A New Public-Private Partnership: Catastrophic Public and Front-End Private LTC Insurance

Presented to:

The Long-Term Care Discussion Group
Washington, DC

By

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April 26, 2018

Full paper available at https://bipartisanpolicy.org/wp-content/uploads/2018/01/Public-Catastrophic-Insurance-Paper-for-Bipartisan-Policy-Center-1-25-2018.pdf

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Background (1)

- **Fundamental LTSS financing problem is the absence of an effective insurance mechanism.**
  - LTSS is unpredictable and potentially catastrophic
  - Inefficient and impractical to save for LTSS

- **Private insurance has not grown to meet early expectations: Both demand and supply factors.**
  - Fewer sales than 1990
  - In-force relatively constant for decade at <10% of population
  - Significant carrier exists from market
  - Affordability of product out of reach for many middle class

- **Public "insurance"/safety net is inadequate.**
  - 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 pressure

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Background (2)

- **Agreement on reform strategy absent because of fundamental philosophical conflict.**
  - Those who would limit public policy to the promotion of private insurance
  - Those who regard public insurance as essential to the assurance of adequate, affordable protection
- **Number of groups have recently come together representing both points of view and seem to be leaning in direction of new public-private partnership.**

Why Public Insurance for "Back-end" Risk?

- Vast majority of private carriers are no longer willing to cover this risk
- Difficult to price uncapped risk in the context of voluntary insurance market
- Premiums of those willing to sell such policies are out of the reach of the vast majority of middle class Americans
- High public costs borne by families:
  - Added health care costs to family caregivers, which impose societal costs
  - Workforce accommodations and lost wages and productivity to individuals and society
  - Reduced savings for retirement increases future demand on social safety net
- Not everyone can afford or would qualify for private coverage.
- Public catastrophic protection benefits those relying exclusively on family caregiving.
- Comprehensive insurance solution can help address unmet needs.

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Purpose

- To analyze a specific policy proposal that combines public and private insurance for front-end and back-end risks.

- Compare effects of defining a "catastrophe" either as:
  - A fixed waiting period (e.g. 2,3,4 years); or
  - An income-related waiting period (e.g. lower income, less wait)

- We focus on:
  - Who benefits
  - Program impacts on out-of-pocket spending, Medicaid and service levels
  - Distribution of benefits by income status

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Underlying Rationale (1)

- The catastrophic event is described in terms of the amount of time one must wait after becoming disabled to receive public insurance benefits

- The range for such a waiting period is between one to four years and increases as income rises. It is informed by two factors:

    1. Current premium costs for private insurance policies of different durations relative to incomes and

    2. Evidence related to people's willingness to pay for premium, based on experience in the private market.

- Waiting periods are tailored to income in order to target public dollars to people with modest incomes

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Underlying Rationale (2)

- Limit financial exposure to amounts middle and higher income people can reasonably be expected to manage themselves with insurance or savings.

- Private insurers have opportunity to market products as ***first dollar protection***, to encourage modest and higher income people to purchase policies and build comprehensive insurance protection.

- Encourage carriers back into the market by:
  - significantly reducing selling costs,
  - establishing clear delineation between public and private roles,
  - enhancing capital market support for building off public approach, and;
  - avoiding most risky part of the cost distribution.

Key Parameters of Public Insurance

Description:

- A public catastrophic insurance program for LTSS costs that takes effect after income-related waiting period based on time being disabled and lifetime earnings at age 65 has been met.
- A package of actions to spur development of affordable products and significant growth in LTC insurance market.

Eligibility (Phased-In) and Benefit Trigger:

- Eligibility would be phased in over ten years, with people eligible for benefits once they work 40 quarters after the law's enactment. (Current elderly and people with disabilities would not be eligible).
- Benefits would become available once people incur impairments in 2+ ADLs and/or severe cognitive impairment – that is, the HIPAA benefit "trigger" for federally qualified private long-term care insurance.

Coverage/Benefits:

- Up to $110/day cash benefit (2014 dollars) paid out either daily or weekly
- Unlimited benefit once an income-related waiting period is met
- Waiting period of 1 year for people with lifetime incomes in the lowest two quintiles of the distribution and 2, 3, and 4 years for people with incomes in the third, fourth and highest quintiles, respectively.
- Annual benefits increase at the rate that hourly costs increase for home health aide workers

Financing:

- Premium surcharge on Medicare tax – applying to all wages and for high earners on some unearned income -- shared by employees and employers beginning at age 40
- Medicaid savings due to substitution of new public benefit plus potential impacts of higher private insurance take-up

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Key Parameters of Private Insurance

Reducing Marketing Costs

- Targeted public education campaign
- Market private coverage with public coverage
- On-line access to policies and on insurance exchanges
- Require employers to offer coverage as an optional benefit with “opt out” approach
- Make available as part of other health insurance offerings (Medicare Advantage/Medigap)

Reforming Product Pricing

- Move away from level-funded products toward “term-basis”, much like life insurance
- Index both premiums and benefits to account for increases in the cost of services.
- Allow products with long waiting periods for those who want to self-insure

Reforming Insurance Regulation

- Uniform federal guidelines that apply across all states based on current NAIC guidelines
- Provide companies some guarantee of rate relief when changes in the environment—like the great recession—affect underlying pricing assumptions

Targeting Tax Benefits

- Re-targeting current tax benefits for LTCI to low- and modest-income people
- Refundable tax credits to reach individuals in the lower middle class.

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Waiting Periods for Public Coverage, by Income Quintile

Waiting Period	Lowest Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile
Family Income Limit for each quintile	$28,894	$50,520	$78,000	$121,059	>$121,059
Average income	$16,109	$39,514	$63,916	$97,207	$169,000
Waiting Periods	1 year	1 year	2 years	3 years	4 years

U.S. Census Bureau Current Population Survey, Annual Social and Economic Supplements, 2014 https://www.census.gov/hhds/www/income/data/historical/families/.

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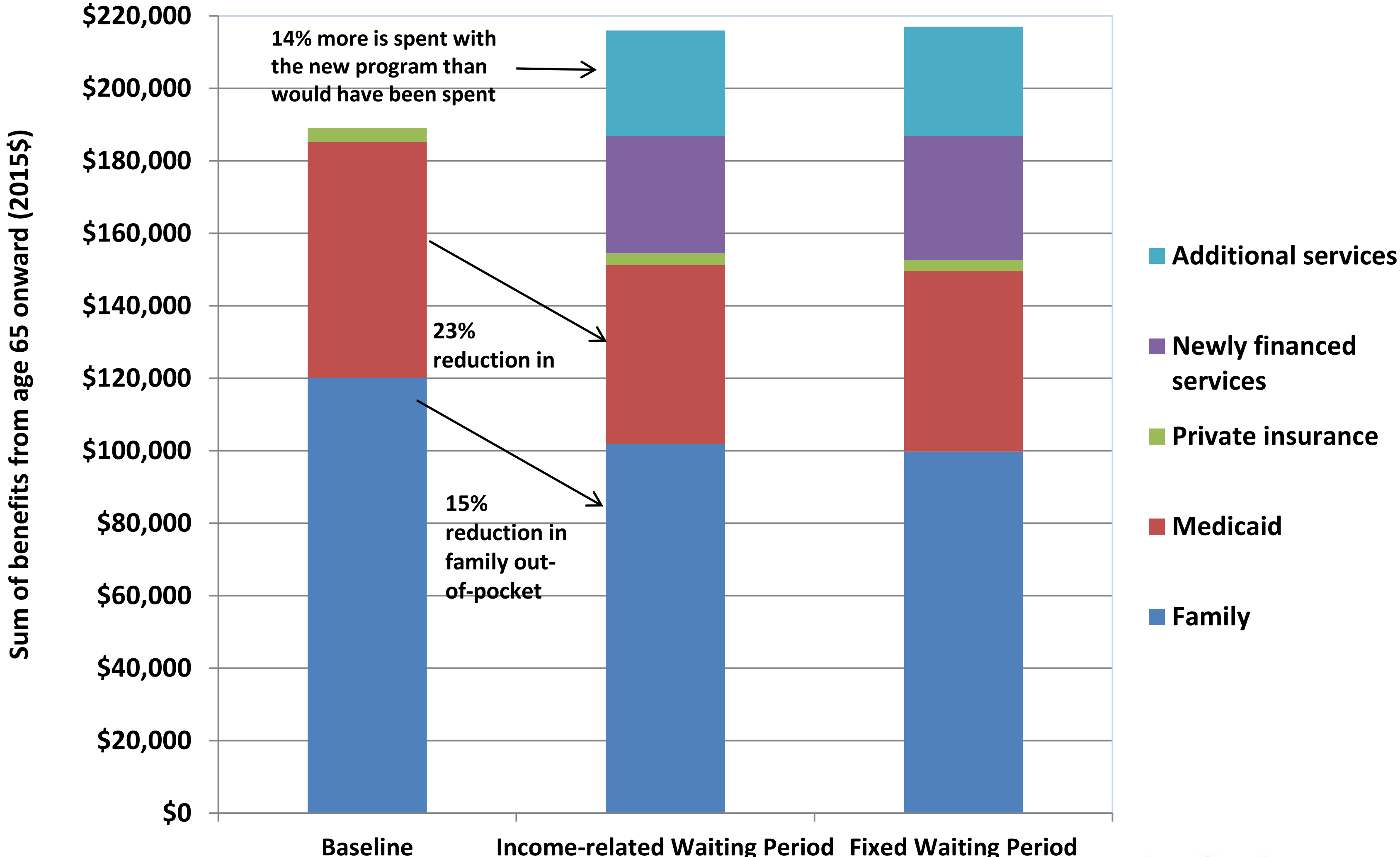
Relationship Between Income Quintiles and Affordability of Private Insurance Premiums

Waiting Periods:	1 Year Policy	2 Year Policy	3 Year Policy	4 Year Policy
Adjusted 2010 LTC Insurance Premiums				
Age 45	$488	$975	$1,251	$1,484
Age 50	$541	$1,082	$1,392	$1,646
Age 55	$628	$1,255	$1,620	$1,908
Age 60	$757	$1,514	$1,961	$2,297
Age 65	$1,012	$2,023	$2,625	$3,053
Percent of Income that would need to be spent on premiums by families (age 50)				
Lowest Quintile	3% - >10%	6% - 15%	8% - 19%	10% - 21%
Second Quintile	<u>2% - 3%</u>	4% - 6%	5% - 8%	6% - 10%
Third Quintile	1% - 2%	<u>2% - 4%</u>	3% - 5%	4% - 6%
Fourth Quintile	1%	2%	<u>2% - 3%</u>	2% - 4%
Highest Quintile	<1%	1%	1% - 2%	<u>2%</u>

Sum of LTSS Spending Age 65+ by Payers for Fully-phased in Cohorts Under Baseline and Alternative Waiting Period Options (2015 Dollars)



Source: Melissa Favreault tabulations from DYNASIM3 at Urban Institute.
Notes: Sample excludes unauthorized and late arriving immigrants. Assumes no administrative costs and a retrospective program start to 2015.

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Proportion of Eligible Survivors to age 65 receiving Catastrophic Public Insurance Benefits

Characteristic	Income-Related Waiting Period	Fixed Waiting Period at 2.2 Years
Total	32%	33%
Gender		
Men	30%	30%
Women	34	36
Income Decile at age 65		
Lowest	41%	34%
Second	45	36
Third	43	33
Fourth	43	34
Fifth	34	34
Sixth	35	34
Seventh	33	38
Eighth	28	32
Ninth	22	32
Highest	21	29
Percent of Baseline Costs Covered by the Program	31%	31%

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Public Program Costs

- **Current Medicare Tax**
  - 1.45% of all earnings for most workers
  - 2.35% earnings for workers whose incomes exceed a threshold
    - $250,000 for married taxpayers and $200,000 for single taxpayers.
    - They pay additional 3.8 percent tax on unearned income.

- **Program Cost**
  - *Additional tax rate* of 1 percentage point of earned income split between employers and employees.
  - This level of tax is designed to assure fiscal solvency over a 75 year period.

- **Actual Premium Charge**
  - The actual premium charge to an employee is about $486 per year or about $41 per month based on total covered wage in 2015 $46,480.
  - Split between employees and employers that will be about $21 per month

- **Comparison Costs**
  - $35 per month average internet fee (Time Warner, 2017)
  - $148 cell phone cost (Cowen's Q4 Study 2016)
  - $191 monthly spend on restaurants (Source: U.S. Census Bureau and the Bureau of Labor Statistics)

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Additional Thoughts and Limitations (1)

- **Does the complexity of an income-based waiting period warrant the admin & marketing complexity?**
  - Small differences in the distribution of benefits across income groups
  - Yet, income-related approach makes private LTCI affordable for modest income people
- **Political challenge of a mandatory program with income-conditioned benefits and a highly progressive financing mechanism.**
  - Could treat the proposed surcharge more as a premium than a tax, by allowing people the opportunity to opt out
  - To limit adverse selection, could give people ability to opt out at various times
  - To encourage early participation, the Medicare tax surcharge might be higher for people nearing retirement

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Additional Thoughts and Limitations (2)

- **Transition issues**
  - Reliance on self-funding excludes baby boomers too old or otherwise unable to work and contribute for 40 quarters.
    - Current strains on individual, families and state governments will persist for at least another two to three decades in the absence of general revenue contributions
    - Argues for taking steps now to move us toward a system that shifts away from welfare-based financing toward insurance-based financing
  - Excludes people already in need of LTSS

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