSSION

Links between Long-Term Care Insurance and Retirement Security

Anna Rappaport told the audience why this matters and where we are in understanding and handling risks in retirement.

In the first part, Anna Rappaport presented her monograph paper (co-authored with Vickie Bajtelsmit) which shows the connections between long-term care and retirement. She also discussed the “Land this Plane” Delphi study the SOA had completed last year, reflecting the opinions of various long-term care experts and stakeholders on a wide range of financing issues.

Anna discussed four methods of private financing individuals and families use to protect themselves from the expense of LTC needs, indeed in some cases financial ruin:

- LTC insurance
- Savings
- Continuing Care Retirement Communities[1]
- Housing equity

Anna raised questions about how advisors can help their clients improve decision making, whether there might be better ways to frame and communicate challenges and even if there might be better product designs (private and public) for financing LTC needs while addressing basic retirement income needs and asset protection.

She noted how a major LTC event can devastate retirement security for most households. For households below the financial median who need an extended stay in a nursing home, Medicaid is probably the only viable option. For others, private insurance is an option, but none of the various approaches match needs perfectly.

She concluded by reminding the audience that managing risks, including the possibility that an individual would need LTC, is a critical part of retirement financing. Most people do not have enough money set aside to cover the risks. And no method of private financing is a perfect match and risk free, though insurance can be very helpful to the middle market. For many, though, any major event requiring LTC will often deplete assets and ultimately need to be financed by Medicaid.

> ”[Anna Rappaport] concluded by reminding the audience that managing risks, including the possibility of that an individual would need LTC, is acritical part of retirement financing.”

Modeling various long-term services and supports (LTSS) policy options

Rich Johnson spoke on the work to create an enhanced micro simulation model to form the basis for assessing underlying long-term care needs and how to address them going forward.

Richard Johnson had a fascinating presentation about the work Urban and Milliman are doing around modeling various LTSS policy options. The nomenclature (LTSS) speaks to the policy and advocacy community’s attempt to enlarge LTC so it covers services and not just care. He outlined the three approaches they will model:

- Status quo (what if we do nothing differently?)
- New insurance options (including front-end insurance, catastrophic and comprehensive)
- Making changes to existing programs or products such as private market reforms and Med-

CONTINUED ON **PAGE 20**

icaid changes to eligibility or benefits.

Rich told the audience that the output will come from DYNASIM, Urban's dynamic microsimulation model.[2] They are modeling out 75 years (to 2087). The model looks at key outcomes related to LTSS needs, LTSS use and cost, as well as private LTC insurance and Medicaid coverage.

Advantages of the DYNASIM model are that it can show all percentiles of health and spending distributions, not just means and medians, and can examine outcomes at a point in time and over a lifetime. But there are modeling challenges especially around the assumption that relationships or trends won't continue indefinitely. For instance, for outcomes that are trending, should one assume that those trends will continue at the current rate, slow down, or stop?

Role of the Caregiver

This talk's central theme was how the often neglected component of the care system is instead a critical element that, left unsupported, has huge societal costs.

Cindy Hounsell/Sandy Timmermann's presentation, delivered by Cindy, was on the often-overlooked role of the caregiver and family support structures. She discussed who these caregivers are (for instance, paid versus unpaid) and what forces are at work that make caregiving an issue of increased importance. She also spoke about the financial impact on families and on employers and government.

In the presentation the audience was provided a profile of caregivers and the financial impact on families. There are 65.7 million family caregivers, representing 29 percent of the population. The economic value of caregiving is $450 billion and the lost lifetime wealth for caregivers who drop out of the workforce—factoring in lost Social Security, wages and savings—is a disturbing $303,800 per person.

She also spoke about the impact on employers/employees since seven in ten caregivers are working. This represents a $25 billion loss to employers annually due to absenteeism, crises in care, workday interruptions, unpaid leave, and so forth. And while many employers have worklife programs and resources for caregivers, they are underutilized.

Important to this issue is the fact that caregiving issues will become more prominent over the next 20 years as boomers retire. Since families provide most of the care now, but are likely to be smaller and more spread out than in the past, they will be stretched to the limit and financially at risk. Part of the problem is that there is a projected shortage of paid caregivers to supplement family care. So while the "Aging in Place" phenomenon is gaining traction, the infrastructure to support families isn't there, and this will deeply impact family finances and retirement security.

Some strategies and ideas to deal with this were offered:

- View the family caregiver as part of the care delivery system and offer support and tax credits
- Incentivize employers to track data and put programs in place
- Create jobs/training programs to ramp up the paid caregiver pool, and look into changes in immigration policy
- Build on successful community models that integrate public services, small businesses, technology, and volunteers

- Address caregiving expenses and the possible need to finance parents' care in a holistic retirement financial plan
- Consider/repurpose reverse mortgages to pay for care
- Re-explore caregiver insurance, riders and other benefits

FINDING POSSIBLE SOLUTIONS: SECOND PANEL DISCUSSION

Addressing LTC expenses in retirement income planning

Don Fuerst spoke on insurance and other products to meet these needs, stating that all have some element of uncertainty and thus fall short of taking care of those risks.

Don Fuerst spoke about lifetime income and long-term care. Retirees can be grouped into three broad categories: (1) those with insufficient assets to maintain their standard of living, (2) those relatively few with more than enough assets to maintain their standard of living and (3) those in between that are challenged with making their assets last for their lifetime of unknown length.

Don said that the typical planning process (greatly simplified) in retirement is that people determine a target replacement ratio—often 75-85 percent—and accumulate sufficient savings to replace income, with the plan being to spend those savings over their expected lifetime. In addition, they usually plan on level or gradually increasing expenses (to account for inflation). But there are fairly universal problems with this planning process including the absence of enough savings to reproduce income and the uncertainty inherent in projecting inflation and investment returns.

In addition, the planning process does not address the "LTC wildcard" which has the potential for creating large expenses near the end of life.

Don went into potential solutions:

- LTC insurance
- Longevity insurance
- Under consumption and
- Contingent bequest

Each of these solutions has benefits but also drawbacks. For instance, LTC insurance might be considered an ideal product to deal with the risk, but unfortunately sometimes that ideal is hard to find in the current market. Likewise longevity insurance (long deferred annuity contracts) can provide income at an advanced age (typically 80 or 85) but does not fit the need well since a true LTC event would require a large longevity policy and the timing of the payment isn't linked to the need for LTC.

Under consumption—spending less in retirement to save funds for LTC—is an option but only for those able to live on less. And, as with the other options, it does not fit the need well given those who do not need LTC lowered their standard of living to pay for care they ultimately did not need.

Don's notion of what he called a contingent bequest was most interesting. Some retirees intend to pass assets on to the next generation as a separate intended bequest from the assets used to generate income or used for expenses. That intended bequest could be used if LTC is needed. This solution could work if the person doesn't mind giving up the bequest and if the amount is adequate for LTC.

In summary, potential LTC expenses are often not addressed in retirement income planning. And while it is an insurable event, there isn't a great deal of satisfaction with current products. Given that, Don suggested that more creative solutions are needed.

Criteria for Evaluating LTC public policy options

Eric Stallard provided a framework for how one can assess long-term care solutions and outlined some of what he believed would address these problems

Eric Stallard, associate director at Duke University's Center for Population Health and Aging, spoke on the considerations for developing LTC policy proposals and the criteria for evaluating these proposals.

As background, Eric reviewed the Community Living Assistance Services and Supports (CLASS) Act. The Academy and SOA had expressed concerns about affordability and sustainability of the program at the time it was being considered for passage. Given that the CLASS program was not implemented, new public policy/stakeholder discussions are continuing to be held. As part of that, the Academy hosted the National Conversation on

CONTINUED ON **PAGE 22**

> **"The economic value of caregiving is $450 billion and the lost lifetime wealth for caregivers who drop out of the workforce—factoring in lost Social Security, wages and savings —is a disturbing $303,800 per person."**

LTC Financing which involved various stakeholder groups. These stakeholders examined LTC financing, LTSS, private/public approaches, and public models to address the problems.

Of interest to the audience were considerations behind developing LTC proposals. These include questions such as:

- Should a program be voluntary or mandatory?
- Is it better to approach it via social insurance or private insurance (or a hybrid)?
- Should it be prefunded or pay-as-you-go?
- What should the benefit design features be—including cash versus reimbursement, the use of an elimination period, policy duration and eligibility?
- As to the criteria for evaluating these options he spoke about the need for financial sustainability, affordability, comprehensiveness, choice, eligibility and an efficient use of system funds.

Specific policy options included reforming Medicaid (e.g., tightening financial eligibility rules and encouraging more community based care) as well as expanding "Partnership" policies (these link LTC insurance to Medicaid which is more an insurance based alteration as opposed to true Medicaid reform). Other public approaches included expanding the Program of All-Inclusive Care for the Elderly (PACE) and/or expanding Medicare, by creating a Medicare benefit that explicitly covers LTC.

Existing reform proposals

John Cutler gave the audience a 30,000 foot tour of what has been suggested to solve the long-term care part of retirement risk and where we might be headed.

John Cutler reported on his monograph paper, described various reform proposals, and listed the organizations working in the reform space. As background he reminded the audience that while LTC coverage is dominated by Medicaid and Medicare, these programs have private sector analogs or supplements, for instance medigap to Medicare and the "Partnership" programs to Medicaid.

While private LTC insurance has its challenges—rising costs, low interest rates (and investment returns), lower-than-expected lapse rates—so does social insurance. Challenges to social insurance include rising costs, demographics (an aging population), uncertainty of acceptance into coverage (including waiting lists and spend down) and inadequacy of the benefit payment.

Also discussed in this talk was the history of some of the reform efforts going back to the Clinton era and moving forward to the CLASS Act. To date the changes—reforms perhaps being too strong a word—are around changes to Medicare made by CMS that restrict or alter access to benefits, as well as some state initiatives around Medicaid involving home and community-based services.

The conclusion is that if large-scale reform comes about, the organizations to watch include AARP, Leading Age, the SCAN Foundation (and their funding of Milliman and Urban), the Bipartisan Policy Center and the states (especially Minnesota and California though New York and Hawaii are pushing forward with LTC education campaigns).

But will we really see a LTC proposal adopted on the scale of, say, the Affordable Care Act? Most likely not. But while unlikely, it is not impossible, especially if subsumed in something even larger such as entitlement reform. ■

ENDNOTES

1 Continuing Care Retirement Communities (CCRCs) are retirement complexes that offer a range of services and levels of care. Residents may move first into an independent living unit, for instance a private apartment or a house on the campus. The CCRC provides social and housing-related services. If and when residents can no longer live independently in their apartment or home, they move into assisted living and, later still, to the CCRC's on-site or affiliated nursing home. http://longtermcare.gov/the-basics/glossary/

2 DYNASIM is short for Dynamic Simulation of Income Model. It was developed by the Urban Institute in 1973 and is a microsimulation model developed to gauge the effects of social and economic trends on future generations of retirees and their benefit needs and to project the characteristics of future retirees. As a microsimulation, it starts with a representative sample of individuals and families, then "ages" the data year by year, simulating such demographic events as births, deaths, marriages and divorces, and such economic events as labor force participation, earnings, hours of work, disability onset, and retirement. The model can also simulate Social Security coverage and benefits, pension coverage and participation, home and financial assets, health status, living arrangements, and income from non-spouse family members. For more on this see http://www.urban.org/publications/410961.html

"The conclusion is that if large-scale reform comes about, the organizations to watch include AARP, Leading Age, SCAN Foundation, the Bipartisan Policy Center and the states ... "