Side-By-Side Review of Long-Term Care Financing Policy Recommendations

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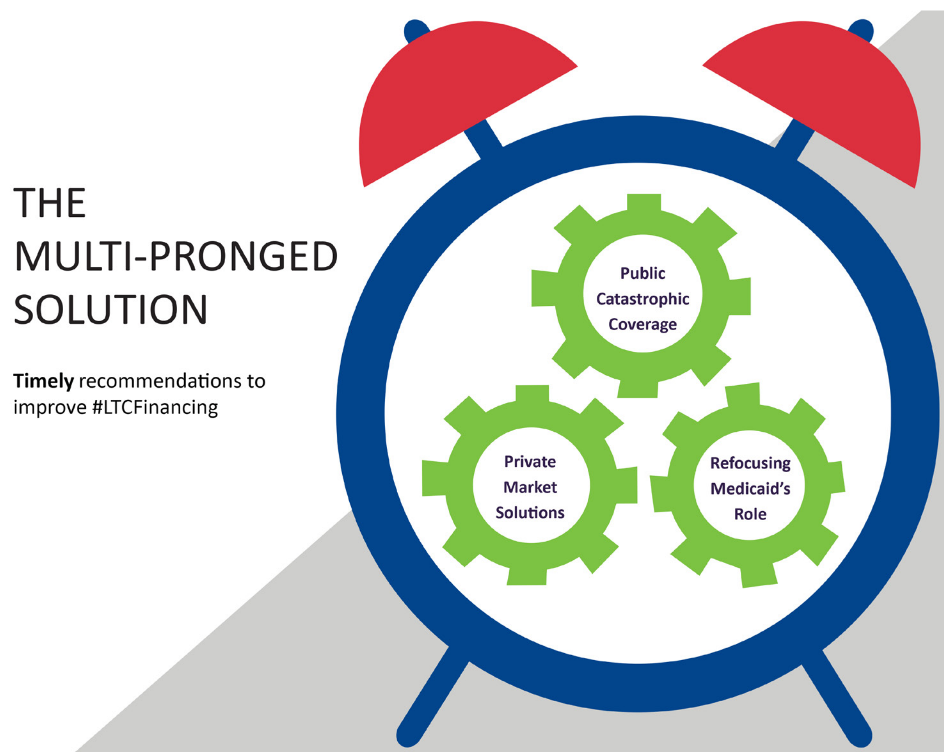

This analysis summarizes three sets of policy recommendations to improve America's financing system for long-term care. The information captured in this side-by-side brief was taken from separate reports published by the [Bipartisan Policy Center](), [LeadingAge](), and the [Long-Term Care Financing Collaborative]() (a project of Convergence Center for Policy Resolution) in February 2016.

Introduction

Half of all Americans turning 65 today will one day find themselves needing a high level of help with basic daily activities, such as walking, eating, bathing, and getting out of bed. The average American will face substantial long-term care (LTC) costs in old age—an estimated $91,000 for men and $182,000 for women. These amounts can be much higher depending on the number of years individuals need high levels of help. While 19 percent of older adults will live only one year with this high level of need, 14 percent will experience need this for five or more years. Older adults with longer periods of high need usually end up paying for long-term services and supports (LTSS) through significant amounts of out-of-pocket spending. Many also rely on unpaid family care or go without needed care.[1] Once a person's savings has been exhausted, LTSS costs are then covered by Medicaid.

Over the past two years The SCAN Foundation, LeadingAge, and AARP jointly funded research by the Urban Institute and Milliman, Inc. to analyze the impact of a broad array of policy options to finance LTC using the most recent demographic information on need, combined with data on public and private coverage costs. The jointly-funded research culminated in November 2015 with the publication of a *HealthAffairs* paper and two research reports. Using this new modeling tool, policymakers and stakeholders can now compare a variety of options for improving individuals' ability to pay for their LTSS needs. Some of the options analyzed focus on insuring against the costs of this high level of need for limited periods of time, while others explore coverage for catastrophic lifetime risk. The modeling work provides an opportunity to compare different designs across consistent measures, such as likely participation rates, affordability, estimated out-of-pocket spending, and the effect on Medicaid spending.[2-4]

Ultimately, results from the Urban/Milliman modeling research represent a limited set of options among many. Three policy groups who helped develop technical specifications for the modeling subsequently released policy recommendations in February 2016, building largely from the modeling work. These reports include:

- Bipartisan Policy Center (BPC): *Initial Recommendations to Improve the Financing of Long-Term Care*
- LeadingAge Pathways: *Perspectives on the Challenges of Financing Long-Term Services and Supports*
- Long-Term Care Financing Collaborative (the Collaborative): *A Consensus Framework for LTC Financing Reform*

While the fullness of these three reports differs in perspective and emphasis*, several common themes emerged:

Defining the Problem

Older adults and their families are unprepared for the risk of needing LTSS, both in terms of high out-of-pocket spending and the resulting need for Medicaid. The reports recognize the significant role of unpaid family care, the dominance of out-of-pocket costs in covering the average spending over a lifetime, and evidence of unmet need as indicative of a system that will be unsustainable as support need rises.

Multi-Pronged Solution

Increasing insurance-based coverage will require multiple solutions, utilizing the strengths of both the private and public sectors.

Private Market Solutions

The solution set should include reforms to the private insurance marketplace to provide lower priced policies for the purpose of insuring against the risk of needing a high level of LTSS over a relatively short period of time.

Public Catastrophic Coverage

The solution set should include insurance specifically designed to protect against the risk of high LTSS need that occurs over long periods of time and to at least consider further development of a catastrophic insurance program where all Americans would be covered.

Refocusing Medicaid's Role

Medicaid should be strengthened as the safety net program, which has an important but smaller role in a refashioned, insurance-based LTC financing system.[5-7]

The following table organizes detailed content from each of the reports according to topical themes. The information we present below is taken directly from the reports in order to facilitate a comparison of the groups' recommendations and positions. The table is not intended to be a definitive summary of the reports, and we strongly encourage readers to consult the reports directly for key contextual perspectives and additional policy detail.

* The Long-Term Care Financing Collaborative's report recommends changes to the LTSS delivery system as well as financing. These recommendations were beyond the scope of this comparative side-by-side, which is focused exclusively on financing.

Comparative Summary of Long-Term Care Financing Policy Recommendations Released in February 2016[5-7]

	BIPARTISAN POLICY CENTER	LEADINGAGE	LONG-TERM CARE FINANCING COLLABORATIVE
ABOUT THE ORGANIZATION	Founded in 2007 by former Senate Majority Leaders Howard Baker, Tom Daschle, Bob Dole, and George Mitchell, BPC is a non-profit organization that drives principled solutions through rigorous analysis, reasoned negotiation, and respectful dialogue. With projects in multiple issue areas, BPC combines politically balanced policymaking with strong, proactive advocacy and outreach.	LeadingAge is an association of 6,000 not-for-profit organizations dedicated to making America a better place to grow old. These not-for-profit and mission-driven organizations have taken the lead in creating and delivering the most innovative, forward-thinking, and high-quality services currently available in the home and community settings.	Members of the Collaborative include policy experts, consumer advocates, and representatives from service providers and the insurance industry. Members also include senior executive branch officials in both Democratic and Republican administrations, former congressional aides, and former top state health officials.

	Bipartisan Policy Center	**LeadingAge**	**Long-Term Care Financing Collaborative**
Problem Statement	In April 2014, BPC released a report, "America's Long-Term Care Crisis: Challenges in Financing and Delivery," which raised concerns about the sustainability of financing mechanisms in the current system: specifically Medicaid, private insurance, personal savings, and direct unpaid care provided by friends and family.	In October 2013, LeadingAge released a report, "LeadingAge Pathways: A Framework for Addressing Americans' Financial Risk for Long-Term Services and Supports." Three pressing challenges are driving their efforts to reform the financing system for long-term services and supports (LTSS). • Status quo is unsustainable. Costs are increasing. • Existing system for LTSS financing is irrational. Personal savings and Medicaid are the de facto sources of financing. • LTSS financing system is unfair. Middle income consumers are left with few options; not rich enough to finance their own care and unable to access Medicaid without depleting savings.	In July 2015, the Collaborative released a report, "Principles for Improving Financing and Delivery of LTSS," which defines the problem. The current system of financing is inadequate, especially for those with high levels of need. Millions of middle-income Americans drain their financial resources, place enormous burdens on family caregivers, and eventually turn to Medicaid for assistance. The current system of financing fails to protect middle-income families from financial impoverishment. It discourages younger adults with disabilities from working, locking them into a lifetime of poverty. It precludes autonomy and choice of services. Its perverse financial incentives create obstacles to appropriate and coordinated health and LTSS care. Our current policies foreclose, for many, an option large numbers of Americans prefer: living independently in one's home and community as long as possible. Few Americans are prepared for the risks of LTSS. Without financial resources, the burden of caregiving often falls on spouses or adult children, often daughters.

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Goals	To offer initial recommendations to address the financing of LTSS. In late 2016 or early 2017, BPC will release additional recommendations for new approaches to finance LTSS and also to reform LTSS delivery and improve integration of care for persons with multiple chronic conditions and functional limitations.	To seek a different future for a variety of stakeholders – including older adults, younger people with disabilities, families, paid and unpaid caregivers, employers, middle-income individuals, LTSS providers, federal and state governments, and taxpayers. America needs a fairer and more rational financing system to ensure access to quality LTSS.	To develop pragmatic, consensus-driven recommendations for a sustainable and affordable, public and private insurance-based financing system that better enables people of all incomes to receive high quality long-term services and supports. Aims to enhance the independence and choice of those receiving care and support the family members and communities that assist them.
Summary of Overall Recommendations	Recommendations place a heightened focus on the role of the private market, outline improvements to public programs such as Medicaid, and consider the potential for catastrophic coverage.	Believes that a system of financing LTSS needs to be insurance-based and guided by the principles of rationality, equity and affordability. Based on research: 1. There is new evidence that the current LTSS financing system is untenable. 2. A universal insurance approach that covers catastrophic costs would have the greatest positive impact on both individuals and strained public programs, while creating a more rational system.	Recommends: • A universal catastrophic insurance program aimed at providing financial support to those with high levels of care needs over a long period of time. • A series of private sector initiatives and public policies aimed at revitalizing the LTC insurance market to help address non-catastrophic LTSS risk. • A modernized Medicaid LTSS safety net for those with limited lifetime incomes who are not able to save for these care needs, as well as for those

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Summary of Overall Recommendations, continued			who deplete their assets paying for medical and long-term care costs. This includes more flexible public programs that can deliver care in the setting most appropriate to the needs of individuals. • Stronger support for families and communities and better integration of medical treatment and personal assistance.
Summary of Recommendations on Private Insurance to Address Short Durations of High Need ("Front-End" Risk)	Recommends: 1. Establishment of a lower-cost, limited-benefit LTC insurance product; 2. Allowing penalty-free withdrawal from retirement accounts to purchase the lower-cost LTC insurance products; 3. Incentives for employers to offer limited-benefit LTC insurance through workplace retirement plans on an opt-out basis; and 4. Allowing sale of limited-benefit LTC insurance through health insurance marketplaces.	Supports innovations in the private long-term care insurance market, which could offer affordable, valued products that people want to purchase, and emphasize consumer choice and flexibility.	Recommends a series of private sector initiatives and public policies aimed at revitalizing the LTC insurance market to help address non-catastrophic LTSS risk.

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Role of Private Market Generally	Because neither government nor individuals alone can meet all demands for LTC financing, the United States needs a functional, sustainable private LTC insurance marketplace.	The modeling suggests that a reformed private market, which offers new and innovative ways to pay for LTSS, could create greater demand and expanded coverage of individuals who are at risk for needing LTSS.	The insurance industry, employers, and policymakers could expand the market for private insurance by adopting new initiatives aimed at lowering costs and encouraging consumers to purchase coverage.
Employer Role in Distribution of Policies	Recommends providing incentives for employers to offer policies through workplace retirement plans on an opt-out basis, in order to make retirement LTC insurance more widely available.	Acknowledges that innovative marketing and distribution strategies deserve further development.	Suggests the possibility that employers could add LTC insurance to their benefits packages as an opt-out benefit. In this model, employees would be automatically enrolled unless they choose to reject coverage.
Initiatives to Encourage Purchase	Recommends employees aged 45 and older in defined-contribution retirement plans, such as 401(k) and 403(b) plans, be allowed to take distributions from the plan solely for the purchase of retirement LTC insurance for themselves and/or a spouse. These distributions would be exempt from early withdrawal penalties but would be subject to income tax.	Acknowledges that innovative marketing and distribution strategies deserve further development.	The combination of price reductions and greater consumer confidence in the product's value could lead to a meaningful increase in the purchase of LTC insurance. Recommends future research on whether tax incentives or other subsidies could encourage participation in LTC insurance for uncovered risks, in the presence of a universal program covering the catastrophic risk.

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Policy and Market Design	Recommends creation of "Retirement LTCI (LTC Insurance)" which would give consumers choice while simplifying decision-making. Product design would: • Cover 2-4 years of need; • Include eligibility for benefits after cash deductibles or an elimination period is met (policyholder selects either a deductible or elimination period for when benefits are triggered); • Include coinsurance; and • Include other features such as inflation protection, non-level premiums, and non-forfeiture benefits detailed in the report appendix.	Suggests that designs which limit coverage to front-end needs especially have the potential to create greater demand and expand coverage for individuals who are risk for needing LTSS. Changes to various aspects of private LTC insurance have the potential to substantially reduce private market premiums.	Suggests cost-saving tools could include improved policy designs, some of which would require regulatory changes. For example, benefits could be more standardized. Policies could be designed so premiums and benefits increase over time, or to allow for small annual premium increases, which would make coverage less costly at younger ages.

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Other	Recommends allowing all health insurance marketplaces the option to facilitate sales of retirement LTC insurance policies. Participating marketplaces could accept distributions from workplace retirement plans and individual retirement accounts for the payment of retirement LTC insurance premiums from savers aged 45 and older.	The modeling did not estimate that large increases in LTC insurance participation would result from private market reform ideas. However, LeadingAge believes that innovative marketing and distribution strategies deserve further development because they could have a significant impact on the willingness of consumers to purchase insurance.	Suggests: • Policies could be sold through an electronic marketplace. • Policies could be sold jointly with Medicare Advantage or Medigap. • Regulators could assist in reducing costs of policy approval process. • Policymakers should explore supporting efforts to experiment with hybrid products, and examine protections (such as multi-state reinsurance) for the insurance industry against unpredictable shocks. • Policymakers should continue to work with the insurance industry to strengthen consumer protections and enhance product information.

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Insurance to Address Long Periods of High Need (Catastrophic or "Back-End" Risk)	Improvements in private LTC insurance and improvements in Medicaid are not sufficient to address the needs of individuals with extraordinary LTSS expenses, such as those in excess of $250,000. A public insurance approach for Americans who experience catastrophic LTSS expenses is worthy of consideration because it could improve the availability of LTSS in preferred settings and increase financial security for families.	Modeling shows that catastrophic insurance offers the strongest option for offsetting Medicaid spending when enrollment is required. This suggests that a mandatory, universal insurance approach that covers catastrophic events could have the biggest impact and the greatest potential to meet LeadingAge's objectives to establish a fairer and more rational LTSS financing system.	After careful consideration, the Collaborative concluded that no voluntary insurance program is broadly affordable. Thus, it recommends a universal catastrophic insurance program.
Financing Options for Catastrophic Insurance	A variety of financing approaches could be considered, including a dedicated payroll tax similar to Social Security or Medicare Part A; a general funding approach, which could be offset through changes to the tax system, such as broadening income or consumption-tax bases or increasing tax rates, changes to spending programs…or a combination of both.	Raises financing as an issue for future thought and research.	Recommends financing the universal catastrophic LTSS insurance program by a dedicated revenue source. A program could be financed with a payroll tax, an income tax, a new tax such as a Value-Added Tax, premiums or some combination. Each has advantages and disadvantages.

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Program Budgeting for Catastrophic Insurance	The net additional cost (after the federal share of Medicaid savings) of any public catastrophic LTSS program should be fully offset.	Raises financing as an issue for future thought and research.	Many Collaborative members…are concerned about the risk to future deficits of an open-ended entitlement. …A more promising approach would be to set a budget for a fixed amount of time, perhaps two or three decades, with appropriate adjustments at designated intervals. In Germany, for instance, universal LTSS insurance is designed as a capped entitlement.
Changes to Medicaid	Recommends creating incentives for states to expand the availability of Home and Community-Based Services (HCBS) for older Americans and individuals with disabilities younger than 65 in Medicaid; and improve access to affordable LTSS for working Americans with disabilities.	LeadingAge did not address the delivery and financing of Medicaid program in its report, as it is incorporated in other components of LeadingAge's policy and advocacy agenda.	The Collaborative supports a modernized Medicaid LTSS safety net for those with limited lifetime incomes who are not able to save for these care needs.
Home and Community-Based Services	Recommends creating incentives for states to expand the availability of HCBS by streamlining and simplifying existing authorities under current law waivers and state plan amendments and extending enhanced federal matching to encourage states to take advantage of the new streamlined authority.	Not addressed in the report.	Recommends a federal statutory change that would set all LTSS benefits on an equal basis, whether provided through an institution or in the community. States would be required to provide the LTSS benefit. The new LTSS benefit would consist of all LTSS services currently allowable through institutional and non-institutional settings.

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Eligibility for LTSS	Would expand options for working individuals with disabilities by permitting states to offer a "buy-in" for LTSS-only Medicaid services to wrap around health insurance, such as employer-sponsored coverage, Medicare, and coverage offered through health insurance marketplaces.	Not addressed in the report.	Recommends a set of reforms: • Shifting LTSS eligibility from the outdated institutional level of care to a functional assessment and a needs assessment, using tools designed with federal, state, and consumer input. • Redesigning Medicaid's LTSS component with a sliding scale based on income and assets with income-based cost sharing. This would modestly expand eligibility and eliminate the eligibility cliffs between the safety net and the primary insurance and private market options for LTSS financing. • Allowing working-aged people who are living with disabilities to work and build assets, while continuing to receive the services and supports they need.

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Policies to Increase Savings And Leverage Other Assets	BPC's separate Commission on Retirement Security and Personal Savings is considering approaches to increase savings for retirement and to better facilitate the use of home equity for retirement consumption needs, among many other ways to improve retirement security. The Commission will publish recommendations in spring 2016.	Not addressed in the report.	Supports efforts to encourage retirement savings and develop more efficient and innovative use of home equity to assist middle- and upper-income families finance LTSS needs for those risks that are not covered by catastrophic insurance. Recommends that Medicaid LTSS eligibility across the states allow working-aged people who are living with disabilities to work and build assets, while continuing to receive the services and supports they need.
Solutions for Financing of LTSS for Under-Age 65 Population	Has several initiatives to support expansion of HCBS to existing and new populations of people younger than 65 with disabilities. See "Changes in Medicaid" section.	Seeks a different future for all Americans, including younger people with disabilities.	Strongly believes that any reform plan must also serve the needs of younger people with disabilities.
Integrated Financing of Medicare and LTSS	Undertaking a separate initiative to further analyze and make recommendations for improving and better integrating the financing and delivery of health care and LTSS. See goals section above.	Integrated financing of Medicare and LTSS is incorporated in other components of LeadingAge's policy and advocacy agenda.	Recognizes that it may be possible to create an LTSS benefit within a framework of health insurance. The Collaborative believes this concept has promise and should be explored by policymakers and insurers.

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Public Awareness of Individual LTSS Risk	Identifies lack of awareness about the costs and risks of needing LTSS and the incorrect belief that Medicare or Medicaid will cover LTSS needs as one of several challenges to achieving consensus on long-term care financing.	Acknowledges the challenge created by a lack of understanding of individual risk by Americans.	Recommends coordinated public outreach by insurers, government, medical providers, and financial professionals to raise awareness of catastrophic LTSS risks and costs, and the need to prepare for those risks. One way may be by including an estimate of the individual's responsibility for meeting LTSS need through their regular Social Security statements.
Recommended Future Research	Recognizes that more can and should be done to improve the availability of LTSS. One area that could be better addressed is providing assistance for middle-income Americans who incur significant out-of-pocket expenses or forgo income to serve as caregivers for friends and family members. Areas BPC will explore in future research include: • Further refining the relationship between a catastrophic insurance program and Medicaid and options for employers;	Further thought and research is needed to answer important questions about our pathway to reformed LTSS financing. Those questions include: • What would a universal, catastrophic insurance approach look like? • What services and supports would be covered? • What would be the appropriate mix of public versus private responsibility? • How would we pay for this new approach?	Recommends research to study: • Effects of LTSS financing reform on working-age adults. • Incomes, health status, and employment of working-age people living with disabilities. • Total lifetime risks and costs of LTSS, including lower levels of needs that are not covered by insurance or Medicaid. The current and projected ability of families to finance these lower-level LTSS needs; and the value and opportunity costs of unpaid caregiving.

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Recommended Future Research, continued	• Adding a limited LTSS benefit to Medigap and Medicare Advantage plans to reach a broader population with basic benefits and to improve coordination among health services and LTSS; • Expanding and refining federal tax credits for caregiving expenses, and; • Improving or expanding the availability of a respite-care benefit or other direct-service benefit in Medicare.	Future modeling and projection efforts should strive to use data that includes all people with LTSS needs. Assumptions that underpin the microsimulation modeling should be more thoroughly examined, and data should be expanded to include younger people with disabilities.	• How to better apply lessons from behavioral economics to LTSS delivery and finance. • Effects of enhanced retirement savings on LTSS financing. • Costs to employers resulting from caregiving responsibilities of their employees. • Effects of proposed Medicaid reforms on overall costs and beneficiary's quality of life. • How to create a seamless transition between Medicaid and LTSS insurance. • Effects of integrating financing and delivery of healthcare and LTSS. • Effects of LTSS costs by race and ethnicity.

All three policy groups identify that much work is needed to shape their respective recommendations into detailed and viable proposals in 2016-2017, as well as educate policymakers and the public about the need for LTC financing reform. The members of these groups have and continue to work extensively on what is one of the most challenging health policy problems that remains, for which there is no easy solution. We strongly recommend that readers of this side-by-side analysis delve into each report to appreciate the important contextual framing and perspectives in its entirety.

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