Financing Options for Long-Term Care: Who Benefits and at What Cost?

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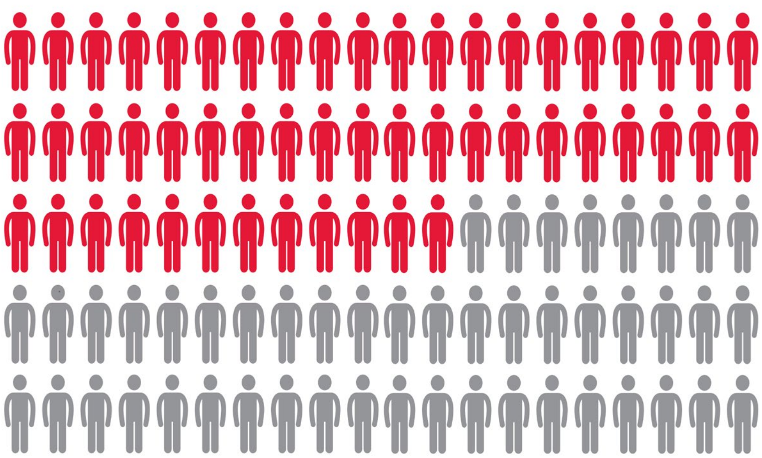
This policy brief summarizes findings from the newly released long-term care financing option **research** by the Urban Institute and Milliman, Inc., courtesy of *Health Affairs*.[1,2]



52%

of Americans who reach age 65 will someday need a high level of help with everyday activities.[3]

Half of all Americans turning 65 today will one day find themselves needing a high level of help with basic daily activities like walking, eating, getting out of bed in the morning, and bathing. For older adults and their families, needing this level of assistance can take a sizeable toll on both quality of life and personal finances.

The long-term care financing crisis means:

- Individuals are not getting the care they need.
- Families are facing bankruptcy.
- Unpaid caregivers are losing wages from missed work and experiencing physical and emotional strain.
- Federal and state budgets are impacted, as individuals and families turn to Medicaid when their resources are exhausted.

The typical American faces long-term care costs in old age averaging $91,000 for men and $182,000 for women—but can be much higher depending on the number of years individuals need high levels of help.[3] It creates an unpredictable financial burden. At the same time, the number of aging Americans with high health and personal needs is projected to grow from 6 million to almost 16 million in the next several decades.[3]

While each experience is unique, families cover more than half of the total share of long-term care costs through out-of-pocket spending, which can deplete personal savings, retirement accounts, and other assets.[3] In many instances, the costs exceed what families can provide, impacting family members and other unpaid caregivers. While individuals can qualify for Medicaid to cover needs when their savings are exhausted, they typically incur large out-of-pocket expenses beforehand. Few Americans have private long-term care insurance coverage today due to high premiums and inability to qualify if they have pre-existing conditions.

When faced with unpredictable needs and costs, Americans generally use insurance as a tool to mitigate overwhelming financial risk. Therefore, to help address the long-term care financing crisis and offer policy alternatives, a project convened by The SCAN Foundation, AARP, and LeadingAge is making new data on insurance options available. The project enlisted the Urban Institute and actuary group Milliman, Inc. to simulate the impact of three insurance options with the same benefit structure.

This analysis tested insurance options over three coverage periods, assessing performance across several designs including voluntary or mandatory enrollment. All options could be implemented as private and/or public products. Taken as a whole, the research creates a comparative framework for long-term care financing that can help policymakers and thought leaders explore creative solutions.

Insights from this analysis shed light into how different policy designs impact performance including participation, savings in Medicaid, and affordability. Findings shown below specifically focus on a key cohort—Americans who are between 35 and 39 years old today—those who are often saddled with the caregiver responsibilities for their parents, the need to save for their own retirement, and college expenses for their children.

Figure 1 shows the percentage of people born between 1976-1980 who would be covered by the three policy designs at age 65, with mandatory designs providing the broadest coverage. The options also offer variations on the economic impact to Medicaid (Figure 2). Figure 3 summarizes how these options perform against each other and the status quo (baseline). All income levels in this age group benefit from mandatory programs considered, while the middle- and higher-income groups can benefit from a variety of options. Some show more savings to out-of-pocket spending and greater impact on enrollment than others. Regardless of which options are considered, there is no easy answer given that each have inherent tradeoffs.[1,2]

Basic Policy Designs

- **Initial:** Insurance covers the first two years of a person's care once they have reached a high level of need, but not later stages.
- **Year 3 +:** Insurance covers a person's care starting at year three after the high-need threshold is met - meaning the first two years are not covered.
- **Full duration:** Comprehensive insurance covers a person's care once they have reached a high level of need and continues through the individual's lifetime.

American families deserve affordable, accessible, and wide-ranging solutions in order to plan for future long-term care needs for their parents, themselves, and their children. The costs of inaction will only increase over time.

References

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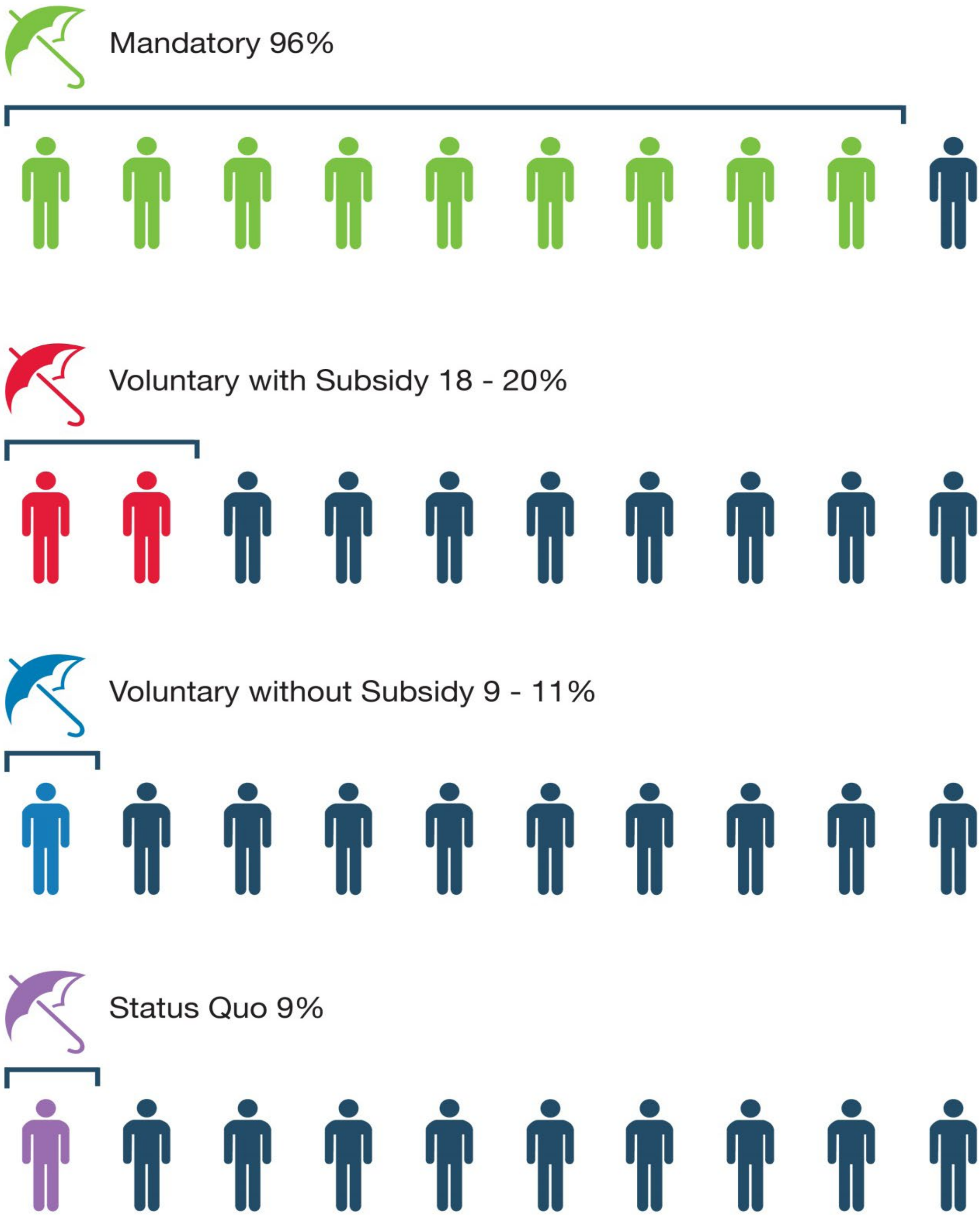
2. Giese C, Schmitz, A. Premium Estimates for Policy Options to Finance Long-Term Services and Supports. Milliman, Inc. 2015; http://www.thescanfoundation.org/ltc-financing-initiative. Accessed November 16, 2015.

3. Favreault M, Dey, J. Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief. US DHHS-Assistant Secretary for Planning & Evaluation. 2015; http://aspe.hhs.gov/sites/default/files/pdf/106211/ElderLTCrb_0.pdf. Accessed November 13, 2015.

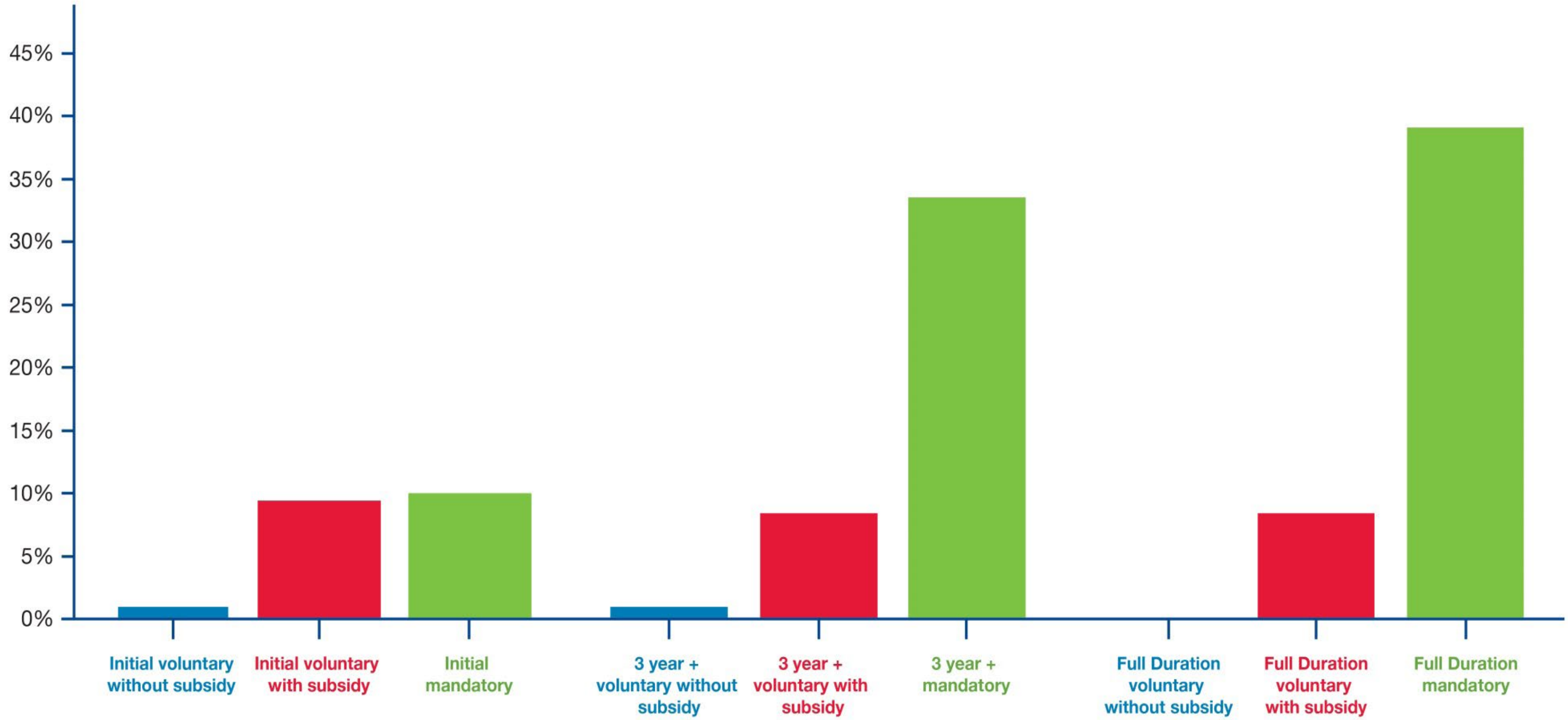
Figure 1: Percent of Adults Born 1976 - 1980 Participating in Select Policy Designs at Age 65



Source: Authors' calculations from DYNASIM (run918). Courtesy of *Health Affairs*.

Note: Adults are classified as participants in a program if they have paid sufficient payroll tax, are currently paying premiums and have not lapsed, or if they receive a subsidy. Income is measured relative to the federal poverty level.

Figure 2: Annual Medicaid Savings Generated by Each Policy Design, 2050



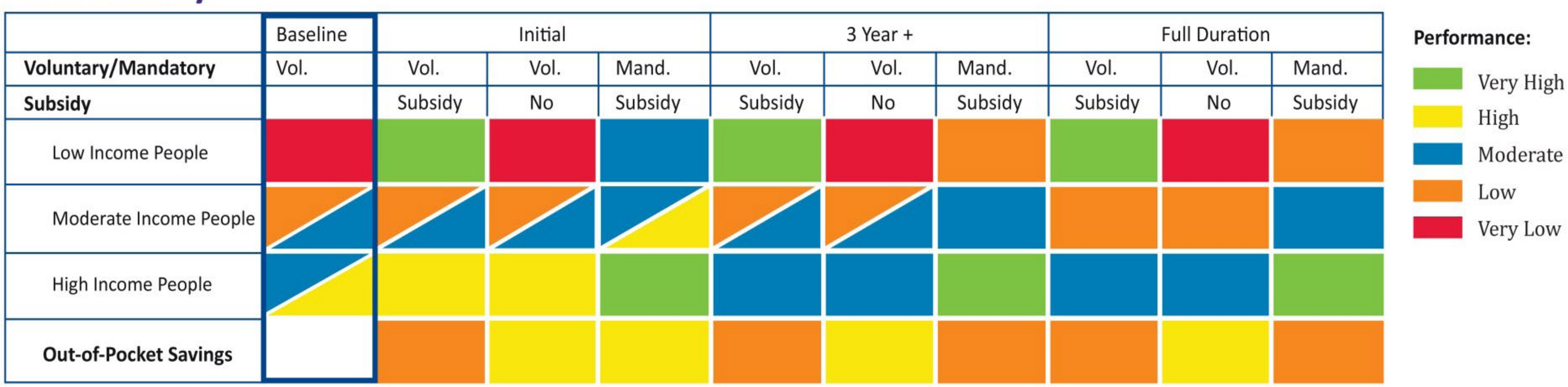
Source: Authors' calculations from DYNASIM (run918). Courtesy of *Health Affairs*.

Note: Savings are expressed as a share of projected current law LTSS Medicaid spending on aged adults.

Figure 3: Summary of Baseline & Policy Option Simulation Performance

Enrollment

Affordability



Source: Authors' estimates from DYNASIM (run918). Courtesy of *Health Affairs*.

Note: The affordability measure compares required annual contributions to annual income. We adjust the out-of-pocket and Medicaid savings measures for program size. Although this qualitative scorecard is based on our simulation results, the thresholds developed to rate each measure are necessarily subjective.