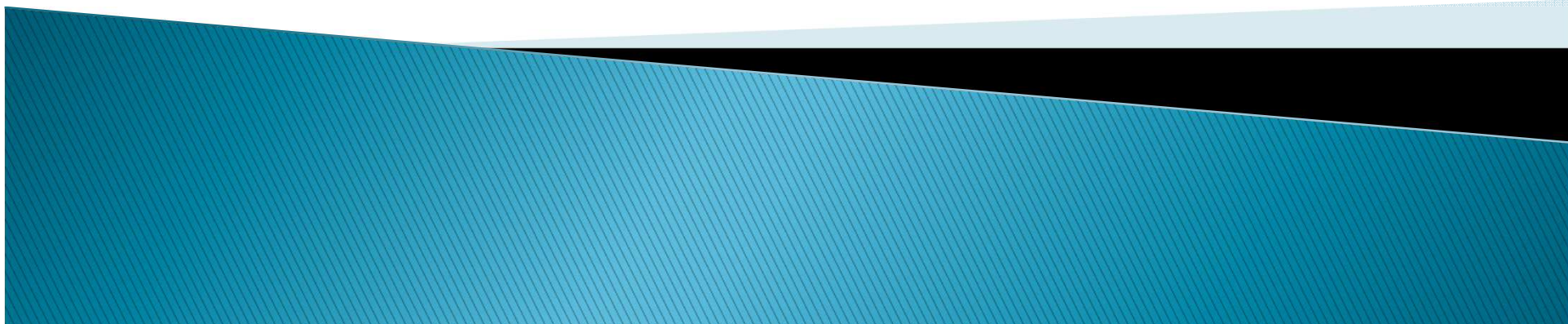


Aging & Long Term Care Reform

Options for Long Term Care Financing

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Who needs Long Term Care (LTC)?

- ◆ Among persons age 65 and over, an estimated 70 percent will use Long Term Services and Supports (LTSS)
- ◆ **85% of LTSS needs last less than three years, BUT:**
 - ◆ persons age 85 and over – *the fastest growing segment of the U.S. population* – are four times more likely to need LTSS than persons age 65 to 84
 - ◆ 20% of California's population will be 65 years or older by 2030
 - ◆ 15% of seniors over the age of 65 will incur LTSS expenses over \$250,000
 - ◆ Almost 1 in 5 women over age 65 will have LTSS expenses over \$250,000



Why do we need LTC Financing?

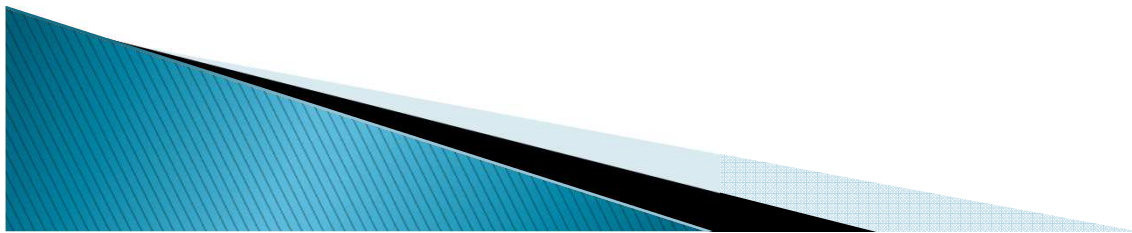
- ◆ Approximately **6 million Californians** today have **no workplace pension or retirement savings program**, e.g., 401Ks
- ◆ A large majority (64%) of workers without access to a workplace retirement plan are people of color, with Latinos making up the largest share (46%)
- ◆ Nearly half (47%) of California workers—public and private—are projected to retire with **incomes below 200% of federal poverty level** (about \$22,000 a year)
 - ◆ Particularly true for California small business operators and independent contractors
- ◆ For those with retirement savings:
 - ◆ tax penalties for withdrawing savings before the age of 59, and
 - ◆ withdrawals at any age taxed as ordinary income **even if used for LTSS**



What's happening?

Current long-term care insurance market (LTCi):

- ◆ across-the-board premium hikes on both prospective and retrospective business
- ◆ tightened underwriting practices
- ◆ reduction in consumer demand
- ◆ 90% of insurance companies that once offered LTCi on a national basis no longer do so
- ◆ Trend towards:
 - ◆ high-end niche products
 - ◆ few or no insurance options for middle-income



Developing options: *Community Conversations*

- ◆ Three facilitated sessions hosted by LeadingAge, AARP and the Alzheimer's Association, with other A & LTC stakeholders and policy analysts
- ◆ Six possible approaches examined
- ◆ Smaller stakeholder group looking in to:
 - ◆ Finalizing concepts with consumer, stakeholder, and provider feedback
 - ◆ Addressing regulatory issues (state and federal)
 - ◆ Addressing political feasibility issues
 - ◆ Refining proposal(s)
 - ◆ Legislative solutions?



#1. Private options: front-end, intermediate and catastrophic coverage

◆ **Goals**

- ◆ Affordable and suitable for middle-income consumers
- ◆ Streamlined but meaningful benefits
- ◆ Simple to understand
- ◆ Acceptable risk for carriers

◆ **Front-end plan:**

- ◆ would help consumers through the first years of LTC
- ◆ pay for home and community-based services
- ◆ include care coordination benefit



#1. Private options: front-end, intermediate and catastrophic coverage (cont'd.)

◆ Intermediate coverage:

- ◆ simplified plans with daily or monthly benefits and duration to cover the most typical LTCi claims
- ◆ provide approximately \$250,000 to cover LTSS expenses

◆ Catastrophic coverage:

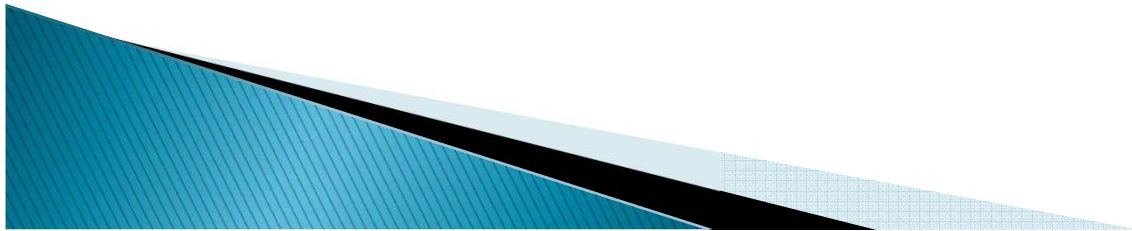
- ◆ for people who anticipate needing care for several years, e.g. Alzheimer's and ALS
- ◆ includes a wait period of at least two years



#2. Transforming Life Insurance into LTCi

Premise:

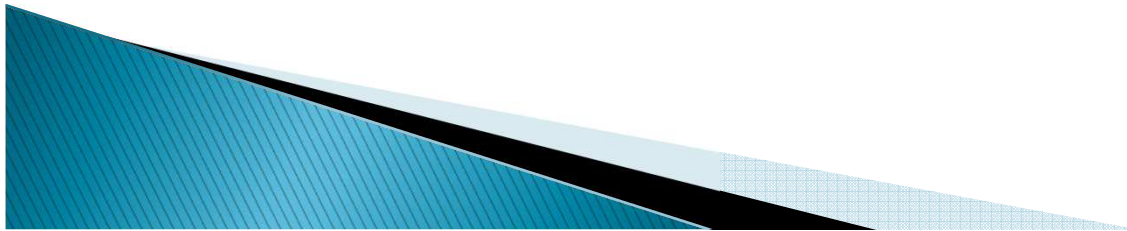
- ◆ Incorporating LTC benefits into life insurance or annuity products increasingly popular in LTCi market.
- ◆ Addresses consumer question and barrier to long-term care insurance purchase -- ***what happens to my premiums if I don't need long-term care?***



#2. Transformative Protection (cont'd)

Concept:

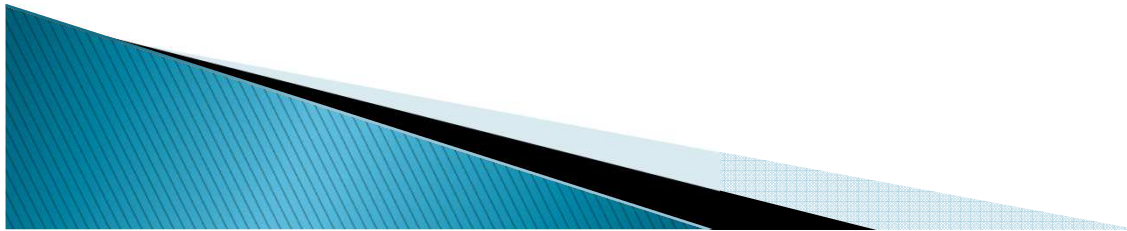
- ◆ provides a ***term life insurance benefit*** during working ages, when middle-income consumers need it most
- ◆ upon retirement, **CHANGES** to provide a ***LTC insurance benefit***
- ◆ same premium and for the same level of coverage (actuarial analysis suggests \$100,000 benefit, for a 50 year-old male, as low as \$50 per month)
- ◆ Periodic future opportunities to increase benefit (for additional cost)



#3. Add an LTSS benefit to Medicare supplement

Background:

- ◆ Many consumers retire w/o adequate resources to pay for LTC
- ◆ Medicare coverage provides limited LTSS benefits
- ◆ Medicare supplement or Medicare Advantage programs provide no LTSS benefits
- ◆ Current LTSS options
 - ◆ pay out of pocket
 - ◆ limited private long-term care insurance
 - ◆ divest assets to qualify for the California Medicaid program



#3. Add an LTSS benefit to Medicare supplement (Cont'd.)

LTSS Benefit would:

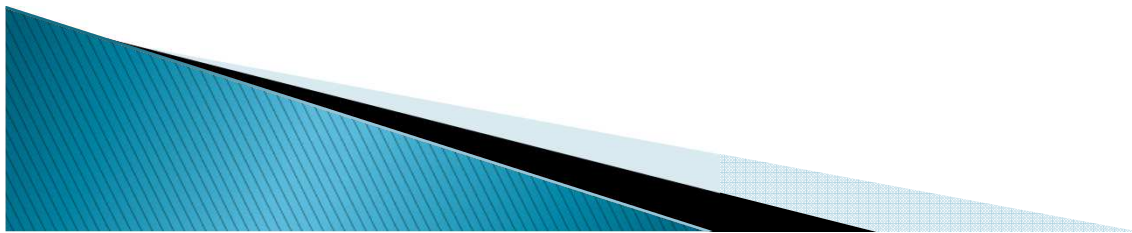
- ◆ add a modest home & community care benefit to all California Med Supplement and Medicare Advantage plans
- ◆ incorporate benefit into the consumer paid med-supplement premiums to help beneficiaries fund a portion of LTSS services
 - ◆ benefit of \$75- \$100,000 with modest daily or monthly cap
- ◆ include a care coordination benefit to help consumers identify and manage services
 - ◆ focus on services and technologies that provide high quality care at home as long as possible



#3. Add an LTSS benefit to Medicare supplement (Cont'd.)

Advantages:

- ◆ Medicare is universally known, widely accepted, and popular among 65+
- ◆ Take up of Medicare supplement products is substantial (unlike LTCi)
- ◆ Turning age 65 triggers thinking about their future care
- ◆ Research has indicated that consumers already believe Medicare covers LTSS



#4. Public Front end or public comprehensive insurance program

Background:

- ◆ CLASS Act was originally part of the Affordable Care Act (ACA), but
- ◆ Plan was deemed not actuarially sound and eliminated from ACA
- ◆ With failure in private product market, interest in public approach remains
- ◆ A key learning from the CLASS experience -- strictly voluntary program not financially viable



#4. Public Front end or public comprehensive insurance program (Cont'd.)

- ◆ Alternative Concepts

- 1. California specific public insurance:**

- ◆ a front-end program to supplement consumer resources through the first 1-2 years of LTC
 - ◆ home and community-based services
 - ◆ care coordination benefit

- 2. A comprehensive plan that incorporates front-end, intermediate and catastrophic coverage (benefits similar to Approach #1)**

- ◆ Either plan financed through a combination of payroll deduction and income supports for those who can't afford payroll premiums
- ◆ Sponsored & managed by public California resources with private carriers roles as with Medicare and Medicare Advantage likely



#5. Statewide savings program/favorable treatment for LTSS financing

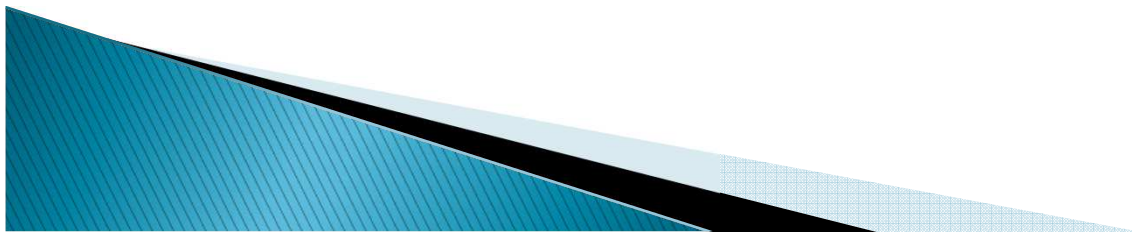
- ◆ **For workers without defined contribution plan:**
 - ◆ Savings up to specified amount e.g., \$100K
 - ◆ After that level is reached, a portion of savings could be withdrawn on a tax favored basis to pay for LTSS protection vehicles, e.g., LTC insurance

- ◆ **For workers with a defined contribution plan:**
 - ◆ California proactively lobbies for changes to federal tax and ERISA regulations to –
 - ◆ eliminate early withdrawal penalties
 - ◆ enable tax free withdrawals to LTSS, including long-term care insurance



#6. A California plan to fund catastrophic long-term care claims

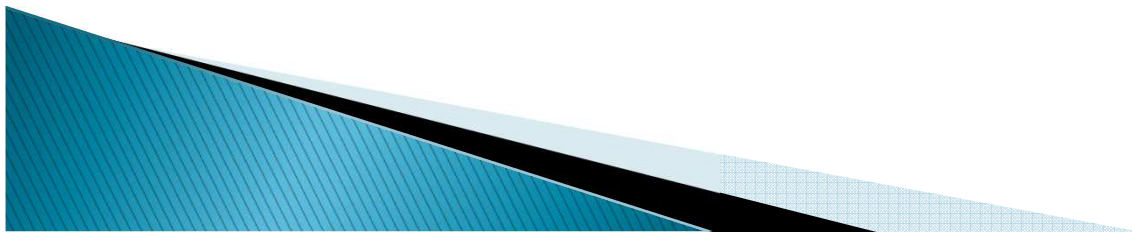
- ◆ State or regional funding to share costs of high cost, catastrophic, long duration claims would include:
 - ◆ a high deductible product approach coupled with a state or regional re-insurance facility, and
 - ◆ proactive care management approaches for catastrophic claims



What else is needed? A Central Resource for LTSS Education and Awareness

Why?

- ◆ Over half of all Californians will need long-term care after age 65
- ◆ Consumers typically do not understand
 - ◆ Potential need for LTSS
 - ◆ LTSS options
 - ◆ retirement financial issues
- ◆ Mistaken belief that Medicare or private health insurance will pay for LTSS
- ◆ Fewer than 20% of baby boomers have taken action to prepare for LTSS, compared to more than 80% who have prepared for their death
- ◆ 8 in 10 baby boomers don't know how much a home health aide or a nursing home costs



California LTSS Help Center

- ◆ Objective, timely and credible information
- ◆ Website with interactive decision-support tools
- ◆ telephone support to help consumers learn about, plan for and prepare for potential LTSS needs
- ◆ Information and tools related to full range of insurance and financial options and service provider choices including:
 - ◆ Health and wellness programs and employer supports and assistance
 - ◆ Government programs including Medicare and Medical Assistance
 - ◆ Savings and investment options
 - ◆ Long-term care insurance -- life, health and other insurance options
 - ◆ Reverse mortgage and other home equity products
 - ◆ Caregiving services and supports including HCBS, assisted living, and skilled nursing facilities

