



## 2018 SOA Asia-Pacific Annual Symposium

### **Session 6A, Long-Term Care Financing in Asia: Lessons Learned from the United States**

#### **Presenters:**

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# ***Long-Term Care Financing in Asia: Lessons from the United States***

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# Agenda

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- Demographic Trends
- Current Social Long Term Care (LTC) Programs
- Funding Challenges
- Lessons from the U.S.
- Features of a Sound Financing Scheme
- Moving Forward

*References on page 23*

*The views and opinions expressed in this presentation are that of the presenter and not of his employer.*

# Introduction

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- Financing for LTC is a timely topic as countries are coping with their aging populations.
- Compare 7 Asian countries and the U.S.

Social Program in Place

Japan  
South Korea  
Singapore

No Program in Place

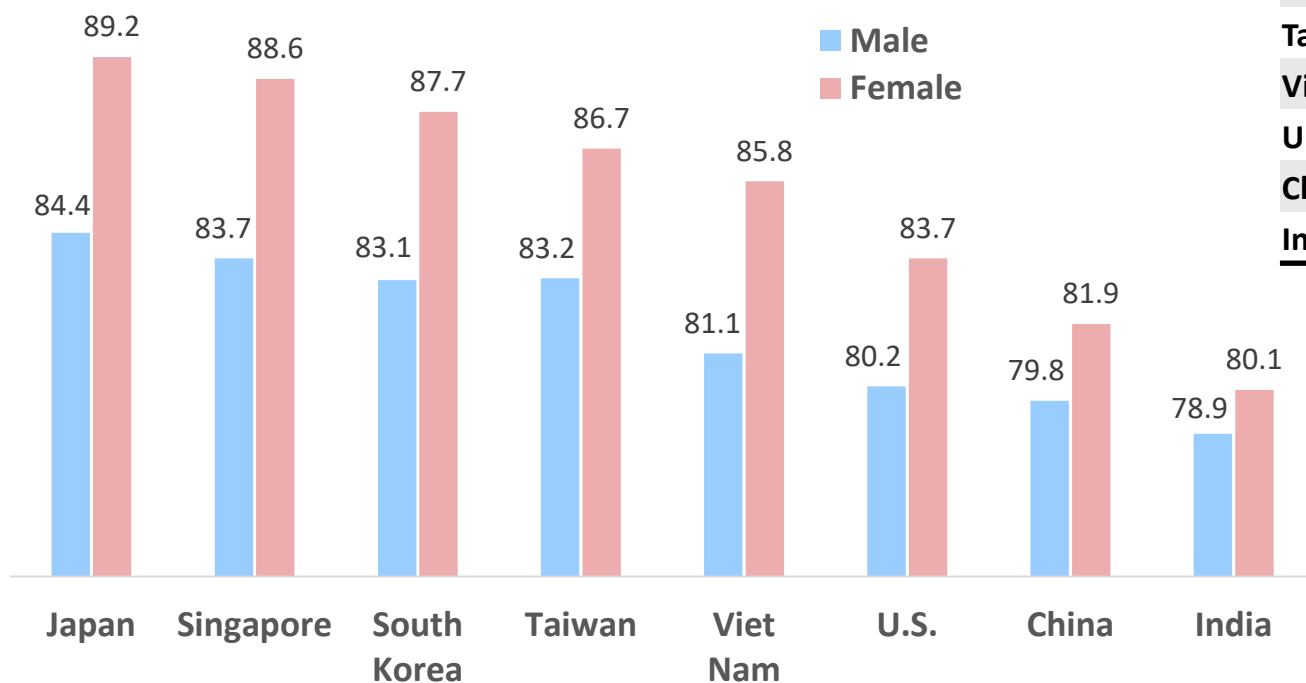
Taiwan  
China  
Viet Nam  
India

- These 7 countries comprised of approximately 40% of world's total population.

# Life Expectancy at Age 65

- Asia has some of the highest life expectancy in the world.

Life Expectancy at Age 65

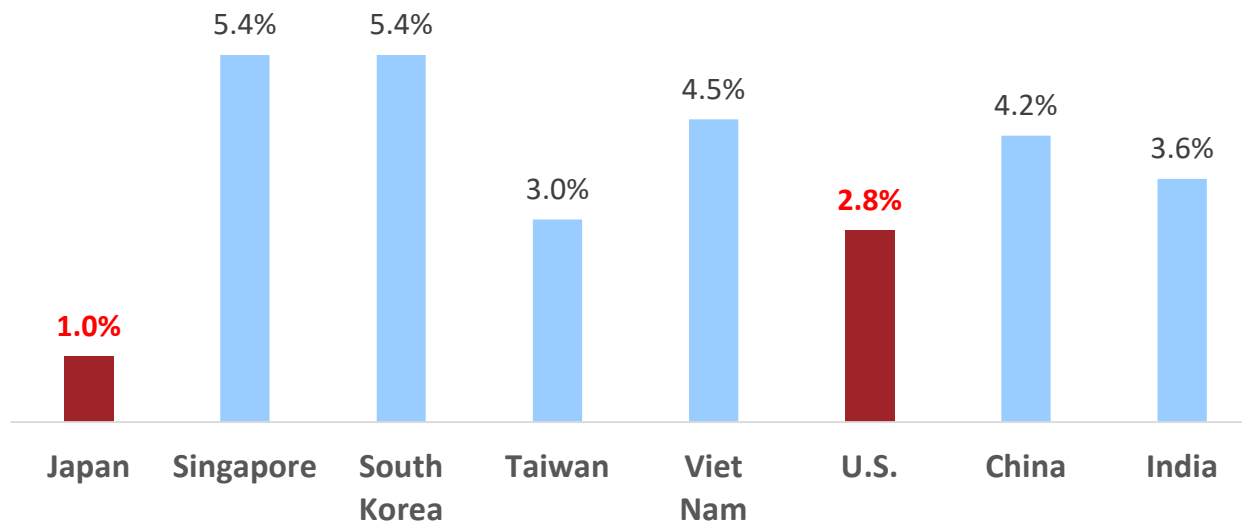


2015 Population	(Millions)
Japan	128.0
Singapore	5.5
South Korea	25.2
Taiwan	23.5
Viet Nam	93.6
U.S.	319.9
China	1,397.0
India	1,309.1

# Rapidly Aging Populations

- Japan and the U.S. already have relatively older populations needing LTC as evidenced by fairly well established care systems.

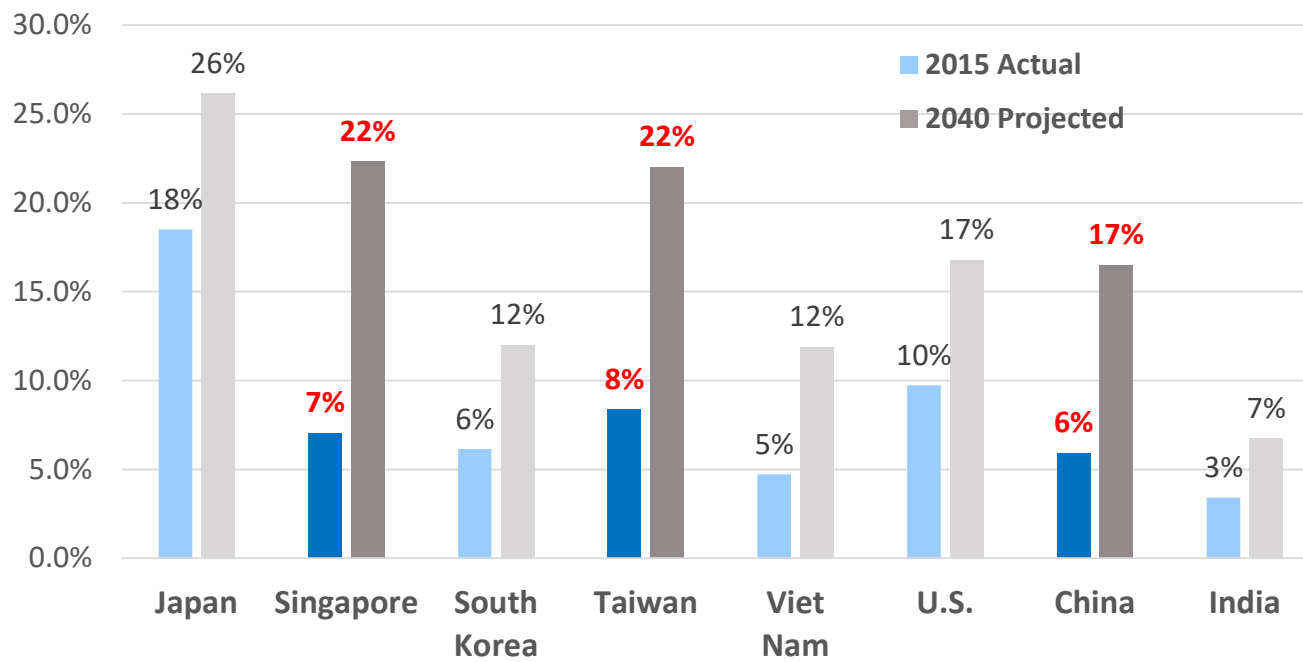
Projected Annual Growth Rate from 2015 to 2040  
Population 70 & Over



# Rapidly Aging Populations

- Singapore, Taiwan and China will experience an almost 3-fold increase in age 70 & over proportion of the total population.

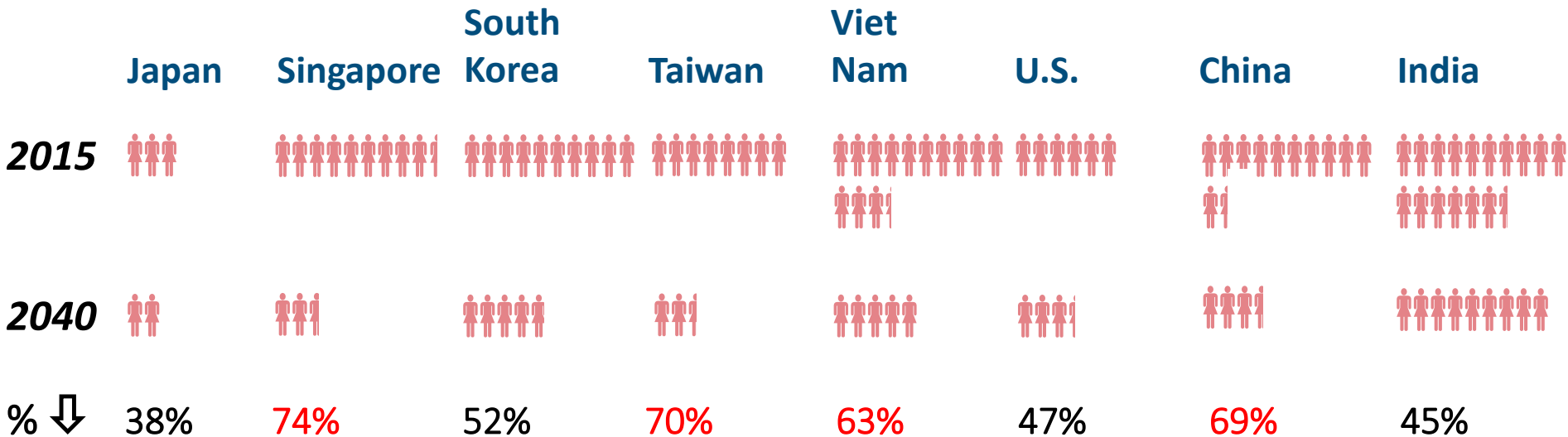
Age 70 & Over Population as % of Total





# LTC Dependency Ratios

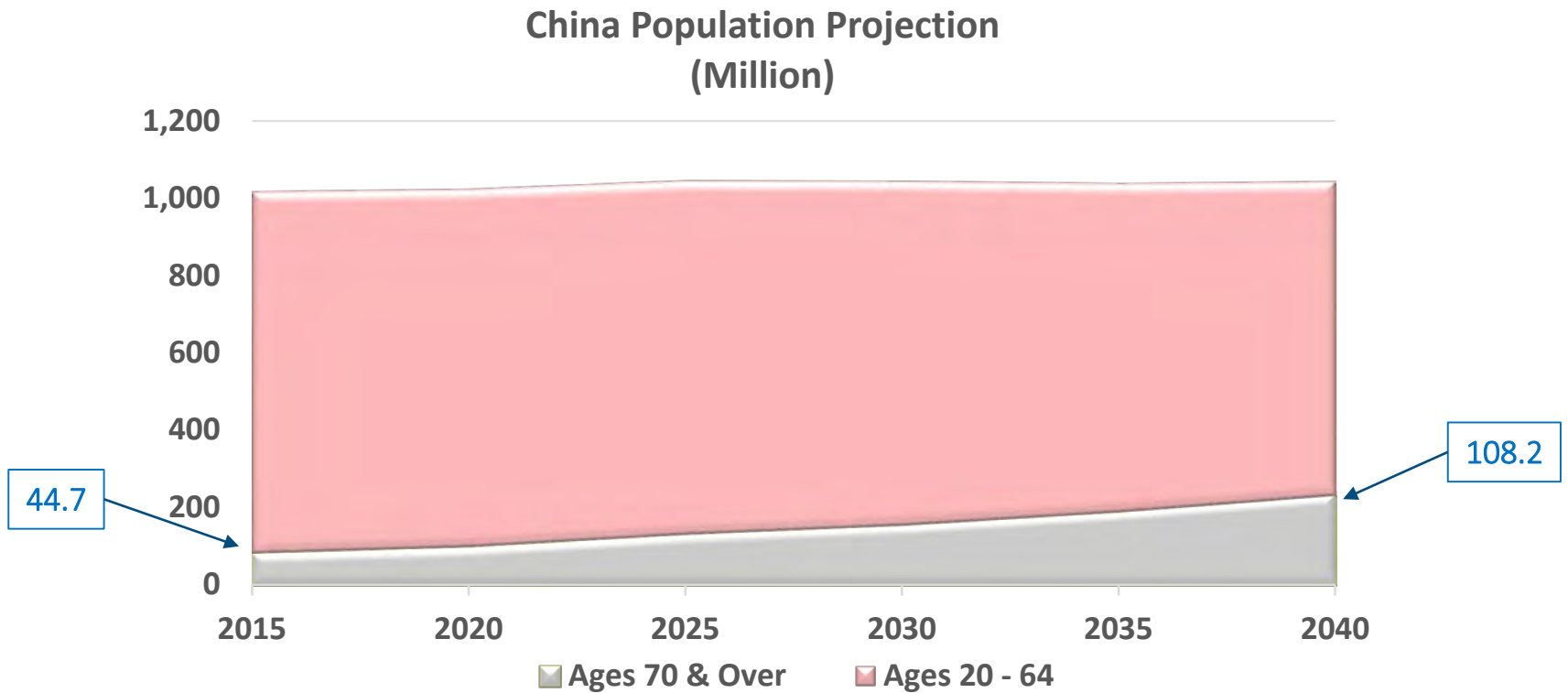
- Ratio of number of persons ages 20-64 to one person age 70 & over:



- Decrease in dependency ratio implies a greater financial burden on future workers to support LTC than current workers

# Example of Inter-generational Transfer

- In China, a shrinking working force will need to support a more than doubling of the age 70+ population by 2040.

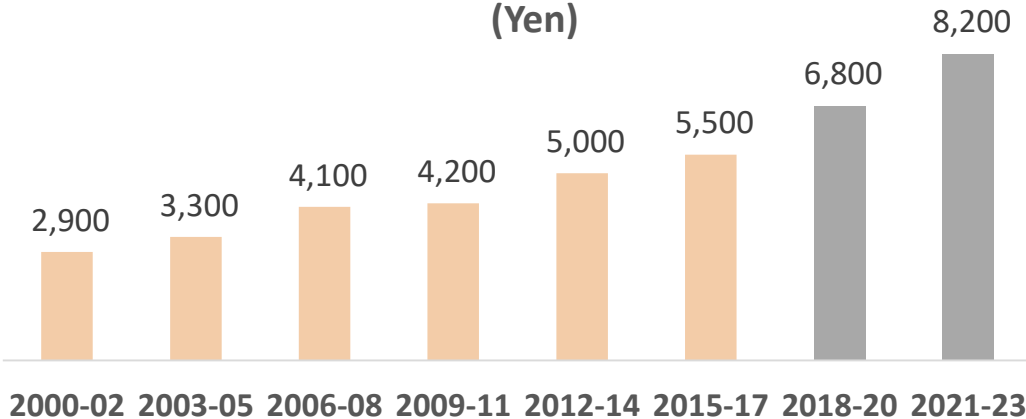


# Social LTC Insurance Programs

	Japan	Singapore	South Korea	Taiwan (Proposed)	U.S.
<b>Year Started</b>	2000	2007	2008	2018?	1965
<b>Covered Persons</b>	Age 65 & Over; Ages 40-64 with geriatric diseases	Age 40 & Over unless opted out; Indigent	Age 65 & Over or with geriatric diseases	Everyone	Retirees (Medicare) & Indigent (Medicaid)
<b>Sources of Funding</b>	Participants (45%) Government (45%) Copayment (10%)	Workers Government	Workers (32%) Employers (32%) Government (36%)	Workers Employers Government Copayment with Cap	Workers (Medicare) & Government (Medicaid)
<b>Funding Method</b>	Pay-As-You-Go	Entry-Age Pre-Fund; Pay-As-You-Go	Pay-As-You-Go	10-Year Financially Balanced Pre-Fund	Partial Pre-fund (Medicare) & Pay-As-You-Go (Medicaid)

# Examples of Pay-As-You-Go Funding

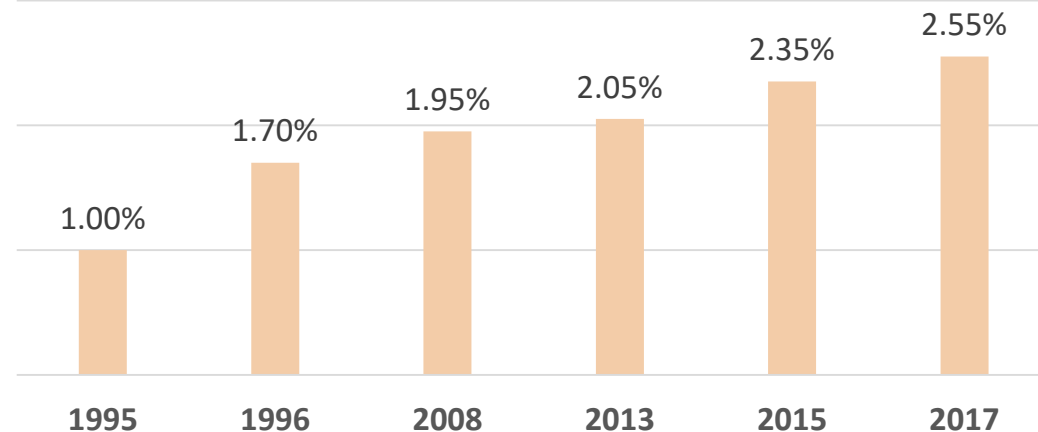
Japan Gold Plan Actual and Projected Monthly  
Average Premium  
(Yen)



- Both Japan's and Germany's plans are funded on a Pay-As-You-Go basis.

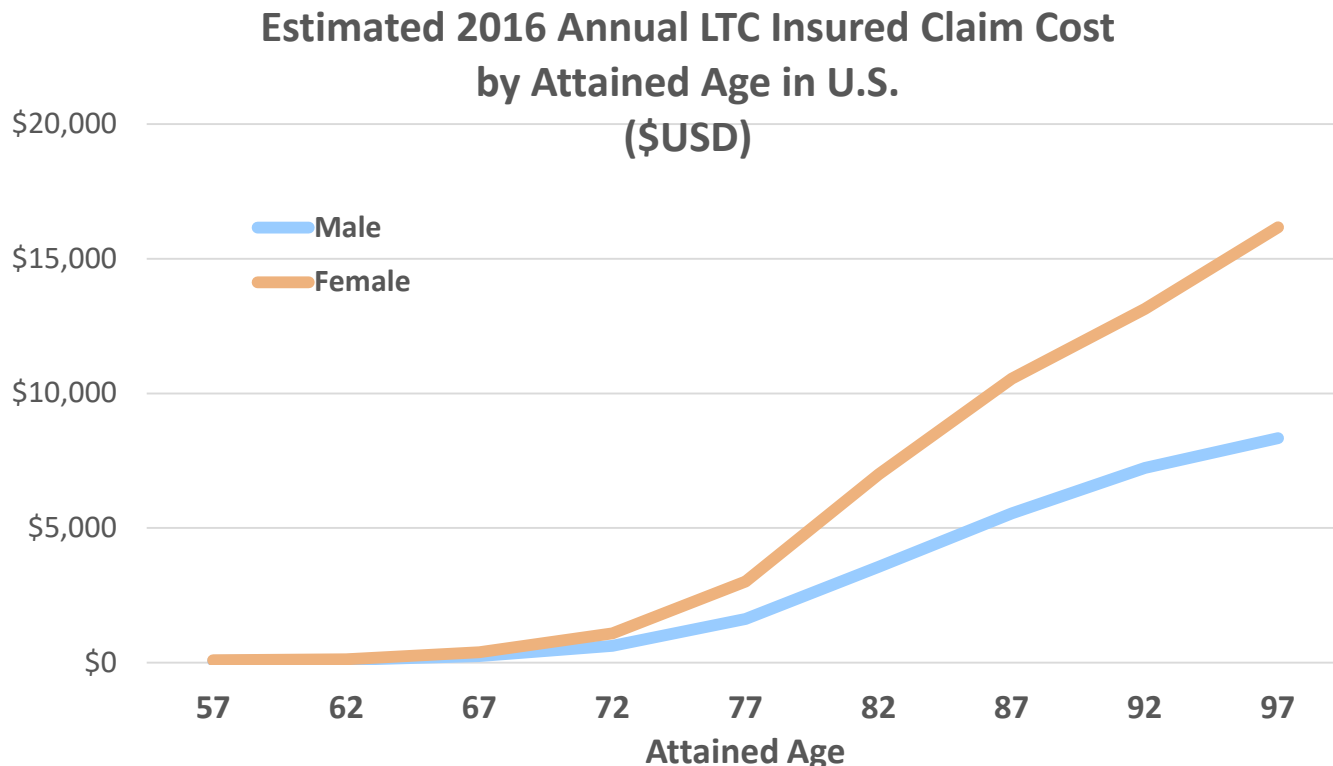
- Average premiums have been rising 4% per year for both plans.

Germany LTC Insurance Contribution Rate  
as % of Gross Income



# Should LTC be Pre-Funded?

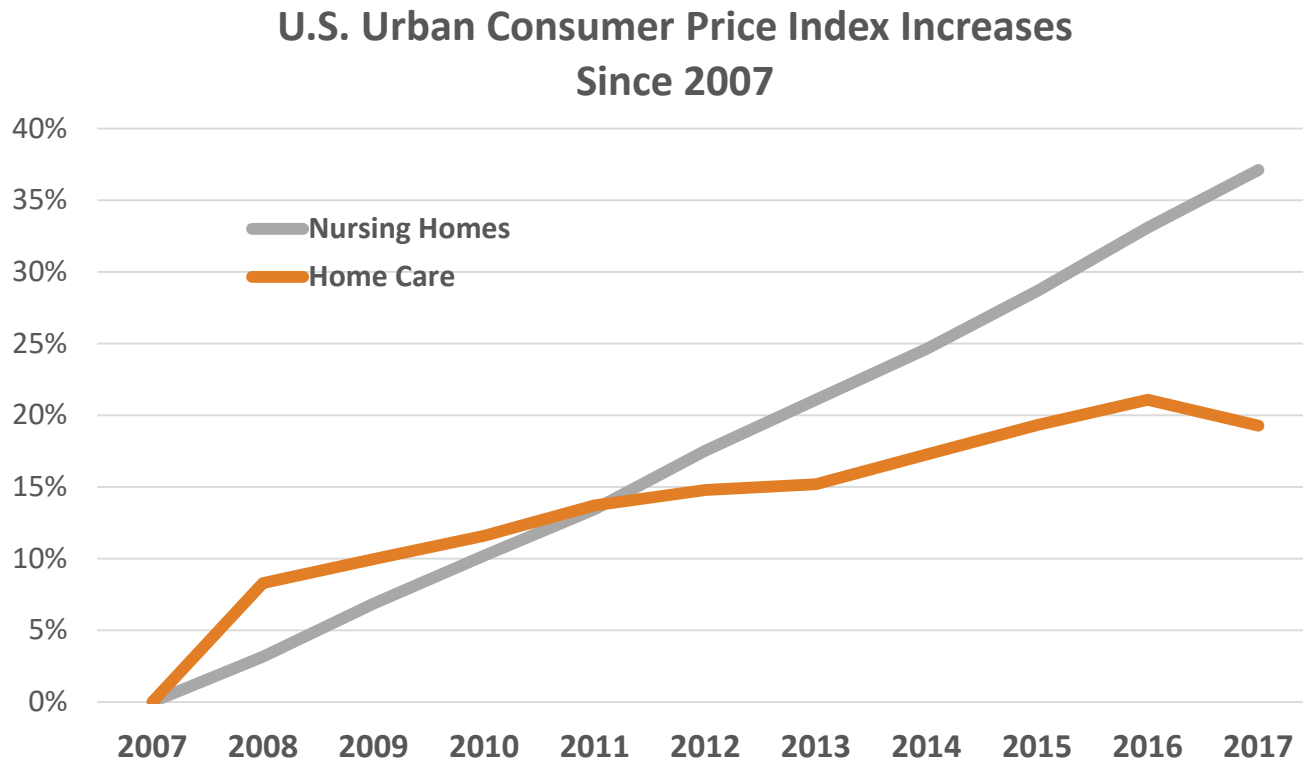
- Pay-as-you-go contributions will continue to rise as the covered population ages.



- Claim cost = expected cost per covered person by age.

# Should LTC be Pre-Funded?

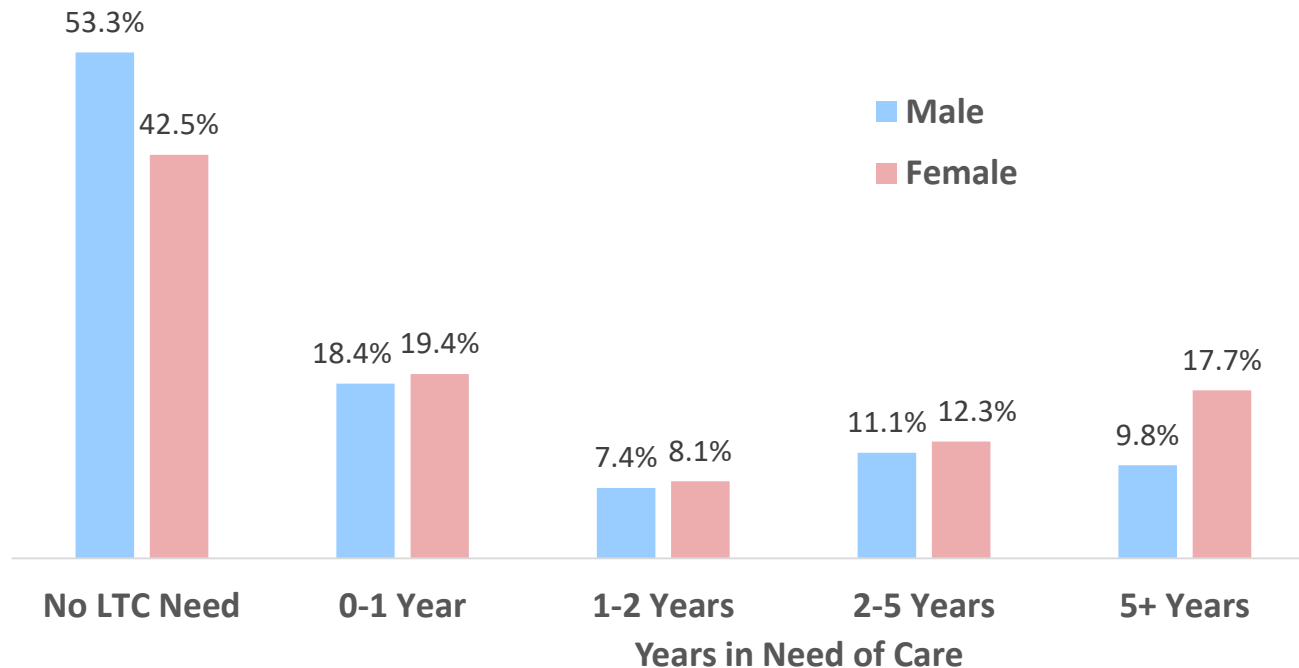
- US average annual LTC cost inflation has been 3.2% and 1.1% for nursing homes and home care respectively over the past 10 years.



# Length of Formal LTC in the U.S.

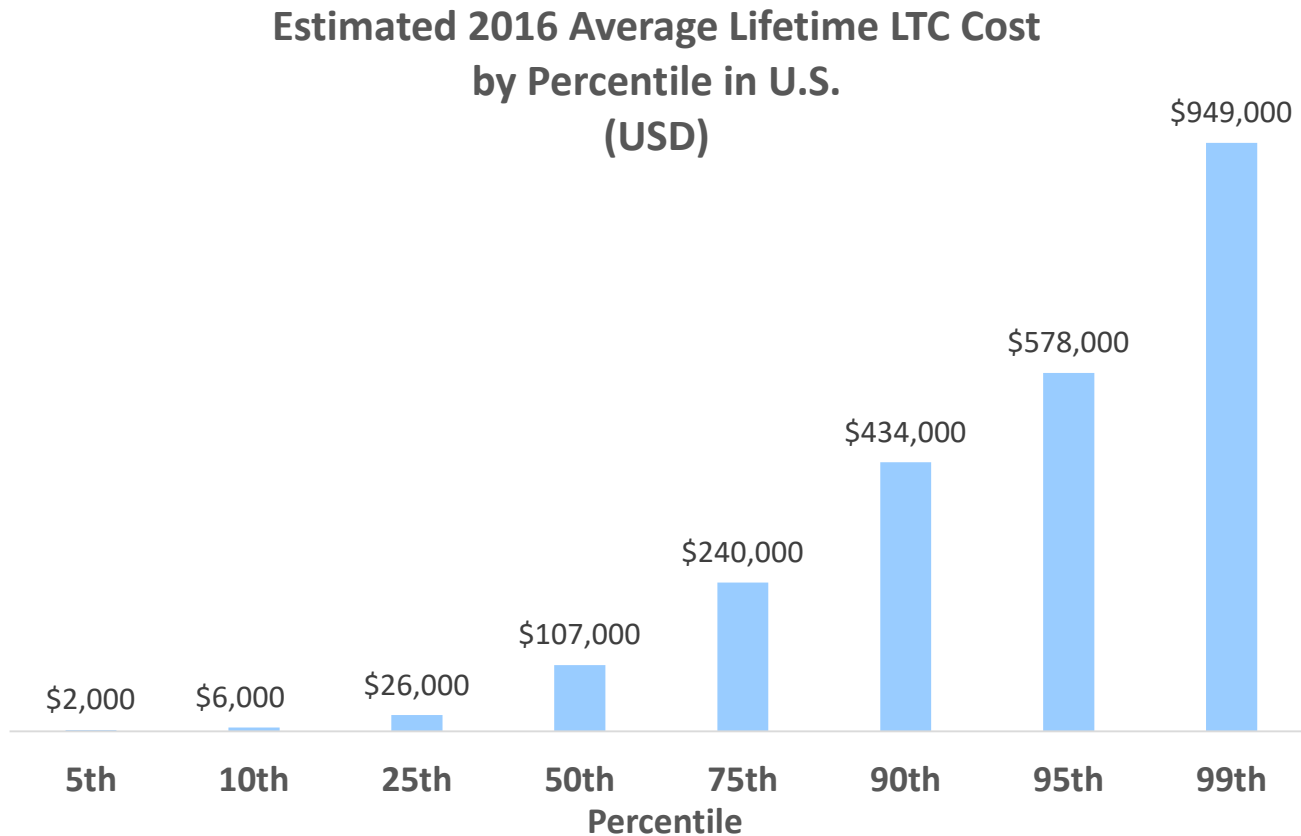
- Approximately one out of two seniors at age 65 will need some formal LTC in their remaining lifetime.

Projected LTC Need for Persons Turning 65  
in 2015-2019 in U.S.



# Cost of Care Distribution in the U.S.

- Average lifetime cost of formal care is \$172,000 (\$USD).





# Unpredictable Future LTC Risks

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- Population growth – the one risk factor that can reasonably be discerned from historical data
- *Utilization trends*
- *Induced demand for LTC services*
- *Chronic disease management*
- *Cost inflation*
- *Informal care support*
- *Benefit expansion*
- *Pandemic*
- *Technology and artificial intelligence*

# Funding Challenges

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- Social responsibility vs. individual equity
- Pay-as-you-go scheme puts increasing financial burden on future generations of workers.
- 3 groups to be considered in any contributory program:



- Desire for program sustainability.
- Pre-funding approach requires actuarial discipline.
- Informal care support needs to be maintained.

# Lessons from the U.S.

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## *Background*

- Indigent (including seniors) are covered by government program (Medicaid).
- Retirees' medical insurance (Medicare) covers only a fairly small portion of LTC.
- Private LTC insurance has less than 10% market penetration.
- A national voluntary insurance program – *Community Living Assistance Services and Supports* (CLASS) was a non-starter.

# Lessons from the U.S.

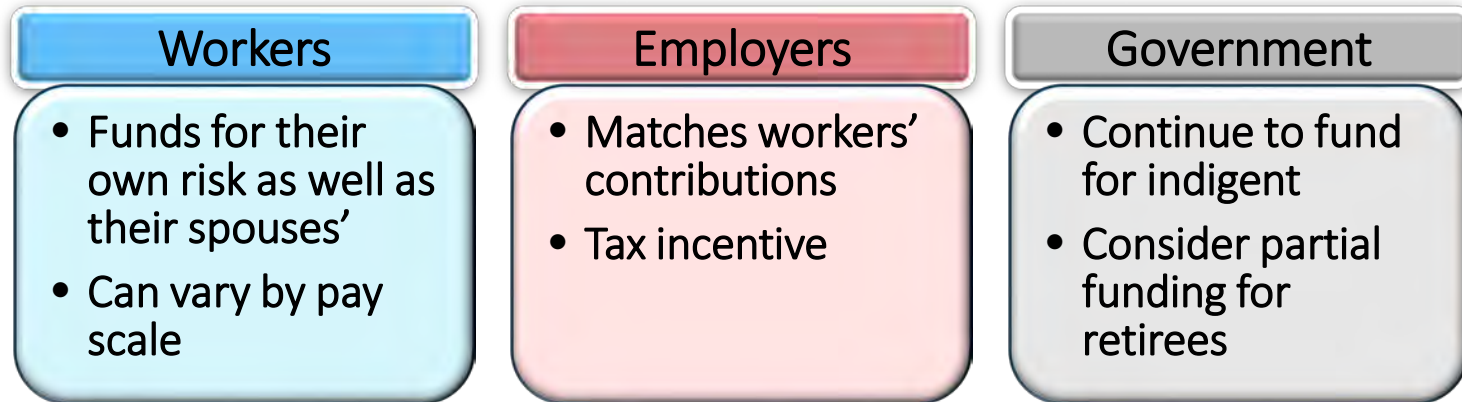
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- Pay-as-you-go government program for the indigent (Medicaid) strains both federal and state government funding.
- Lack of cohesive strategy may have undesirable outcomes.
- A small change in assumption can result in a fairly large change in contribution level.
- Pre-funding requires skillful management of risk factors, including morbidity, mortality, investment and expenses.
- Comprehensive LTC is expensive.
- Espousal of public program needs a political champion.

# Features of a Sound Financing System

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- Policy and design decisions driven by data.
- Provides basic level of care – allows private insurance to supplement.
- 3 funding sources:



- Actuarially balanced at all time:

$$\text{Reserve} + \text{Present Value (PV) of Contributions} = \text{PV Benefits} + \text{PV Expenses}$$

# Moving Forward

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- No one-size-fits-all solution since each country's situation is unique:

*Demographic*

*Culture*

*Politic*

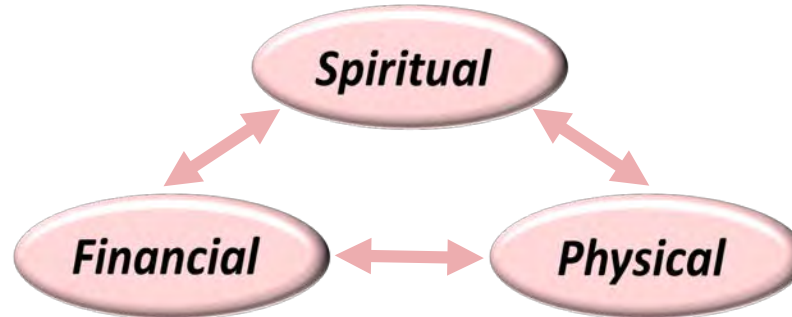
*Service Delivery*

- Development of private LTC insurance can fill the gap for comprehensive coverage.
- Long period (30+ years) before program in full effect when current workers become LTC beneficiaries.
- LTC solution is important – but not urgent.

# Concluding Remarks

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- Successful aging is associated with wellness in 3 dimensions:



Protection from LTC risk is a major component of financial well-being.

- This generation can honor our elders who took care of us and protect future generations by resolving the impending LTC dilemma responsibly.
- Ignite your passion in LTC and make a difference in people's lives.

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## Slide

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