Minnesota Efforts to Reform Long-Term Care Financing

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Continuing Care for Older Adults Administration
Minnesota Department of Human Services

Presentation to
The Long Term Care Discussion Group, Washington, DC

May 25, 2017
Outline of Presentation

- Goal: Summarize Minnesota’s efforts to reform long-term care financing -- to extract lessons learned and offer some observations on the accomplishments thus far
- Overview of Minnesota’s efforts – Loren Colman
- Description of new product development
  - Combo life insurance/LTCI product – John O’Leary, O’Leary Marketing Associates
  - New home care benefit embedded in Medicare supplemental plans – John Cutler, Cutler Consulting
- Consumer Perspectives & Product Testing – Eileen J. Tell, ET Consulting
- Questions and Discussion
Own Your Future (OYF) in Minnesota

- Federal/state effort to encourage individuals to plan for their long-term care, including how to pay for it
- Public awareness campaign launched in October 2012
- MN added two additional components to its OYF
  - Make affordable insurance/financial products available to middle-income households
  - Evaluate possible changes in Medicaid to incent private payment for LTC
Minnesota

DEMOGRAPHICS
Number of Minnesota’s older adults will increase substantially over the next 20 years.

Change in older adults, age 65+ (Thousands)

Sources: U.S. Census Bureau and Minnesota State Demographic Center
Boomer’s Plans

- Don't know: 32%
- Personal savings or investments: 22%
- A government program: 18%
- Long-term care insurance: 16%
- Home equity (e.g., reverse mortgage): 5%
- Support from children/family: 1%
- Something else: 1%
- No answer: 5%

Source: Transform 2010, MN Department of Human Services, 2010
Medical Assistance (MA) long-term care expenditures for enrollees age 65+ in MN totaled $1.1 billion in FY2015*

Assume 85% increase in enrollment due to population aging

Assume average annual rate of inflation of 2.5% between 2015 and 2040

= $3.8 billion annually for long-term care costs under the MA program by 2040

*Includes federal and state spending.
Minnesota

1. PUBLIC AWARENESS
Public Awareness Activities

- Minnesota was the 27th state to sponsor the Own Your Future (OYF) campaign.
- Main feature was mailing letters signed by the Governor and Lt Governor to over one million households ages 40 – 65, urging them to plan for their long-term care needs and directing them to the OYF website.
- During the two weeks after the mailing, the website received over 40,000 hits.
Website Analytics

Most recent month – February 2017

- 994 pageviews
- 805 unique pageviews
- 425 sessions
- 1 minute 35 seconds average time on a page
- Website is in transition, new website content will be added summer 2017
Public Awareness Activities (con't)

- In 2013, Own Your Future published a long-term care planning guide.
- 50,000 copies of the guide were printed, most have been distributed. Working on new edition.
- A long-term care planning module has been integrated into the regular monthly retirement seminars for retiring state employees. These reach 4,000 state employees annually.
Public Awareness Activities (con't)

- State Fair Surveys on Long Term Care Plans
  - 25% of state’s population attends the state fair
  - Survey done regularly since before OYF began (1998 – 2016)
  - Questions about retirement/long-term care plans
  - About 2,500 individuals complete a quick (less than 5 minutes) survey
  - In 2016 we migrated from clipboard to I-pads
  - Opportunity to talk to individuals about their plans
2. PRODUCT DEVELOPMENT
Advisory Panel Studied New or Refreshed Options

- Defined middle-income as households with incomes between $50,000 - $125,000.
- Provided members with a base of information on current products, new ideas, changes underway in insurance and financial products.
- Spent time hearing presentations, identifying and researching approaches, analyzing existing products and new concepts.
## Minnesota’s 15 Initial Proposals

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Stimulate the LTCI market to offer new products for middle income</th>
<th>Modify laws or regulations to allow changes in products</th>
<th>Modernize Medicare and related products</th>
<th>Improve access to and safety of home equity options</th>
<th>Increase use of tax-favored savings plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encourage marketing of starter or transition LTCI plan</td>
<td>Work on state reciprocity for group and hybrid partnership products</td>
<td>Study feasibility of including LTC in Medigap or Advantage plans</td>
<td>Make reforms in MN reverse mortgage laws to improve market and consumer protection</td>
<td>Create new or modify existing HSA provisions to allow use for LTC protection and expenses</td>
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<tr>
<td>Encourage marketing of streamlined basic LTCI plan</td>
<td>Further development of combination term insurance and LTCI for lifetime protection</td>
<td>Consolidate the Medicare nursing facility, home health and hospice benefit</td>
<td>Support new options for accessing home equity for LTC</td>
<td>Modify provisions of tax-deferred savings plans to allow use for LTC protection and expenses</td>
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<tr>
<td>Encourage marketing of high deductible, catastrophic LTCI</td>
<td>Study pros/cons of establishing life settlement trust funds</td>
<td>Support federal Commission recommendations on Medicare changes</td>
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<tr>
<td>Study how a public LTCI option might work in MN</td>
<td>Study feasibility of new reinsurance options for LTCI market</td>
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</tbody>
</table>
New Products with Most Potential

Combination term and long-term care insurance product
- A term life insurance product that converts into a LTCI product at retirement or certain age

LTC coverage in Medicare products
- Addition of a home care benefit to all Medicare supplemental policies sold in Minnesota
3. REFORM LONG-TERM CARE IN MEDICAID
LONG-TERM CARE REFORM IN MEDICAID AS PART OF ACA REPLACEMENT?

- Might the block grant concept together with more flexible regulations provide an opportunity to pilot new relationship between Medicaid funding and private products?
NEXT STEPS
FUNDING FOR ANALYSIS

- Own Your Future received $450,000 from a large federal SIM grant awarded to Minnesota by CMMI/CMS in mid-2016.
- The funding for OYF is being used to complete a series of research studies.
- These studies further evaluate the potential role that Minnesota’s two product ideas could have in helping middle-income households pay long-term care costs.
1. Actuarial analysis/estimate of premium for the Medicare home care benefit.

2. Creation of a MN-specific simulation model, to provide a tool to assess the effect of various LTC financing options on different payers.

3. Consumer testing of new products: focus groups with potential purchasers to determine product interest and the price they are willing to pay.

4. Contracts with national experts on Medicare and life/long-term care insurance to assist with the evaluation of these new products.
MOVING TO IMPLEMENTATION/PILOTS

- These studies will be completed by fall of 2017.
- The actuarial analysis work comes first, then the consumer testing and the simulation model.

Minnesota hopes to add to the number of affordable products available to the middle income households in Minnesota and the nation.
CONTACT INFORMATION

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https://mn.gov/dhs/ownyourfuture/
(under construction during summer 2017)
John O’Leary

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978-382-8227
Life Stage Product - What is It?

- Will provide a *life insurance benefit* during working years (up to age 65) when consumers need this protection most. Then, for the same premium and for the same level of coverage, the product will provide a *long-term care insurance benefit* during retirement (from age 65 on) when consumers are more likely to need that protection.

- Begins as a multi-year term life insurance product. A portion of the premium will be set aside to pre-fund a long-term care insurance benefit. When the purchaser reaches age 65, (or older) he/she continues to pay the same premium, but the life insurance benefit ends and the pre-funded long-term care benefit begins.
Life Stage Product Concept
Design Factors

Life insurance face value amounts equal to Long-term care “pool of money”- minimizes consumer decisions

- Three Lifetime Maximum benefit levels (LMB or Pool of Money): $100,000; $150,000; $200,000
- Approximately 2 years of LTC coverage
- Daily Benefit Levels
  - $100,000 - $135/day
  - $150,000 - $205/day
  - $200,000 - $275/day
- Periodic offers to increase coverage
Life Stage Product Concept

Target Audience

- Middle income working families with $50K-$125K in annual household income
- Target: Employees aged 40-55 years old who are looking for simple and affordable life insurance protection in their working years and a similar level of long-term care protection in retirement

Potential for employer sales:
- Currently true group LTC is limited to 1-2 carriers
- A few more sell Multi-life
- The employer group market is highly underserved

Conversely:
- Nearly 7 in 10 workers (90 million) have life insurance available at their workplaces and 80% of those participate
- Sales of term life policies in 2014 exceeded 3 million compared to less than 150,000 LTC policies
Life Stage Product Concept
Market Rationale

- Marketing Assumptions
  - Middle income consumers need affordable LTC products that provide enhanced value
  - “Half a loaf is better than nothing”
  - 2 years coverage will cover LTC expenses for more than 50% of those who will have LTC need; 70% will spend less than $250K
  - Combo/Hybrid products continue to be a bright spot in long-term care sales
  - Stand-alone LTC insurance is not on consumer’s radar until they near retirement
Life Stage Product Concept
Market Rationale

- Recent supporting data
  - Affordability most important decision factor for LTCi (RTI)
  - Stand-alone LTCi not highly valued by consumers (RTI)
  - $50-$70 price point may be an upper limit for many (RTI)
  - Longer waiting periods may help pricing (ASPE/NCOA)
  - Only 15% of seniors will need catastrophic coverage-For many, 2 years will be enough (Urban/Milliman)
Lifestage Product Concept
Additional Market Rationale

- (Rationale continued)
  - Combination products provide a consumer “two-fer”
  - Wrapping LTC benefit into more familiar Life product helps overcome low LTCi awareness/interest
  - Typical combination products too expensive for middle-income
  - Pricing work suggests Lifestage may be affordable for many middle-income
  - Lifestage design is simple and familiar enough to be sold on-line with other benefits, to employer groups
Life Stage Product – Preliminary Actuarial Assumptions

- Interest rate assumptions: 5% (other scenarios checked)
- Lapses assumptions: Uses LTC lapse assumptions through-out
- Expenses: Industry level administration expenses
- Inflation not built-into rates; periodic guaranteed purchase offers
- Commissions/Marketing Expenses: Paid on level premium with no additional first year commissions paid at age 65
# Life Stage Product Concept Sample Premiums

<table>
<thead>
<tr>
<th>LifeStage Product – Sample Monthly Premiums for Selected Ages, and Benefit Levels 06/24/16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age 40</strong></td>
</tr>
<tr>
<td>Maximum:</td>
</tr>
<tr>
<td>Daily:</td>
</tr>
<tr>
<td>Males</td>
</tr>
<tr>
<td>Female</td>
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</tbody>
</table>
# Life Stage Product Premiums – Compared to Term Life and LTC Premiums

**LifeStage Product Monthly Premiums - $135/day to Maximum Benefit $100K**

<table>
<thead>
<tr>
<th>Issue Age</th>
<th>Male</th>
<th>Female</th>
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</thead>
<tbody>
<tr>
<td>40</td>
<td>$49</td>
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<td>50</td>
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<td>55</td>
<td>$97</td>
<td>$106</td>
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**Life Insurance – Term to 65 – Monthly Premiums - Benefit $100K**

<table>
<thead>
<tr>
<th>Issue Age</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
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<td>45</td>
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<tr>
<td>55</td>
<td>$76</td>
<td>$57</td>
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</table>

**LTC Insurance – Monthly Premiums - $135/day to Maximum Benefit $100K**

<table>
<thead>
<tr>
<th>Issue Age</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>$28</td>
<td>$37</td>
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<td>55</td>
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## Life Stage Savings Compared to Term + LTC purchased separately

<table>
<thead>
<tr>
<th>Premiums for Males- $100,000 level</th>
<th>Age 40</th>
<th>Age 45</th>
<th>Age 50</th>
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<tbody>
<tr>
<td>Term Life</td>
<td>$40</td>
<td>$52</td>
<td>$67</td>
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<tr>
<td>LTC</td>
<td>$28</td>
<td>$37</td>
<td>$50</td>
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<tr>
<td>Total</td>
<td>$68</td>
<td>$89</td>
<td>$117</td>
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<tr>
<td>LifeStage revised</td>
<td>$49</td>
<td>$63</td>
<td>$78</td>
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<tr>
<td>Difference</td>
<td>$22</td>
<td>$28</td>
<td>$37</td>
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<tr>
<td>% Savings</td>
<td>33%</td>
<td>32%</td>
<td>32%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Premiums for Females- $100,000</th>
<th>Age 40</th>
<th>Age 45</th>
<th>Age 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term Life</td>
<td>$35</td>
<td>$41</td>
<td>$49</td>
</tr>
<tr>
<td>LTC</td>
<td>$28</td>
<td>$37</td>
<td>$50</td>
</tr>
<tr>
<td>Total</td>
<td>$63</td>
<td>$78</td>
<td>$99</td>
</tr>
<tr>
<td>LifeStage revised</td>
<td>$46</td>
<td>$61</td>
<td>$80</td>
</tr>
<tr>
<td>Difference</td>
<td>$17</td>
<td>$17</td>
<td>$19</td>
</tr>
<tr>
<td>% Savings</td>
<td>28%</td>
<td>22%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Life Stage Product Concept
Next Steps

- SOA think tank consumer evaluation-Maddock-Douglas innovation consultants
  - Flesh out product design
  - Qualitative research-consumer focus groups
  - Quantitative- product consumer demand analysis

- NAIC LTC Innovation Subgroup-regulatory pathway
  - Recommended changes to 7702B and 101G
  - Explicit language in Long-term care Model Act
  - Possible “private letter ruling”

- MN Specific consumer product research
  - Focus group revised product concept for consumer acceptance
  - Conduct MN specific modeling to determine impact on public resources

- Continue to meet with carriers to explore opportunities
You know life insurance is important as it financially protects your family should something happen to you during your working years. But long-term care is something you can’t envision needing until you get much older (if ever) so long-term care insurance doesn’t seem like something you need to think about right now. However, in the future, nearly half of people aged 65 and older will need a significant amount of long-term care that will cost more than they think, and that most will not have put money aside to pay for.

**Introducing LifeStage Protection** — An insurance policy that starts with a life insurance benefit during your working years (up to age 65) and then switches to a long-term care benefit during your retirement (from age 65 on). This provides you and your family with the financial protection that you need when you need it most, all without you having to think about it.

To apply, contact your employer, go to your employee benefits website or if you are self-employed or your employer does not offer it go to [www.lifestageprotection.com](http://www.lifestageprotection.com). Select one of three life insurance benefit levels ($100,000, $150,000 or $200,000) and apply for coverage. Once approved, you make your payments for this insurance like you would for a standard life insurance policy. When you reach age 65, continue to pay the same monthly amount, but the life insurance ends and the long-term care benefit begins. Then if you require long-term care (e.g., in home care, assisted living, etc.) your expenses are covered up to the amount of your benefit level.

Prices vary depending on the benefit level chosen, age and gender. Prices for a 45 year old male are roughly $60 per month for $100,000 of coverage. This is significantly less expensive than if you were to purchase term life insurance and long term care insurance separately.

**LifeStage Protection – Transforming Insurance**
John Cutler

Contact information: Johncutler@yahoo.com
Own Your Future (OYF) in Minnesota

- OYF in Minnesota built on decades of experience with OYF in other states, including a public awareness campaign.
- However, Minnesota was unique in looking at adding insurance products such as the Medigap/Medicare Advantage plan.
- But Minnesota is not unique in looking at these. For instance, the Medigap/MA approach has been explored by the Commonwealth Fund, the Bipartisan Policy Center as well as potential legislation by Senators Grassley and Cardin to add home care to Medicare Advantage.
Home Care Add-On to Medicare Supplemental Plans

Embed a home care benefit in all Medigap and Medicare Advantage plans sold in Minnesota and fund this benefit primarily through beneficiary premiums

- Pay for qualifying home care services that help individuals stay at home as they begin to need assistance (not assisted living or nursing homes)
- Benefit would include package of essential services including personal care and a care coordination benefit
- Pool of up to $50,000 with a daily or monthly cap
- Limited benefit duration
- Available to the largest “risk pool” in the state (those on Medicare)
- Leverages Medigap and Medicare Advantage plans as a valued product that many Minnesotans already purchase
- Affordable premium that does not increase the cost to Medicare
- Some of the essential services can now be provided, but some are prohibited by federal rules
Proposed Benefit Package

- The essential service package includes services have been documented by DHS to be the key initial services to help seniors with low needs for support to stay in their home:
  - emergency response system
  - homemaker services
  - chore services
  - training and education of family caregivers
  - home delivered meals
  - adult day services
  - service/care coordination
  - community living assistance

- In addition a long-term care insurance feature involving personal (custodial) care services will also be priced.
Related Considerations

- Pricing concerns
- Universality and enrollment (embedded benefit)
- Differences between Medigap and Medicare Advantage
- Individuals under 65 on Medicare by reason of disability
- Underwriting, vesting and waiting period issues
- Triggers (Medicare versus long term care)
- Premium subsidy
Next Steps

1. Complete actuarial analysis of the Medicare home care benefit to be embedded in all Medicare supplemental plans sold in Minnesota.

2. Creation of a state-specific simulation model (similar to the national Urban model) for Minnesota, to provide a way for state staff and legislators to see the impact of various financing approaches.

3. Consumer testing using focus groups of potential purchasers to determine overall interest in these products among consumers and the price consumers are willing to pay.
Thank You !