American Academy of Actuaries
Essential Elements
Making complex public policy issues clear
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Long-Term Care Financing

The public need and, therefore, the case for addressing public policy options for long-term care (LTC) financing is strong. According to the U.S. Department of Health and Human Services, 70 percent of Americans reaching age 65 will need some form of LTC service; on average, people turning 65 today will need some type of LTC service for three years; and 20 percent will need it for longer than 5 years. There can be substantial costs for LTC services, and finding ways to pay for those services and supports can be challenging. The federal-state **Medicaid** program provides LTC services and supports; however, there are income and asset eligibility requirements that must be met; **Medicare** coverage is limited in the benefits it offers and only supports payments for service for the first 100 days of care; and **private LTC insurance** can be cost-prohibitive for consumers. In fact, much of the long-term care services in the U.S. are provided through informal arrangements by family members, sometimes at great financial cost.

LTC services and supports range from informal to more formal assistance for seniors who may struggle with activities of daily living (ADL), which include eating, bathing, toileting, dressing, and functional mobility. Depending on the degree of assistance required for one or more ADL(s), individuals have several options – from informal or formal at-home care to a nursing home (non-institutional/institutional).

Current needs only foreshadow the pressing need to find solutions as the evolving demographic shift toward an aging America progresses. This need led some in Congress to develop the Community Living Assistance Services and Supports (CLASS) Act. But, as the debate over the CLASS Act illustrated, addressing the accessibility and affordability of LTC services and finding workable and sustainable solutions is challenging. A singular approach to the problem of financing LTC may not be found to be feasible – particularly if the desired outcome is to find a practical approach to ensure that the needs of different populations with different service and supports requirements are met.

The Academy has undertaken an outreach seeking input from long-term care experts – individuals with backgrounds in public policy and government service, actuarial science, research and academia, consumer advocacy, insurance and retirement benefits, and financial planning – on potential public, private, or integrated public/private solutions to ensure access to and financing of LTC services. Through the Academy's prior analysis of long-term care public policy and these conversations, the following has been found to represent criteria that must be considered as any significant reform of the LTC system is undertaken.

Sustainability

From an actuarial (or long-term viability) perspective, this is a key consideration – the bottom line is that revenues must be sufficient to cover future payouts. This is true whether the approach is public, private, or some combination of both. Whether a program or system is sustainable depends on a number of factors, including the remaining considerations highlighted herein.

Eligibility

Currently, lower-income individuals who meet income and asset requirements generally have

COSTS OF LONG TERM CARE SERVICES
(in 2010)

$21
hourly cost for home health aide

$67
daily cost for adult day care center

$3,293
monthly cost for one bedroom in assisted living facility

$6,235
monthly cost for a semi-private room in nursing home

Source: Department of Health and Human Services access to coverage under Medicaid. Relatively affluent individuals/families may be able to afford coverage offered through private insurance. While higher income limits allow for Medicaid to be more of a middle-income program in some states, often middle income and working near-poor remain uncovered, unless or until they spend down their assets to qualify for Medicaid.

A fundamental question to be considered in a reformed private insurance marketplace would be whether LTC coverage should be voluntary or mandatory? A voluntary system without adequate underwriting opens it up to potential for a greater percentage of adverse selection – those individuals who anticipate high or immediate LTC needs are more likely to purchase coverage, leading to a higher average cost of coverage, which will affect demand further among those that do not have immediate need for coverage. The effectiveness of required coverage would depend on the structure of the penalties and enforcement, as well as how affordable the reformed system makes LTC.

Affordability

If LTC rates are perceived to be too high, consumers will not purchase coverage given competing financial priorities. Private insurance, for example, is expensive, though individuals do have the option of different plan designs that can affect the affordability of coverage. There are a number of approaches to address affordability – for example, creating subsidies or tax incentives for certain populations to make LTC coverage more affordable, encouraging further incentives to allow more informal care at home, or designing the coverage with an opt-out structure.

Coverage Options

Private insurance can cover a wide variety of services – assisted living, home health care, nursing home care, and even adult day care. But the comprehensiveness and affordability of a long-term care policy depends on several factors, including what services it covers, the average daily benefit amount, the duration of benefits and what elimination periods exist, whether the policy provides inflation protection, and whether the policy offers reimbursement benefits based on actual experience or indemnity benefits based on a fixed dollar reimbursement.

Compatibility with Existing Structures

Public and private programs currently exist that provide coverage for LTC services. As such, consideration should be given to how any new approach would interact with those existing structures. For example, if Medicare were expanded to provide more comprehensive coverage of LTC, how would that impact Medicaid offerings and how would any overlap be addressed? In addition, depending on the design, a reformed LTC financing system could alleviate some of the fiscal challenges facing the Medicaid program. ▲

DISTRIBUTION AND DURATION OF LONG-TERM CARE SERVICES

Type of Care	Average # of years people use this type of care	Percent of people who use this type of care
Any services	3	69%
Home		
Unpaid care only	1	59%
Paid care	<1	42%
Any care at home	2	65%
Facilities		
Nursing facilities	1	35%
Assisted living	<1	13%
Any care in facilities	1	37%

Source: Department of Health and Human Services

Additional Resources from the American Academy of Actuaries

Academy publications on long-term care

www.actuary.org/ltc