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Financing Long-Term Care: Challenges, Opportunities and Financing Alternatives

Presented to:
New York State Long Term Care Planning Project

By
Marc A. Cohen, Ph.D.[1]

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[1] Co-Director LeadingAge LTSS Center @UMass Boston & Research Director, Center for Consumer Engagement in Health Innovation, Community Catalyst

Purpose

- Provide background on need and cost of long-term services and supports (LTSS)
- Characterize current approaches and challenges associated with financing care
  - Public approaches
  - Private approaches
- Summarize state initiatives designed to improve LTSS financing
  - Current initiatives
- Key considerations and decision points for states to consider when thinking about developing an LTSS financing program.

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Key Observations

- It is imperative to move the LTSS financing system away from a private-pay/safety-net basis toward an insurance basis.

- The magnitude of the problem suggests that neither the public sector nor private sector can address this problem on its own.

  - Need mixed approaches where sectoral roles are well defined and enable citizens to plan appropriately.

- The "age wave" is already cresting and that means…….

  - Now is the time to experiment with new models of stand-alone financing programs, and

  - build on existing service delivery infrastructure to deliver high quality and affordable care to the middle class.

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BACKGROUND ON NEED AND COST

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The LTSS financing challenge is BIG

- Roughly 25 million of today's seniors will need LTSS services (paid and unpaid) and costs will exceed $2.5 trillion over 10 years.
  - Note that 40% of those needing LTSS today are under age 65
- Americans are unprepared to absorb potential LTSS costs.
  - Most people are not poor enough to immediately qualify for the social safety net so they are most exposed to potentially catastrophic costs.
  - The expected costs of LTSS would account for about 31% of the net worth of households with a head aged 65-74.
  - Only the wealthiest 10% to 15% have savings equivalent to cover these costs.
  - Projected need and lack of financial protection leaves families with ever increasing caregiving burdens;
- In short, LTSS needs undermine individuals preparedness for retirement – where there is already a concerning shortfall.

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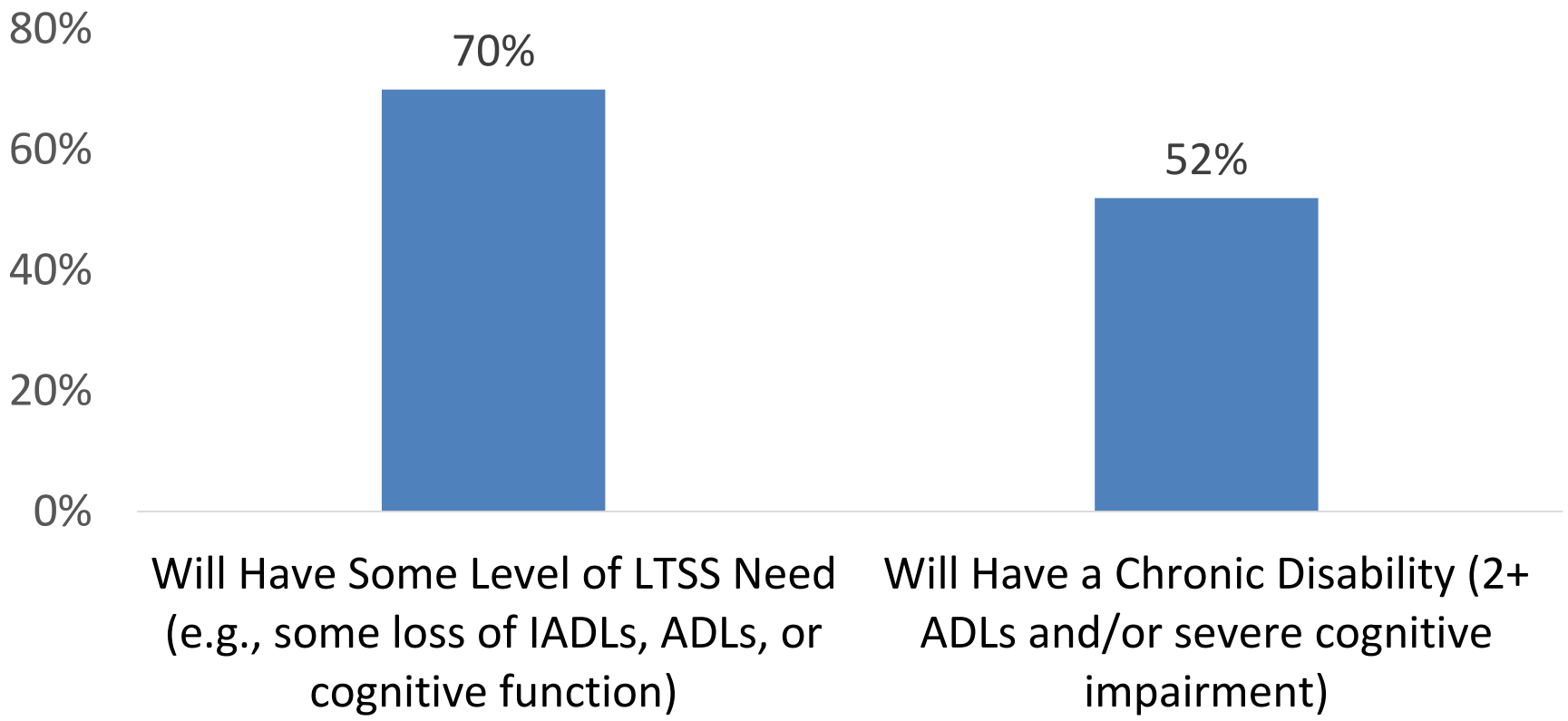
A majority of those turning 65 today, will need some level of LTSS



Note: 40% of those who need LTSS are under age 65; Source: Favreault, 2015 and Favreault and Dey, 2016

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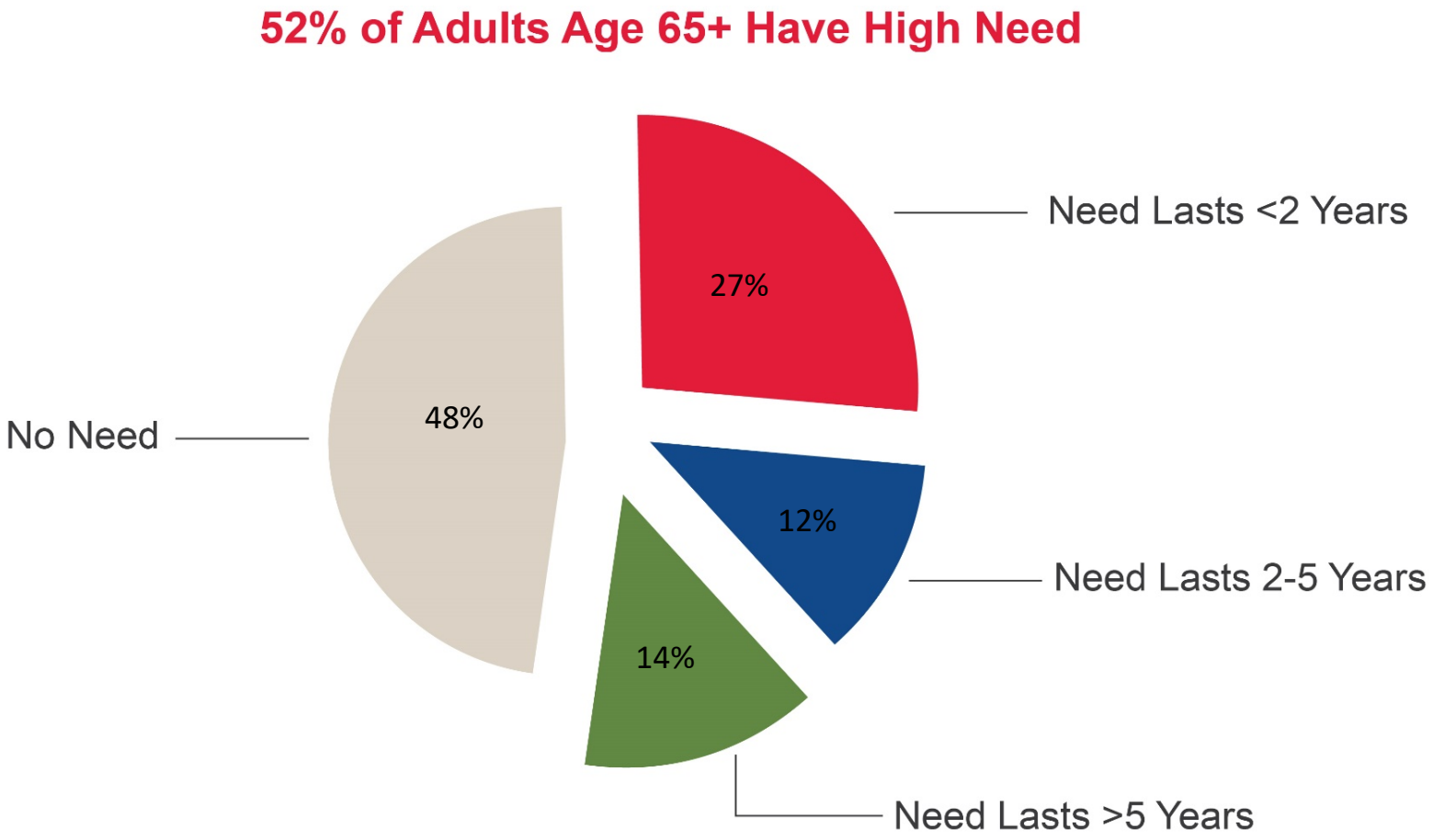
Among those with a high level of need, the LTSS risk is highly skewed



Source: Ann Tumlinson Innovations based on Favreault & Dey (2015) Table 1. https://www.thescanfoundation.org/sites/default/files/financing_long-term_care_chartpack_092016_final.pptx

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LTSS services are costly

Service Setting	New York State Median Monthly Cost	National Median Monthly Cost	% Difference (NY/Nation)
Home Health Care			
Homemaker Services	$4,690* ($24.6/hour)	$4,004 ($21.0/hour)	17%
Homemaker Health Aide	$4,767 ($25/hour)	$4,195 ($22.0/hour)	14%
Adult Day Care	$1,625	$1,560	4%
Assisted Living	$4,185	$4,000	5%
Nursing Home Care			
Semi-Private Room	$11,756	$7,441	58%
Private Room	$12,189	$8,365	46%

* Assumes 44 hours per week of care

Source: Genworth Cost of Care Survey, 2018 https://www.genworth.com/aging-and-you/finances/cost-of-care.html

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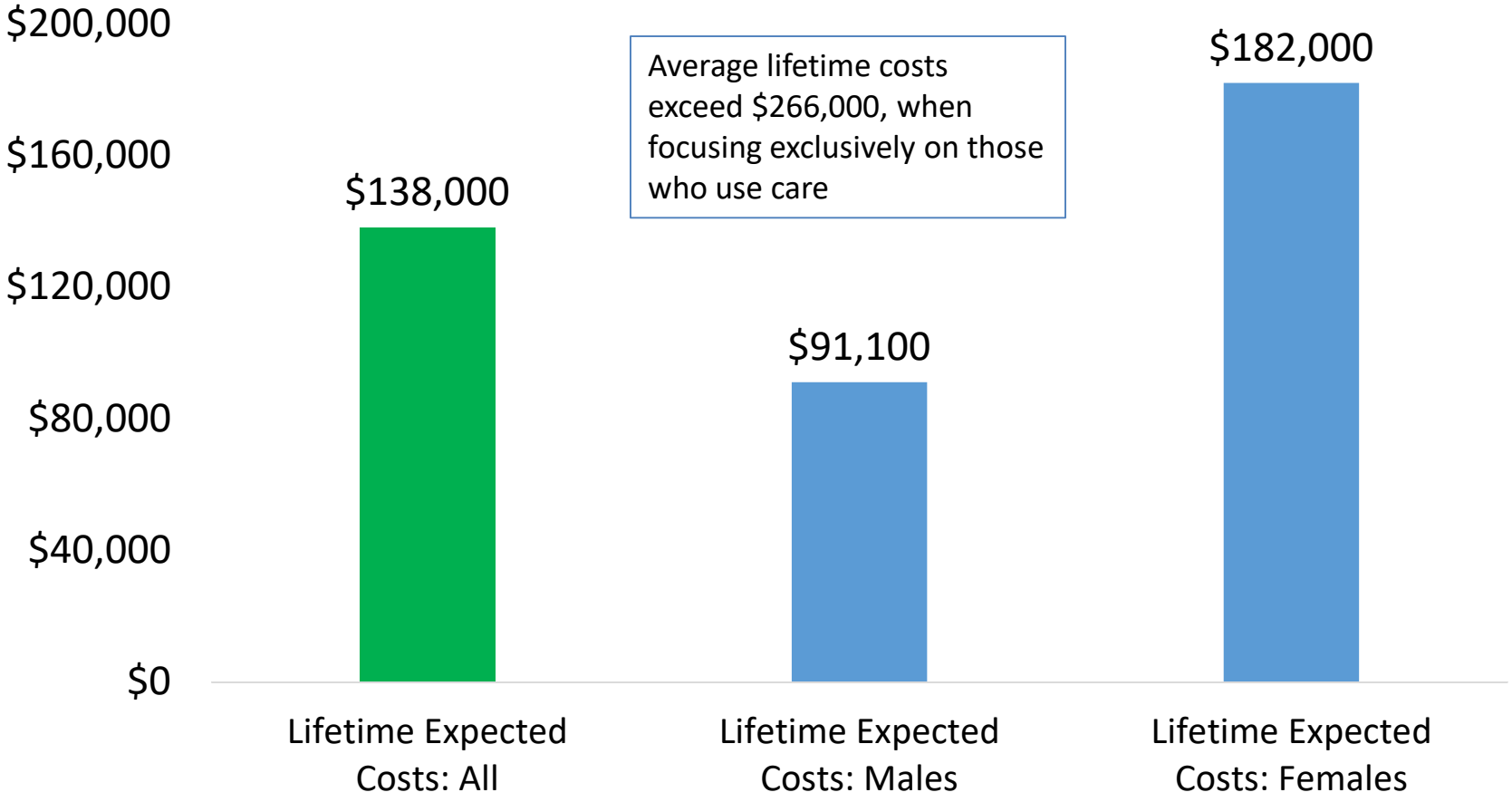
Expected costs of LTSS to individuals who are turning age 65 today and needing significant care in the future

(2015 dollars)



Source: ASPE Issue Brief on LTC Financing, July 2015, https://aspe.hhs.gov/basic-report/long-term-services-and-supports-older-americans-risks-and-financing-research-brief

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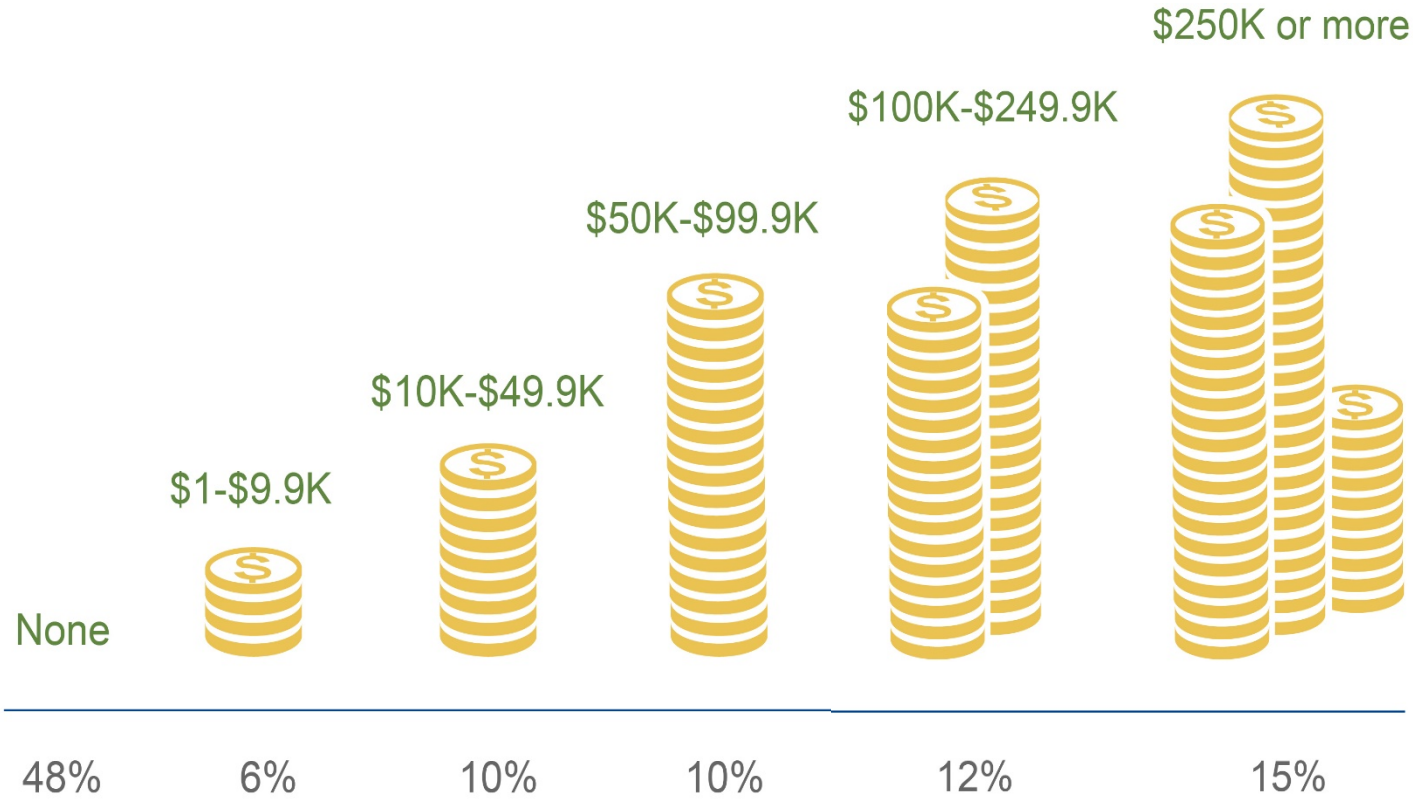
Because utilization is skewed, so too is the distribution of future expected costs



Source: Favreault & Dey (2015), Table 5 in Anne Tumlinson Innovations presented to SCAN Foundation, 2016.
https://www.thescanfoundation.org/sites/default/files/financing_long-term_care_chartpack_092016_final.pptx

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Current approaches to financing LTSS services

- Primary Public approaches (Federal, state and local)
  - Medicaid
  - Public education about risks and costs to spur action
- Primary Private Approaches (insurance and savings)
  - Current income, savings, annuitizing the home
  - Private long-term care insurance
- Mixed Approaches (public trying to push private)
  - Partnership Programs between states and Federal government (45 states)
  - Federal and state tax incentives for LTC insurance purchase (30 states)
  - State employee LTC insurance programs (27 states)

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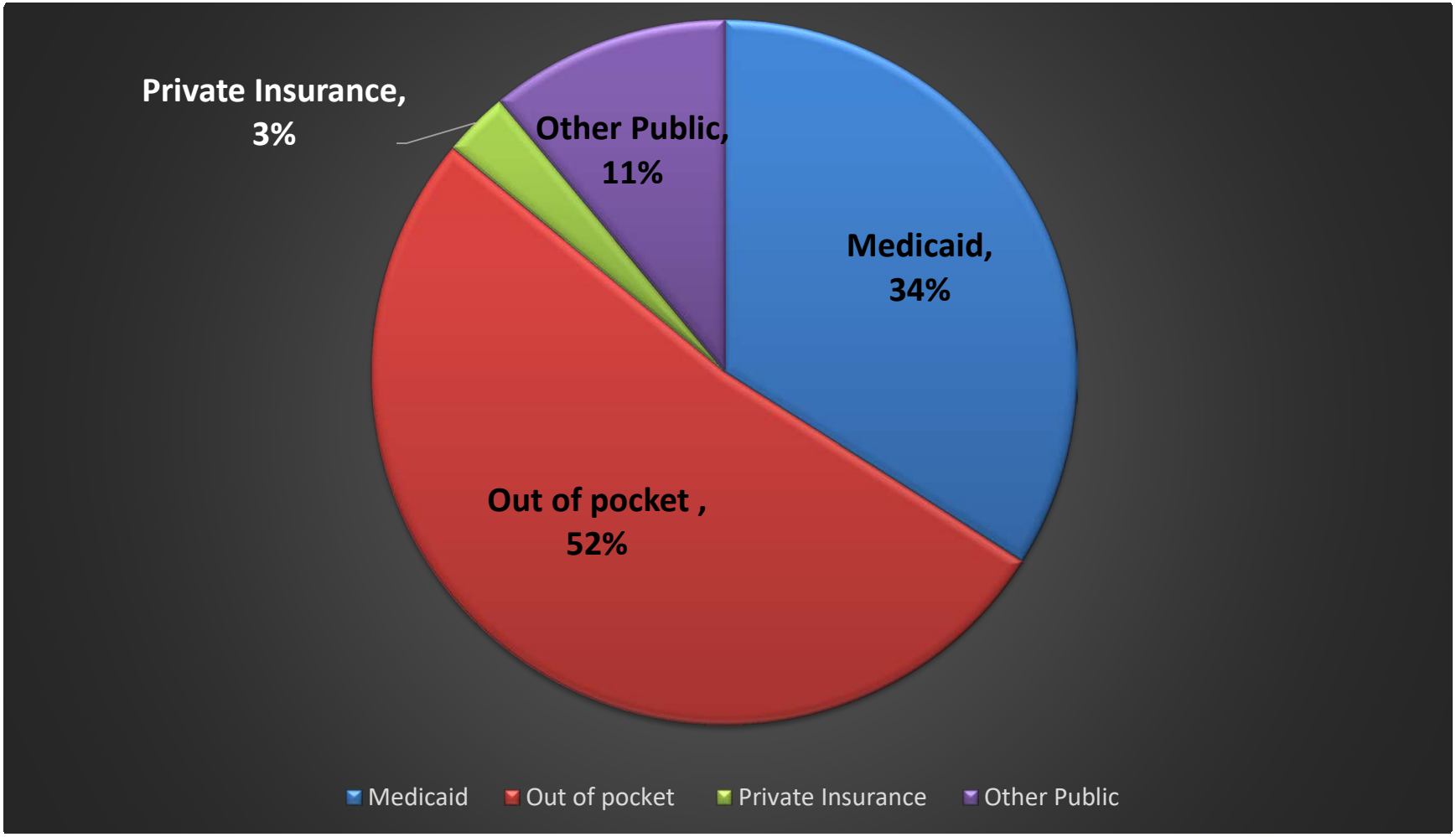
The Medicaid program and families will pay most LTSS costs for elders with significant needs



Favreault and Dey (2015) Table 3.A. https://aspe.hhs.gov/basic-report/long-term-services-and-supports-older-americans-risks-and-financing-research-brief

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Publicly Financed LTSS: Medicaid in U.S. and New York (2016)

Parameter	New York (thousands)	U.S. (thousands)
Total Medicaid	$60,421	$549,308
Medicaid LTSS	$26,454[1]	$166,680
LTSS as a % of total Medicaid budget	**43.7%**	30.3%
Medicaid LTSS		
Institutional Care	$9,865 **(37%)**	$72,272 (43%)
Home and Community-based Care	$16,588 **(63%)**	$94,407 (57%)
Growth in LTSS Expenditures (2013-2016)	**16%**	14%
Institutional Care	**-6%**	2%
Home and Community-based Care	**33%**	26%

[1] Note that $10.6 billion is spent in managed LTSS in NY -- highest in U.S. and comprising 25% of total US expenditures in managed LTSS.

Source: Medicaid Expenditures for Long-Term Services and Supports in FY 2016, IBM Watson, May 2018, Table A and Table 65.
https://www.medicaid.gov/medicaid/ltss/downloads/reports-and-evaluations/ltssexpenditures2016.pdf

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Challenges with Medicaid financing

- Obtaining eligibility through spend-down is threat to many individuals' financial security.
- Waiting lists and access limits for home and community-based care.
- Less flexibility in service provision.
- States struggling with budget pressures.
  - LTSS is approaching 30% to 45% of state Medicaid budgets and growing rapidly.
- Reimbursement rates often do not support development of a high quality workforce and service infrastructure.

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Can we rely on the Private Insurance Market to Solve the Problem?

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Long-term care insurance

- Two major categories of products (about 7-8 million people have coverage)
  - Stand-alone private LTC insurance sold in the individual and group markets.
  - Combination products: (1) Life and long-term care coverage combined; (2) Annuities and long-term care coverage combined.
- Policies provide access to a "pool of benefits" when a threshold is reached and can be spent in a variety of settings – institutional and home & community-based
- Most policies have level-funded premiums based on age at purchase.
  - Level premiums ***if*** actuarial assumptions underlying the policy are correct.
  - $227 monthly premium of policies sold in 2015 for a 60 year old

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Current industry parameters (2017)

Parameters	U.S. Values	New York
Policies In-force (individual and group)	6.8 million	402,000
Earned Premiums	$11.7 billion	$1.02 billion
New Claim Reserves	$11.7 billion	$1.06 billion
Cumulative claims paid 1992-2012 Cumulative claims incurred 2013-2015	$75.6 billion $29.6 billion	N.A.
Number filing new claims	81,300	N.A.
Number of In-force Claimants	285,600	N.A.
Average Claim Reserve	$107,000	N.A.

Note: Number of inforce for life and annuity products with accelerated long-term care benefits is about .5 million.

Source: NAIC LTC Insurance Experience Reports for 2012 – 2017, LIMRA 2018.

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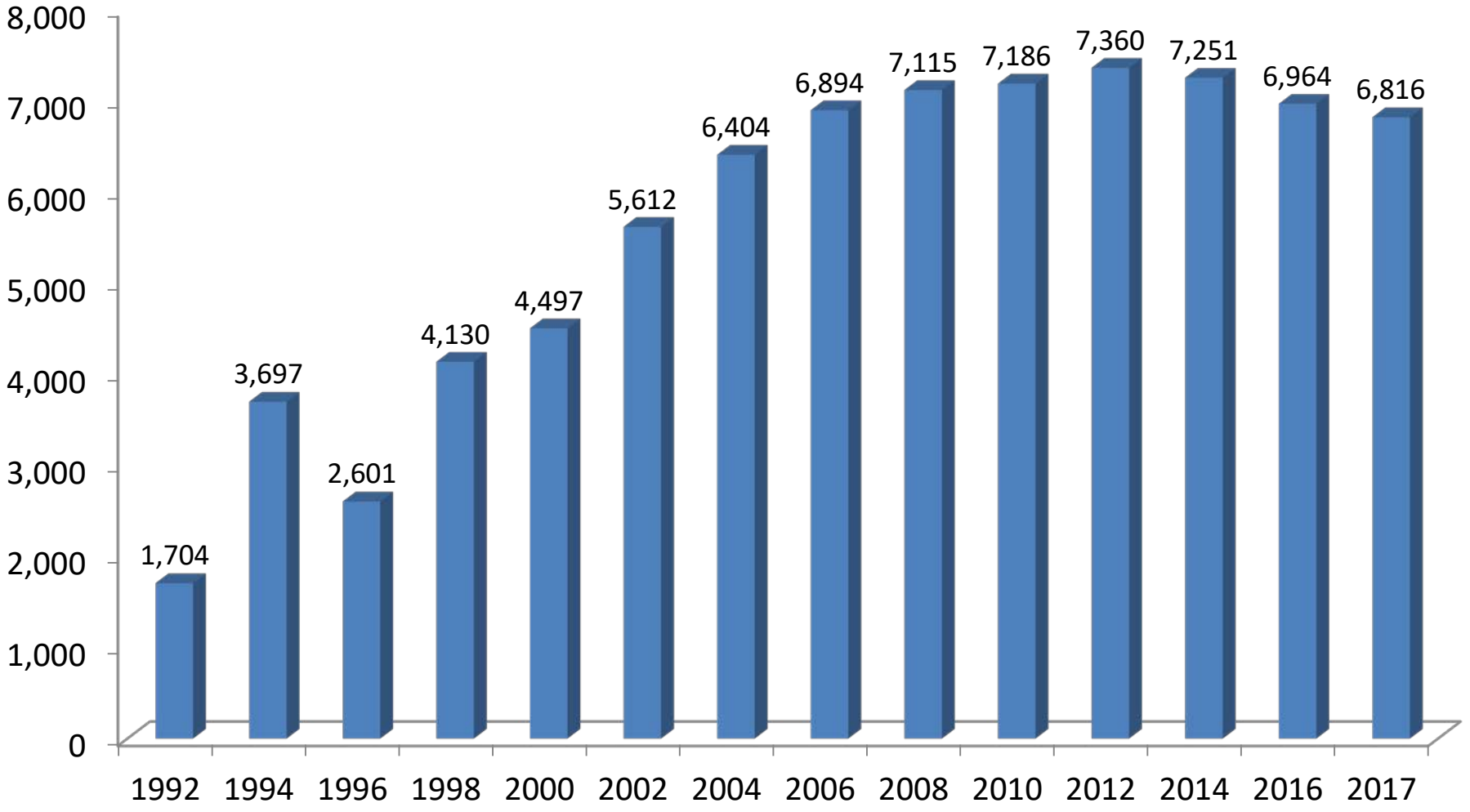
Number of individual and group insured lives has been relatively flat since 2006 (thousands)



Source: NAIC LTC Experience Reports 1993-2018

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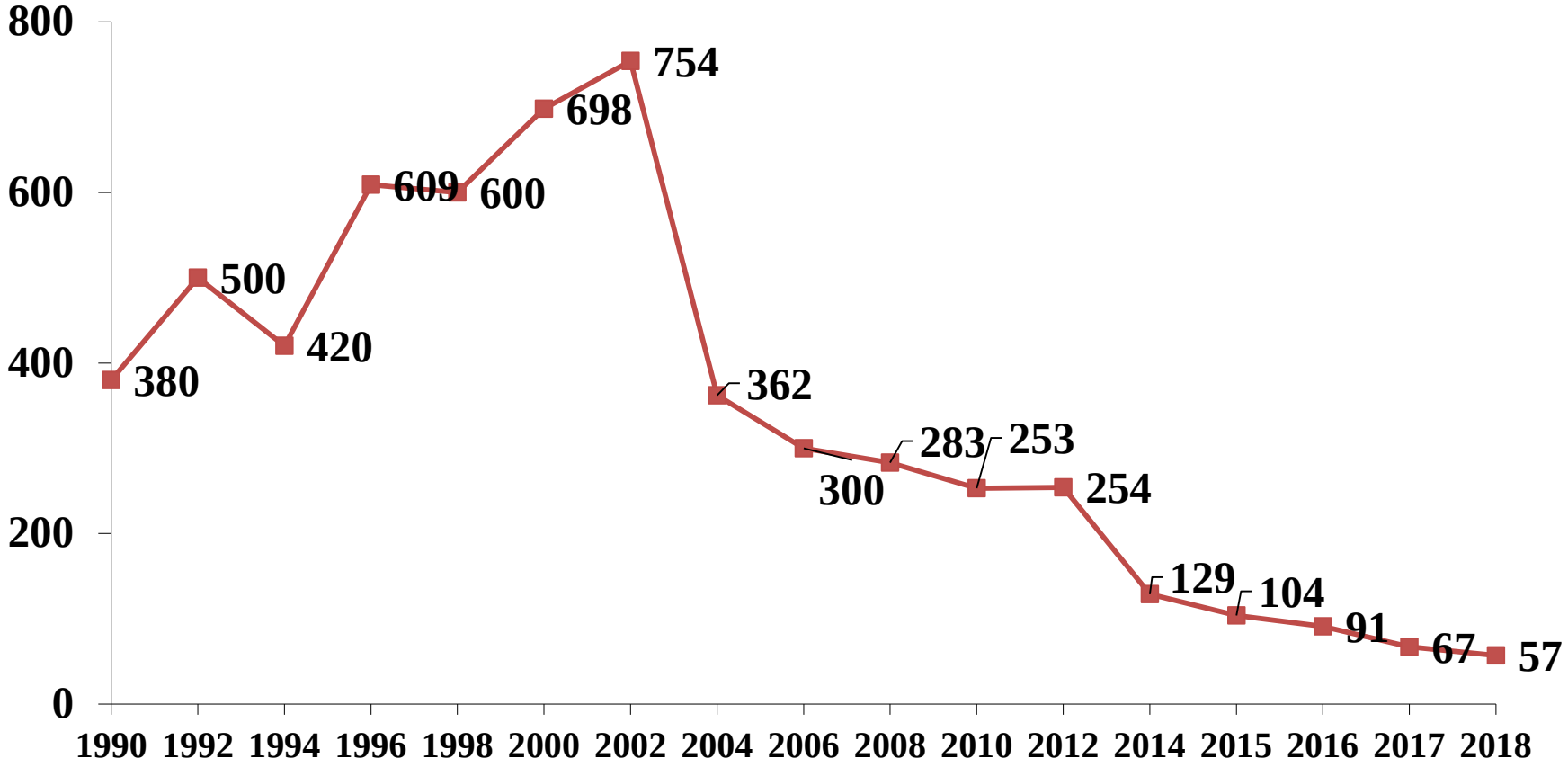
Annual sales of stand-alone individual policies have been declining for close to 20 years



Note: LifePlans analysis based on AHIP, LIMRA and LifePlans sales surveys, 1990-2016. LIMRA data after 2016. Beginning in 2009, LTC Partners data for annuitants included in counts.

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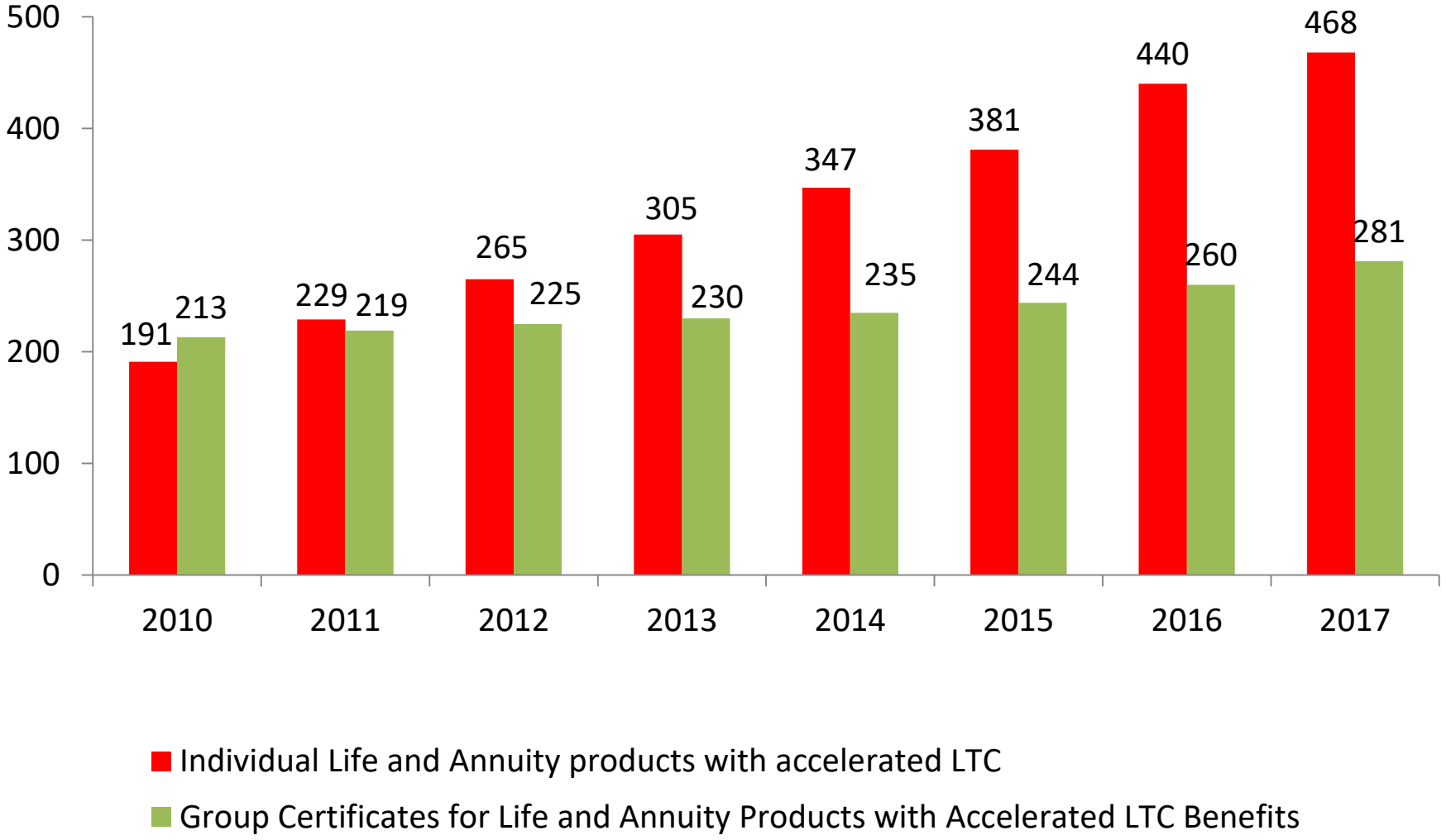
Combination products are growing in the market (thousands of policies in force)



Sources: NAIC Long-term care Experience Exhibit Reports, 2010-2018

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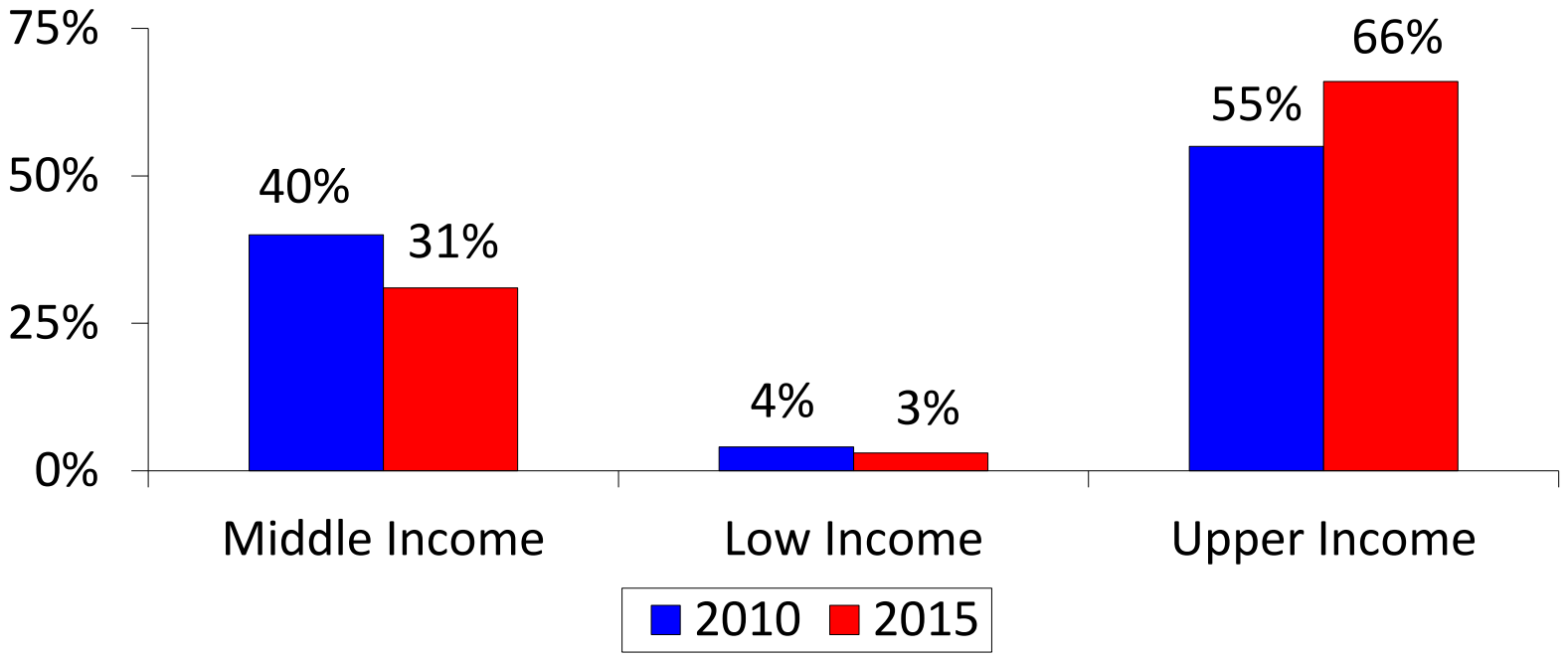
The share of LTC individual policy sales to the middle market age 40-69 is declining



Preliminary data suggests combination product purchasers are also drawn from upper income groups.

Note: Low income <33% of income distribution; Middle income = 33% - 66%; Higher income = >66%

Source: LifePlans analysis of AHIP Buyer Data, 2011 and 2015 and Social Security Administration, Income of the Population Age 55 and Over 2010 and 2014. https://www.ssa.gov/policy/docs/statcomps/income_pop55/2014/sect03.pdf

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Trends affecting profitability have been consistently negative

- Since 2000, all major determinants of premium and product profitability have been going in the wrong direction:
  - interest rates are significantly lower than what was priced for,
  - voluntary lapse rates are lower than for any other insurance product,
  - morbidity is somewhat worse than expected and mortality is improving.
- Prior decade saw a major exodus of companies from the market, as returns on the product have been significantly below expectation.
- Only a dozen or so companies remain in market compared to over 100 in the year 2000.
- Underwriting stringency excludes growing number of applicants – upwards of 30% of the target population. (https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2015.1133)
- Major rate increases have unnerved consumers.

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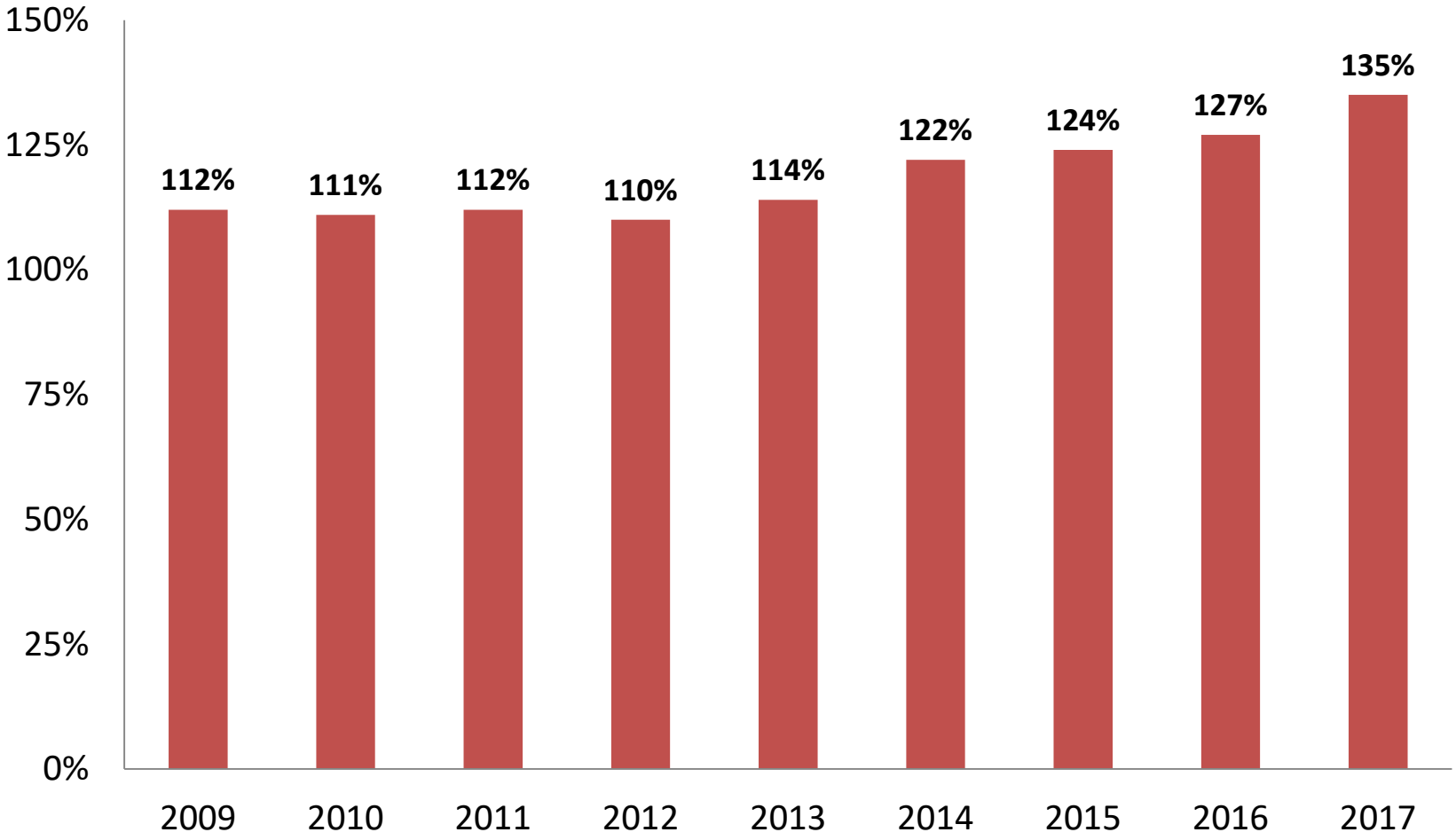
Claims experience is deteriorating in recent years: Industry Actual to Expected Annual Incurred Claims, 2009-2017



Source: NAIC Experience Reports, 2009-2017

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Why the private market is limited in its reach: Demand and Supply Issues

Demand: Consumer	Supply: Insurer
• Product Cost	• Adverse selection
• Lack of information/shrouded attributes	• High selling costs
• Misperceptions about need, costs, and coverage	• Inefficient risk-bearing: common shocks outside carrier control
• Myopia	• Uncertainty regarding regulatory approaches
• Consumer confusion/product complexity	• Distribution challenges
• Mistrust of industry/contracts	

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Where does this leave us?

Current system leaves most families paying out-of-pocket when need strikes

LTSS can be costly

$266,000

is the average cost of LTSS for the half of Americans who will have significant LTSS needs in old age

and about half of that will be paid out of pocket

This does not include the forgone wages of family caregivers or the economic value of family care provided

Many families will struggle under this financial burden

$10,000

is the total retirement (401(k)/IRA) savings of the typical household approaching retirement

Access to Medicaid LTSS fragmented and means-tested

Middle class not eligible unless they surrender financial independence

Home and personal care services are optional for states; long waiting lists due to funding limitations

Private long-term care insurance (LTCI) not a broad-based solution

Less than 7% of 50+ have LTCI coverage today

Strapped households prioritize more urgent needs (student loan debt, mortgage, day care, college)

Those with highest LTSS risks or needs are typically priced out of or denied private LTCI coverage

Source: Veghte, Cohen, Tell and Bradley. "Designing a State-based Social Insurance Program for Long-Term Services and Supports. Washington DC. National Academy of Social Insurance. 2019.

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Fundamental LTSS financing problem: Absence of an effective insurance mechanism

- The distribution of risk makes LTSS perfectly suited to an insurance solution
  - Many people will have no need and a small number will be have catastrophic expenses
  - It is difficult to predict where you might fall in the distribution of risk
  - Even for the few who have the resources, savings does not make sense and it unreasonable.

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Federal and State Initiatives in LTSS Financing

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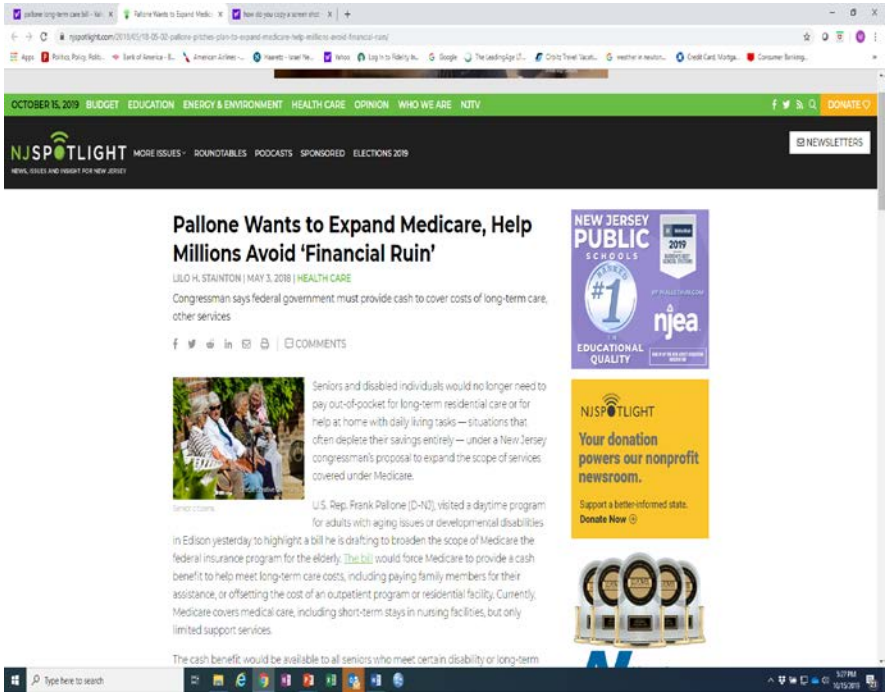
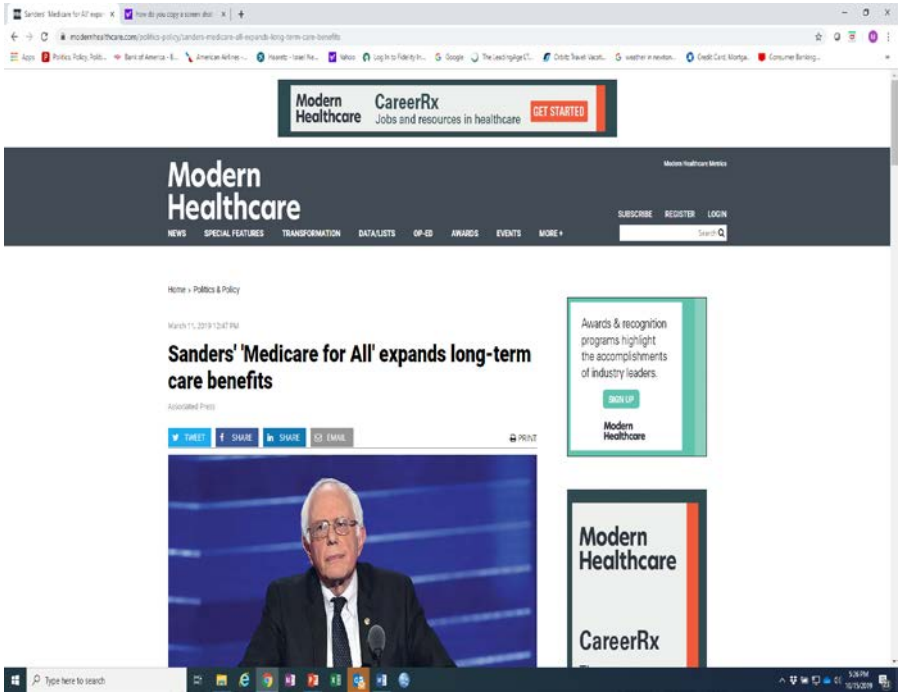
Current Federal Activity:
Proposing Additions to Medicare Coverage





Pallone Bill: Catastrophic Protection plan with Medicare as a chassis

Sanders Medicare for All and also Dingell, Jayapal and more than 100 Co-Sponsors Introduce Medicare For All Act of 2019

Note: A number of think tanks advocacy groups supportive of catastrophic approach

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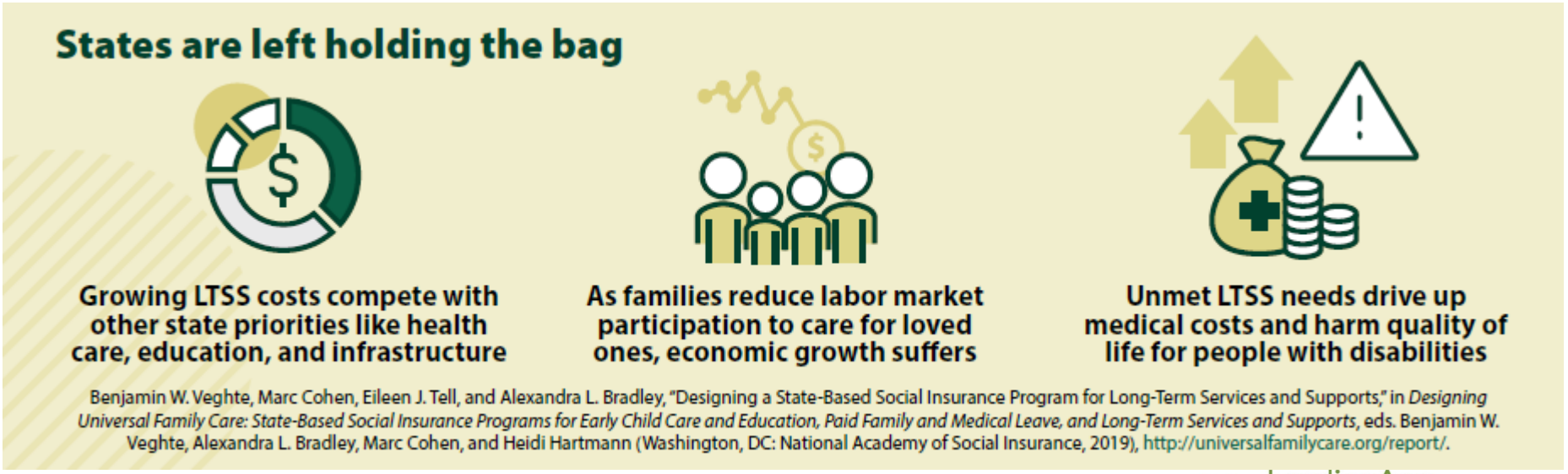
Why are States interested in LTSS reform initiatives?

- Limited growth in the private market fueling search for "shared or communal approaches"

- Gridlock in policymaking at the federal level does not offer promise.

- Changes in family composition lead to strains on budget, workforce & delivery system.

The costs of waiting are starting to exceed the costs of taking action



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Do states have expertise to implement new LTSS insurance-based programs?

- States are the only level of government with experience administering comprehensive LTSS.
  - More than 50 years defining and assessing benefit eligibility, certifying qualified providers, reimbursing providers, and managing benefits
- Understand and familiar with the LTSS service delivery system.
- States also have a solid track record in launching and running social insurance programs:
  - Workers' compensation and unemployment insurance
  - Paid Family and Medical Leave (PFML) social insurance programs (4 states)
- Greater political feasibility and ability to reflect unique needs of state residents.

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States have started to take action

- **Hawaii**
  - Tried but did not pass universal social insurance with 0.4% business excise tax
  - Kupuna Care – provides some LTSS at home to those age 60+ who exceed the Medicaid income-eligibility level
  - Kupuna Cargivers Program – working family caregivers get $210/week so they can purchase care for their loved one and thus stay in the workforce

- **Washington State**
  - LTC Trust Act - the nation's first public state-run LTSS program
  - Funded by employee-paid payroll tax of 0.58% with all workers contributing
  - Retirees or those not in the work force neither contribute nor benefit from program
  - Ten-year vesting period where workers pay into fund before they can claim benefits
  - $100/day paid for LTSS services up to **lifetime maximum of $36,500**
  - Benefit eligibility based on a combination of IADL, ADL and cognitive deficits using state Medicaid program criteria.

Source: Tell and Cohen, 2010.
https://www.questia.com/library/journal/1P4-2235646795/the-states-can-t-wait-the-long-term-care-financing

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States have started to take action (2)

- **Maine**
  - First state to put LTSS finance reform proposal to a ballot vote (Question 1) to create Maine's Universal Home Care Program
  - The program to be funded by a 1.9% tax on individuals' earned income over $127,500 with a similar contribution from employers.
  - Additional funding would come from a 3.8% tax on investment income about the Social Security tax cap, reduced by the payroll taxes paid.
  - Program defeated decisively – 67% (opposed) to 33% (favored).

- **California**
  - California Aging and Disability Alliance pushing development of ballot initiative
  - The state budget allocates $3 million to support inclusion of LTSS questions on California Health Interview Survey
  - SB 512 creates LTC trust board asking $1 million for a feasibility study of a state-based LTSS financing program

Source: Tell and Cohen, 2010.
https://www.questia.com/library/journal/1P4-2235646795/the-states-can-t-wait-the-long-term-care-financing

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States have started to take action (3)

- **Michigan and Illinois**
  - Exploring new options for those not qualifying for Medicaid
  - Feasibility study phase
  - State budgets include funds for actuarial analysis to explore LTSS financing options
  - Stakeholder groups pushing initiatives in both states
- **Minnesota**
  - Exploring options for private LTSS financing vehicles for middle income market.
  - Convened an Advisory Panel of stakeholders to explore several new concepts.
  - Hired experts to support actuarial/market research to test product feasibility

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What state initiatives have in common

- Trying to move away from Medicaid-financed care toward insurance-financed care – to address middle class concerns
- Those exploring public social insurance approaches typically prefer:
  - Universality
  - Contributory ("earned benefit")
  - Limited benefit
  - Affordable
  - Fiscally sustainable and self-funded
  - Room for private insurance market role

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Key Program Considerations when considering a state-based LTSS financing approach

Eligible Populations

Program Design

Financing Approach

Implementation & Integration

Source: ET Consulting, 2019.

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Eligible population and program design

- Eligible Population
- Generational Transition Issues
- Timing and Duration of Coverage
  - First dollar (front-end coverage)
  - Catastrophic Coverage (back-end)
  - Comprehensive coverage
- Benefit eligibility criteria
- Level of benefit payment
- Form of benefit (cash or service reimbursement)

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Financing sources and considerations

Potential Sources

Existing Federal Social Insurance Programs

- Social Security
- Medicare Part A
- Medicare Parts B and D
- Medicare net investment income tax

Existing State Social Insurance Programs

- Workers compensation
- Unemployment insurance
- Paid family and medical leave

Additional Potential Funding Approaches

- Taxes
- Fees
- Premiums

Considerations

- Pay As You Go vs. Pre-Funding
- Size of tax base
- Fiscal sustainability
- Political sustainability
- Affordability
- Connection w/program benefits
- More than one funding source

Examples of estimated tax rates for alternative program configurations

Policy Option	Income Tax	Medicare Tax	Social Security Tax
Catastrophic Protection Benefit Plan (2 to 4 year waiting period)	0.57%	0.58%	0.74%
Washington Front-End plan	0.58%	0.59%	0.75%
Home Care $36,500	0.83%	0.85%	1.08%
Home Care $73,000	1.33%	1.37%	1.73%
Home Care Unlimited	3.12%	3.19%	4.03%

Source: Veghte, Cohen, Tell and Bradley. "Designing a State-based Social Insurance Program for Long-Term Services and Supports. Washington DC. National Academy of Social Insurance. 2019.

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Tax rates converted to 2018 premiums for alternative program configurations for typical person

Policy Option	Annual Premium	Monthly Premium
Catastrophic Protection Benefit Plan (2 to 4 year waiting period)	$350	$29
Washington Front-End	$360	$30
Home Care $36,500	$515	$43
Home Care $73,000	$820	$68
Home Care Unlimited	$1,920	$160

Source: Veghte, Cohen, Tell and Bradley. "Designing a State-based Social Insurance Program for Long-Term Services and Supports. Washington DC. National Academy of Social Insurance. 2019.

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Integration Issues: Payment & Delivery System

- Coordination of benefits with other payers
  - Who is second payer?
  - Coordination of benefits with private insurance
- Federal Medicaid Funding Issues
  - How to assure no loss of Federal Matching
  - Are program benefits considered income?
- Integration of LTSS and Medical Care
  - How to integrate with coordinated delivery systems?
  - How to build on innovation occurring at service delivery level?

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To what end?

- **Improving access to LTSS**. To what extent does the additional money brought into the LTSS system by the program allow the purchase of additional services?

- **Reducing family out-of-pocket spending**. To what extent does the program relieve financial burdens on families?

- **Reducing Medicaid spending**. To what extent does the program reduce budgetary pressure on Medicaid?

- **Financial sustainability/stability**. Is the program sustainable? Can it to be paid for over the long term in a stable manner?

- **Political support and sustainability.** Is the program structured in a manner that will garner broad public support that is likely to persist over time?

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Contact Information

Marc A. Cohen, Ph.D.
Clinical Professor, Department of Gerontology, McCormack Graduate School
Co-director, LeadingAge LTSS Center @UMass Boston
Research Director, Center for Consumer Engagement and Health System Transformation, Community Catalyst

Contact
•Phone: 617.287.7306
•Email: Marc.Cohen@umb.edu

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