

Public Policy for Long-Term Care Financing

Mark J. Warshawsky, Senior Fellow,
American Enterprise Institute

Presentation at the Long Term Care Discussion Group
January 31, 2024



Agenda

- I. The Older Individual's LTC Problem and Current Resources
- II. Medicaid
- III. Private LTCI – Market and Design Issues
- IV. Failed Public Insurance Initiatives
- V. My Proposal

The Older Individual's LTC Problem

Risk of Disability in Old Age, by Age Group and Gender (% of population)

	65-69	70-74	75-79	80-84	85-89	90-94	95+	All 65+
Men	5.6	8.7	14.1	18.3	31.8	46.3	67.6	13.7
Women	9.6	10.8	18.0	30.4	44.4	60.3	79.9	22.7

Source: Friedberg et al. (2014) based on 2004 NLCTS

- Black and Hispanic populations have doubled risk (Freedman (2021))
- No geographic differences (Freedman (2021))
- Was on an improving trend through late 1990s but seems to have largely stalled in last two decades (Freedman (2013, 2021))
- **Lifetime LTC risk at age 65**
 - 64% for women; 49% for men
 - 22% for duration of more than 5 years. Beyond the lowest income and poor health group, risk does not vary by income nor initial health (Johnson and Dey (2022))
 - Lower incidence for paid care – 45% overall and only 4% for duration of more than 5 years

The Older Individual's LTC Problem

Monthly Cost of Long-Term Care, 2021 (2021 \$)

Category	National Average	New York Area	Dallas Area, TX
Home Health Care			
<i>Homemaker Services</i>	4,957	5,529	4,862
<i>Homemaker Health Aide</i>	5,148	5,720	4,862
Adult Day Health Care	1,690	1,950	1,517
Assisted Living Facility			
<i>Private, One Bedroom</i>	4,500	5,750	4,195
Nursing Home Care			
<i>Semi-Private Room</i>	7,908	12,471	5,627
<i>Private Room</i>	9,034	13,231	8,460

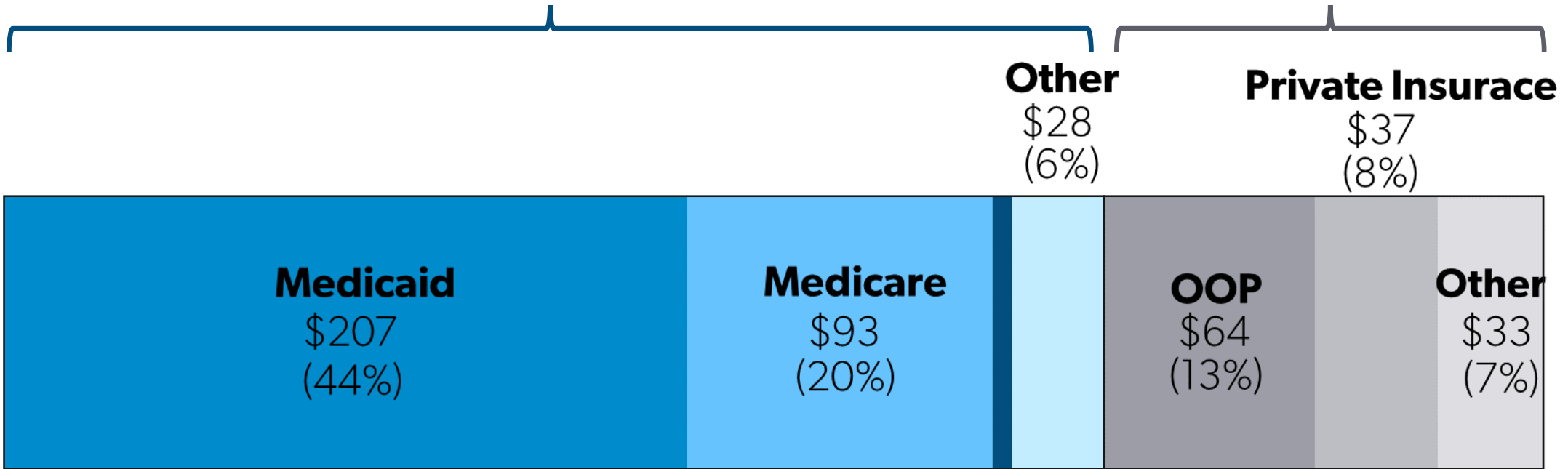
Source: 2023 Genworth Financial, Inc. The information above is based on a specific scenario generated by Genworth 2021 Cost of Care.

Current Resources

Total LTC Spending (2021): \$467.4 billion

Public: \$333.6 (71.4%)

Private: \$133.8 (28.6%)



**Federal COVID-19
Pandemic Assistance**
\$6
(1%)

Source: CRS analysis of National Health Expenditure Account (NHEA) data obtained from CMS, Office of the Actuary, prepared November 2022

Medicaid

- LTC represented 32% of all Medicaid spending
 - 60% on home care; 40% on nursing home care
- CBO projects elderly LTC spending to increase from 1% of GDP in 2010 to 3% in 2050

Medicaid Long-Term Care Spending, 2012-2021

Year	Billions (\$)	% of Total LTC Spending
2012	140	N/A
2013	144.5	42.7
2014	N/A	N/A
2015	149.4	42.5
2016	154.48	42.2
2017	N/A	N/A
2018	180.58	44.1
2019	182.88	42.9
2020	200.18	42.1
2021	207.08	44.3

Medicaid – Porous Eligibility

- **Income Limits**
 - Medically Needy
 - Spousal Income Allowances
- **Asset Limits**
 - More relevant to older population
 - Nominally low but major exceptions
 - Housing equity
 - Retirement accounts
 - Spousal Allowance
 - California, all
- Middle and upper income use Medicaid with no Spend-Down (Borella, De Nardi, and French (2018); MACPAC (2022))
- Quite modest state efforts at Estate Recovery (Warshawsky (2022))
- Sophisticated legal avoidance techniques

Private LTCL - Market

- **Flexible product** – \$3,750 average annual cost
- **Modest Uptake** – 11% of older population (Treasury (2020))
- **Sales Peaked in 2003** – Now combination products more common
- **Medicaid Crowd-Out is Substantial** – Even without porous eligibility rules (Brown and Finkelstein (2007, 2008))
- **Counterweights** – Small tax advantage and partnership are somewhat effective (Cornell and Grabowski (2018))

Private LTCL – Product Design Issues

- **Strict Underwriting** – 20% over age 65 excluded
- But lifetime risk is largely uniform among most initial health groups!
(Brown & Warshawsky (2013))
- Why not use a single premium design?
- Level-periodic premium encourage risk categorization by life expectancy
- Level-periodic encourages lapses
- May have been reasonable when LTCL was new and costs uncertain
- Premium increases on existing policies

Failed Public Insurance Initiatives

- **MCCA (1988, 1989)**
- **CLASS (2010, 2011, 2013)**
 - Poor insurance; Adverse Selection; Upfront revenue for ACA
- **Other Proposals for National Social Insurance**
 - Tax increases; Skepticism on scores and design creeps; Large deficits and looming insolvencies for existing programs
- **WA Cares**
 - Poor insurance; Quasi-mandatory (unfair to poor and those who leave state); Unpopular (high-income and young workers claimed exemption through attested LTCI); Budget impact?; Solvency?

My Proposal

- **Principles**
 - Self-reliance for those who can afford
 - Appropriate assistance for those who cannot
 - Use current institutions and laws
 - Control government spending
- **Three Basic Steps**
 - Re-focus Medicaid
 - Enhance Partnership
 - Revitalize and reform LTCI
- **Favorable By-Product**
 - Ultimately reduce need for Estate Recoveries

My Proposal

- All retirement assets countable
- Asset transfer mechanisms outlawed
- California brought into full compliance
- Estate recovery goals enforced for states, with Partnership carve-outs
- Double Partnership asset offset for non-cancellable single-premium LTCI
- Could be done by SPA (?)
- Remove LTCI Indexation Requirement
- Public Information Campaign about these changes through SSA to individuals upon retirement benefit claims