



**It Takes Two to Tango:
A Perspective on Public and Private Coverage for
Long-Term Care**

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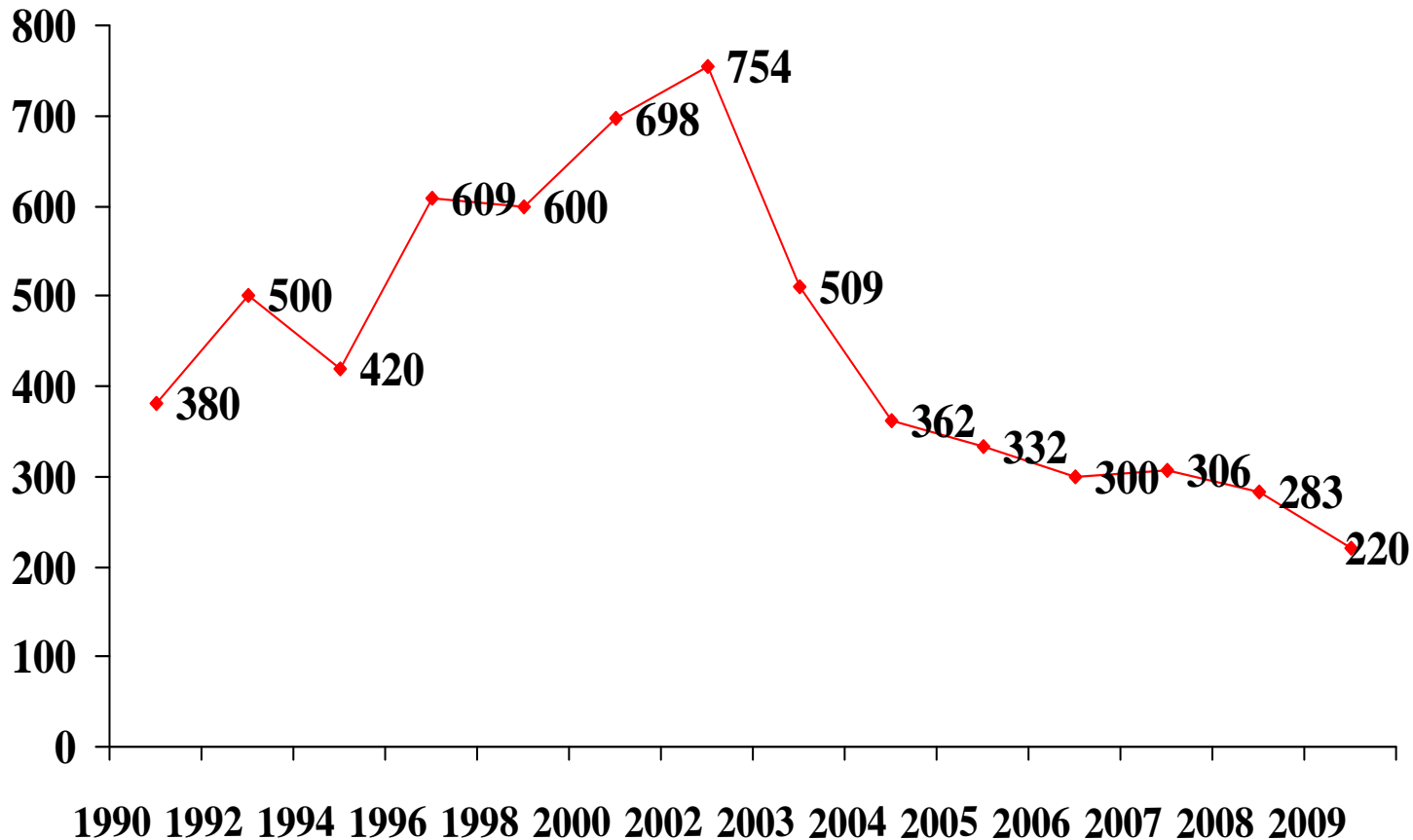
Purpose of Presentation

- To discuss why private coverage has not yet penetrated the American middle-class.
- Describe policy approaches to address this challenge.
- Detail lessons learned in the private market with relevance for the newly established public insurance CLASS program.
- Key conclusion:
 - Both public and private financing approaches will need to operate together to solve the nation's long-term care financing challenge.

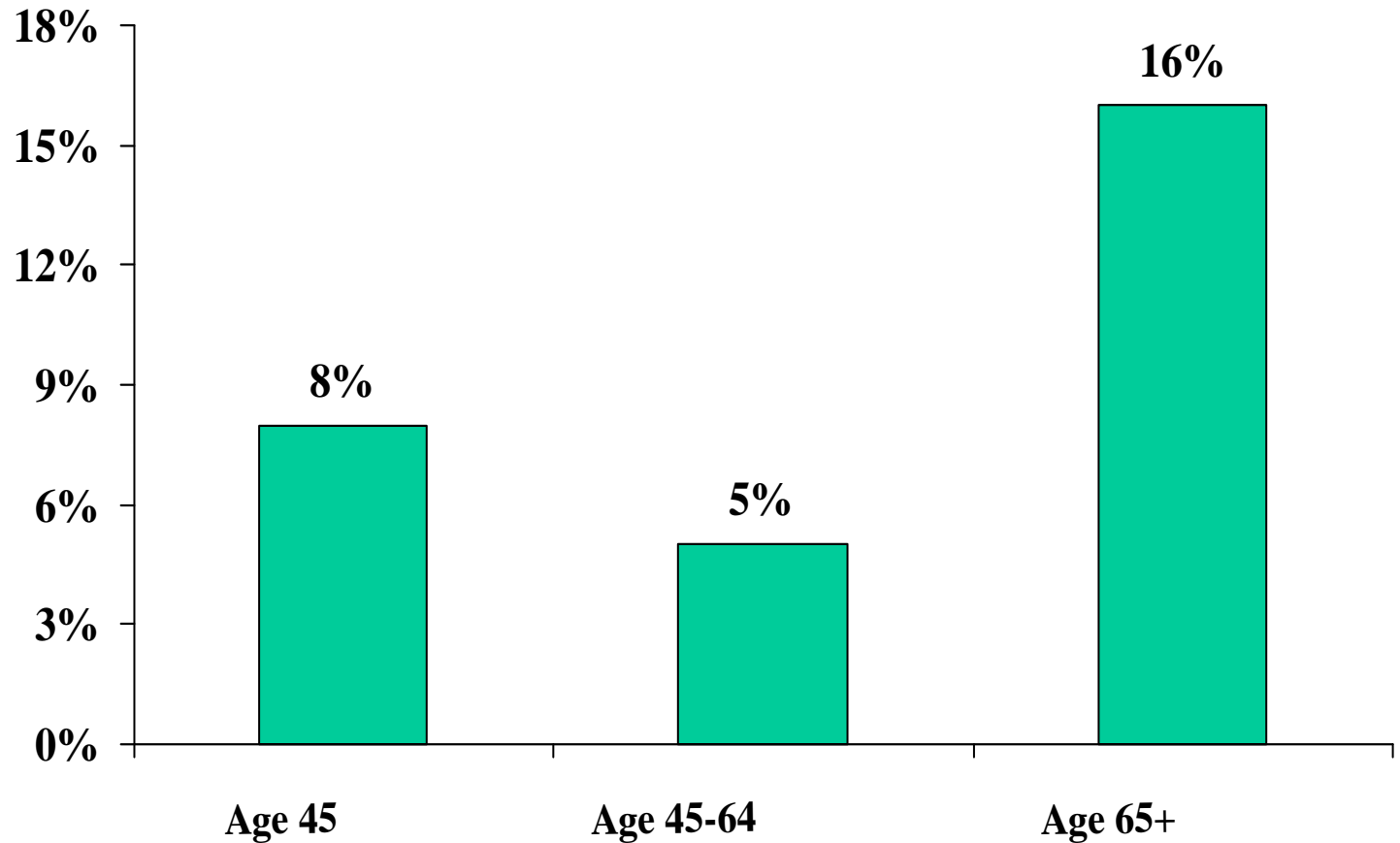
Industry Parameters

- Individual market
 - Between 5.0 and 6.0 million policies in force.
 - Total premium of over \$8 billion.
 - Annual sales growth rate between 2002 and 2007 is negative 9%.
- Group Market
 - Between 1.75 and 2.25 million certificates in force.
 - Total premium of greater than \$1.0 billion.
 - Compound annual sales growth rate between 2000 and 2005 is greater than 15%.
- Individual market still represents more than 75% of new sales.
- Greater concentration of companies as many have exited market.
- LTC insurance currently finances less than 10% of the nation's LTC bill.

Annual Sales of Individual LTC Insurance Policies (1990-2009)



Private Long-Term Care Insurance Penetration of Population with Incomes over \$20,000



Source: LTC Financing Strategy Group, 2003

Summary of Characteristics of Policies

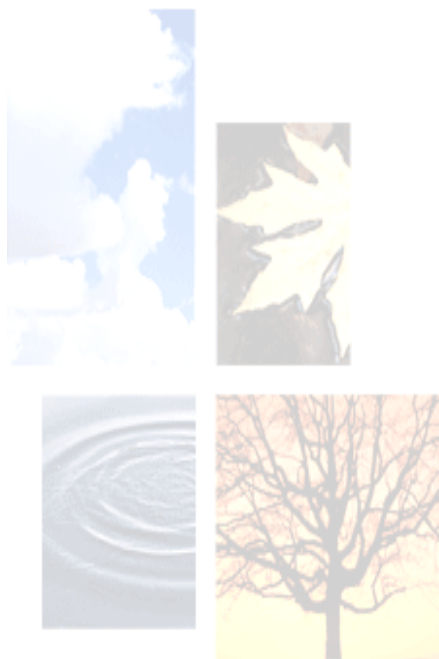
Policy Characteristics	Average for 2005	Average for 2000	Average for 1995	Average for 1990
Policy Type				
Nursing Home Only	3%	14%	33%	63%
Nursing Home & Home Care	90%	77%	61%	37%
Home Care Only	7%	9%	6%	---
Daily Benefit Amount for NH Care	\$142	\$109	\$85	\$72
Daily Benefit Amount for Home Care	\$135	\$106	\$78	\$36
Nursing Home Benefit Duration	5.4 years	5.5 years	5.1 years	5.6 years
Percent Choosing Inflation Protection	76%	41%	33%	40%
Annual Premium	\$1,918	\$1,677	\$1,505	\$1,071

Income and Asset Profile of LTC Insurance Buyers

Socio-Demographic Characteristics of Buyers	2005	2000	1995	1990
Average Income	\$62,825	\$49,700	\$36,600	\$36,250
Less than \$20,000	3%	9%	21%	29%
\$20,000-\$24,999	4	8	16	13
\$25,000-\$34,999	9	19	24	20
\$35,000-\$49,999	13	22	18	17
\$50,000 and Over	71	42	20	21
Average Assets	\$95,475	91,425	\$68,750	\$72,125
Less than \$20,000	4%	6%	18%	16%
\$20,000-\$29,999	3	5	10	8
\$30,000-\$49,999	6	7	13	11
\$50,000-\$74,999	6	5	10	12
\$75,000 and over	81	77	49	53

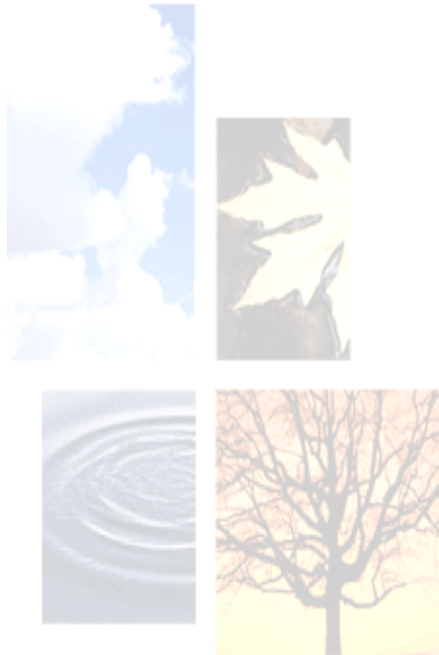
Why has there been little appeal to the Middle Class

- Supply side issues
 - Information asymmetries
- Demand Issues
 - Perceived value gap: Costs are perceived as high relative to value
 - Confusion about public coverage
 - People underestimate their risk, overestimate premium costs and hence don't plan
 - Concern about reliability in the context of rate increases
 - Medicaid “crowd-out” effect



Approaches to Expanding the Private Market

- Subsidization of Purchase
 - Currently: HIPAA and state incentives
 - Impact: Modest incentives lead to modest results
 - Additional strategy: use of pre-tax dollars in cafeteria plans
- Product Standardization
 - Make choices easier but runs risk of stifling innovation in rapidly changing service environment.
 - Medigap market results: sales increased considerably and consumer complaints declined.
- Consumer Confidence
 - Encouraging state adoption of NAIC model regulations
 - Education about regulatory protections
 - Consideration for Federal role to ensure uniform protections.



- Medicaid financing has stayed stable (47%) even though:
 - Eligibility has become more generous
 - Loopholes vis-à-vis assets have been closed
- Only public program “integrated” with LTC insurance through Partnership Program
 - Encourages purchase of “shorter and fatter” policies more aligned to financial risk (amount of net worth to be protected).
 - About 36 states have adopted legislation, 100,000 inforce policies
 - Too soon to know impact on Medicaid.



Issues involved in better integration of LTC insurance market with Medicaid or CLASS Act

- Insurance for LTC as part of overall retirement security.
- Public education about the limits of public coverage and the value of supplemental private coverage.
- Applicable lessons from the private market
 - Balance concerns about adverse selection against broad goals pertaining to covered populations
 - Premiums comparability to private market yet actuarially sound
 - Risk management strategies build into the program
 - Sophisticated education and marketing campaign needed to encourage employer and employee participation
- Encourage people to purchase plans at young
 - Lower costs through flexible spending accounts
 - Support models that explicitly link public and private coverage like Partnerships

Summary

- Public and private coverage for long-term care can serve complementary roles.
- Focus needs to be on structuring and implementing CLASS program and supporting the private market to assure:
 - Maximum participation in insurance programs
 - Ability for private market to work with and coordinate with the public program
 - Efficient and equitable outcomes for taxpayers and consumers.

