

**Land This Plane:
A Delphi Research Study of Long-Term Care
Financing Solutions**

Executive Summary

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EXECUTIVE SUMMARY

INTRODUCTION

In January 2013, the Long-Term Care Think Tank launched a comprehensive study with the goal of articulating solutions to the nation's long-term care (LTC) financing challenges. The project, called "Land This Plane," was conducted by the Long-Term Care Think Tank, and sponsored and supported by two of the Society of Actuaries' professional interest sections: the Long-Term Care Insurance (LTCI) Section and the Forecasting and Futurism Section. The Long-Term Care Think Tank was established in 2005. Its broad purpose was to provide a forum for a broad coalition of LTC experts from inside and outside the insurance industry to discuss the looming LTC financing crisis. The hope was that the group would research and discuss needed changes, and would publish solutions with broad public and private support.

Using the Delphi method, this study recursively polled a diverse group of actuaries, public policy experts, regulators, and insurance industry executives, to explore their opinions on a wide range of LTC financing issues and potential solutions.

The study explored key macro issues such as the role of government, the role of private insurance, the need for social insurance, the regulatory environment, and the future of Medicaid. It also examined a range of insurance product concepts that may provide more affordable LTC financing options. Product ideas included a high-deductible plan to provide catastrophic coverage, a short-term care insurance concept to provide affordable transitional coverage, a Medicare-like social insurance option, and participatory LTC plans including "mutual long-term care," and "universal long-term care." The study also examined the ideas of a national LTC savings plan, a national LTC reinsurance program, as well as changes to the federal tax code and the National Association of Insurance Commissioners (NAIC) Model Act.

The Delphi method was chosen because it provided the opportunity for respondents to anonymously take positions, explain their rationale for those positions, and listen to and react to opposing views. As the study progressed, the more persuasive ideas and concepts gained popularity. While no single financing solution emerged, key directions became clear. This is the final report of findings and recommendations coming out of the study. The hope is that rather than being an end unto itself, this report will be an important step forward in stimulating reasoned discussion and additional research and analysis on the critical issue of the financing of LTC needs in America.

FINDINGS AND CONCLUSIONS

A systemic overhaul of the LTC financing system is needed. A significant majority of the panelists agreed that a systemic overhaul of the LTC financing system is needed. The current system is simply not working effectively or efficiently for a majority of consumers, insurance carriers, or the government. The overhaul needs to clarify, define, and structure today's somewhat disjointed system of private and public funding options for the American consumer. The reformed system should be comprehensive and have a goal of maximizing the efficient use of available resources at the individual, family and public levels. It should provide incentives for Americans to plan for the future, purchase or enroll in affordable and appropriate products, and adopt healthy behaviors. It also needs to encourage and support personal responsibility and family caregiving. Most importantly, the economics should be sustainable over the long term.

Private insurance needs to be part of the financing solution. The panelists unanimously agreed that private insurance needs to be an integral part of the LTC financing solution. Panelists were wary of a completely public solution because of cost, potential ineffectiveness, and inability to gain public support for what might be perceived as another entitlement program. Private insurance could provide a much-needed additional funding source for many people, but both the supply of and demand for private insurance need to increase. There was less consensus on exactly how to do this, but several ideas received positive consideration, including changes to regulations, new product designs, government incentives, public awareness campaigns, and changes to professional standards.

Social insurance is needed as part of the solution. The most surprising finding of the survey is the overwhelming degree to which the panelists agreed on the need for a social insurance component as part of the ultimate LTC financing solution. It appears that panelists felt that private insurance and savings, while essential components of the LTC financing solution, would not be sufficient by themselves to satisfy all the financing requirements without a supplementary social insurance component. Among the range of social product concepts evaluated by panelists and that emerged with strong support were a high-deductible, long-term care insurance concept to cover catastrophic situations, and a health savings account (HSA)-like LTC savings fund.

The government needs to take an active role in the LTC financial solution. Over 90 percent of panelists agreed on the need for the government to take an active role developing and implementing LTC financing solutions. Panelists consistently discussed the need for a logical, consistent, defined LTC system. That system should have incentives that encourage planning, positive behaviors, and the appropriate use of personal assets, and that provide a safety net for LTC when all else fails. Panelists agreed that the government should be active not just in defining the overall system but in proactively modifying the parts of the system, like Medicaid, that are not incenting planning. Panelist responses and commentary also indicate support for standardizing regulations on a national basis, and endorsing and supporting a social insurance program but not necessarily running or funding it. Commentary favored the government providing incentives for a vital private market that would allow for and enable private innovation within the context of a logical overall system.

Consumer education and tax incentives are critical to the solution. The study suggests that government's active role should extend beyond designing the overall system to providing education, incentives and leading regulatory change that encourage planning-oriented behaviors. There was overwhelming strong support for a national LTC awareness program and for tax incentives to support the purchase of LTCI products as key ways the government should encourage and incent a more effective LTC system.

The Medicaid program is overdue for a major reform. Panelists consistently and emphatically agreed that major changes are required to the Medicaid program as related to LTC. Those changes consisted of tightening eligibility for Medicaid so the program doesn't allow people with significant assets to divest them to the benefit of heirs and still qualify for LTC reimbursement. Also, panelists felt that benefit restrictions need to be changed across all states/jurisdictions to enable Medicaid to pay for services in a full range of settings, including home and community care, if appropriate and cost-effective. Panelists seemed to believe that, in many states, Medicaid provides disincentives for families to plan to fund LTC and incentivizes the use of more expensive and less desirable institutional care versus home- and community-based care. Many panelists suggested that reforming Medicaid is the essential first step in the overall LTC system overhaul.

LTC regulations and legislation need substantial revision. Panelists were in strong agreement that regulations and legislation governing LTCI should be revisited and revised to consider consumer realities and needs. The NAIC Model Act, state partnership regulations, and other federal and state legislation were originally designed to provide much-needed consumer protections. Unfortunately, in so doing they have encouraged, and in some cases

required, product designs that are out of reach financially for middle-income Americans. Panelists indicated a need for regulatory change that encourages simpler policies that are affordable and accessible to a broader population.

Incenting personal and family responsibility should be part of the solution. Panelists overwhelmingly indicated that a reformed LTC system should incent household and family participation in long-term caregiving situations. Comments from panelists suggested the use of innovative tax credits to encourage family- and community-based caregiving as a way to minimize formal services and keep costs under control. Panelists also supported incenting healthy lifestyles with the thought that such behavior could mitigate the need for LTC services; albeit there was continued uncertainty about exactly how those healthy incentives should be implemented.

Use of retirement savings accounts to fund LTC protection should be incentivized. Panelists overwhelmingly favored the idea of modifying federal tax rules to enable funds in tax-deferred savings accounts (401(k), 403(b) and IRA accounts) to be used on a tax-free and penalty-free basis to fund LTC protection products, including LTCI. Panelists agreed that tax incentives are an attractive way to encourage consumers to leverage existing savings mechanisms to protect against the costs of LTC.

Improvements in LTCI products, marketing and sales are needed. Panelists agreed that the risks of needing LTC, the potential costs of LTC services, and the available LTC financing solutions need to be better communicated both overall and at the point of agent interaction with consumers. Life and health insurance agents and brokers as well as financial advisors need to include the risks, costs and LTC funding options in their consumer presentations.

NEXT STEPS

The conclusions from the study begin to raise a wide range of questions about public funding options, private insurance product concepts and pricing, consumer receptivity, program design, and administrative feasibility that beg answers. The author suggests that the following next steps can begin the move toward resolution of some of the more critical ones.

A national plan for LTC financing. Until now, the private insurance industry and the relevant public sectors have operated largely independently with respect to LTC funding, with the exception of partnership insurance plans that work with Medicaid. Although some would disagree, this study seems to support the need for an overall national plan that defines the LTC playing field, delineates roles of the respective players, provides decision-making frameworks that can help consumers through the maze of funding options, and helps align incentives appropriate for all concerned. While the scope of developing and implementing such a plan is daunting, and the stakeholders are many, the idea is one whose time is upon us. While many panelists' comments suggest this is a government responsibility, a joint committee of industry, government and other key stakeholders might be an appropriate starting point.

New LTC funding options. There is much more to do in prioritizing and evaluating the new product concepts explored in this study. While panelists favorably evaluated the high-deductible catastrophic concept and the LTC savings fund, both concepts require additional concept refinement and definition, preliminary pricing, consumer feasibility testing, and financial impact analyses. It would also be appropriate to continue to evaluate several of the other concept options that were viewed favorably by panelists, to determine their potential role in the overall LTC financing system.

Regulatory reform. Making updates to the NAIC Model Act, state partnership regulations, and related LTC regulations will be a significant but much-needed undertaking. The first step in that would be an in-depth

analysis of potential changes with the goal of enabling more affordable and accessible products for middle-income Americans.

Medicaid reform. Prior to undertaking a reform of Medicaid, a definitive analysis to determine the financial and economic impact of both tightening Medicaid eligibility and modernizing the Medicaid benefit on a national basis should be conducted.

Tax-deferred savings. Similarly, an economic impact study should be considered to determine the potential upside of attracting new consumer dollars to LTC protection products, versus the foregone revenues of providing tax-free and penalty-free withdrawals from tax-deferred savings vehicles. That study could also analyze the potential impact of tax credits for the purchase of LTCI, including the impact of increases in private insurance participation on reductions in state and federal Medicaid expense, and the potential for personal and family planning and caregiving incentives to be incorporated into the overall LTC system reforms.

LTC awareness and education. Lastly, it is suggested that a national marketing and education campaign be developed to inform Americans on the need to plan for, and the costs and risks entailed with LTC situations.

In addition to this executive summary, the complete report includes a detailed summary of findings and recommendations. The quantitative and qualitative responses as well as the questionnaires for each of the three rounds of the study are available as separate downloads.