

Alternative Solutions

Alternate Finance Proposals

Part 1: Economic and Actuarial
Modeling Results

Monday March 14, 2016

2:00 – 3:45 pm



16th Annual Intercompany Long Term Care Insurance Conference

Alternate Finance Proposals



Part 1- Economic and actuarial modeling results

Speakers:

Anne Tumlinson

Principal and Owner

Anne Tumlinson Innovations LLC

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Principal and Consulting Actuary

Milliman

Producer/Moderator:

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President

O'Leary Marketing Associates

Related Activities



Background and Context – Who, When, What

Name	Role	Date	Report	Description
ASPE	Policy group at HHS	July 2015	Yes	Funded baseline/status quo work by Urban Institute; key findings announced at ASPE event;
SCAN Foundation	Dedicated to transforming care for older Americans	Nov 2015	Yes	Sponsored and coordinated study; Health Affairs article with back-up report detailing research findings in Nov 2015
Bipartisan Policy Center (BPC)	Leading DC based think tank	Feb 1 2016	Yes	Preliminary policy recommendations informed by the research- focus on re-energizing private market and further exploration
Leading Age	Association of 6,000 non-profit care providers	Feb 17	Yes	One of study funders. Second of two reports discussing LTSS published in February.
LTC Financing Collaborative	Widely diverse group of LTC experts	Feb 22	Yes	Process aimed at arriving at consensus among widely divergent perspectives
AARP	Largest senior organization		No	No specific policy recommendations but commitment to continued LTSS involvement
NASI	Nat'l Assoc. of Social Ins. conference	Jan 27		Preliminary presentation at Social Insurance conference
ILTCi	Intercompany LTC insurance conference	Mar 14		Double session on findings and policy implications
ASA	Society on Aging Conference	Mar 22		3 hour presentation
Capitol Hill	Energy and commerce committee	Mar 9		Hearing on Financing and Delivery of LTC
LTC Think Tank	Webcast on brainstorming project	Mar 9	Yes	80 concepts distilled down to 3 principles and 6 concepts

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Top Ten Learnings From LTC Financing Research

Preparing for the Future

Presented by

Anne Tumlinson

March 2016



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What We Learned...



- The Risk for individuals is Unpredictable
 - Older adults face an unpredictable risk for LTSS need
- Individuals will Pay a High Personal Price
 - The majority of costs will be borne by individuals
- Solutions Will Require Creativity and Commitment
 - Factors such as unmet need and adverse selection make it hard to change the status quo



- Medicaid
- Unpaid Family Care
- Unmet Need

The LTC Modeling Project



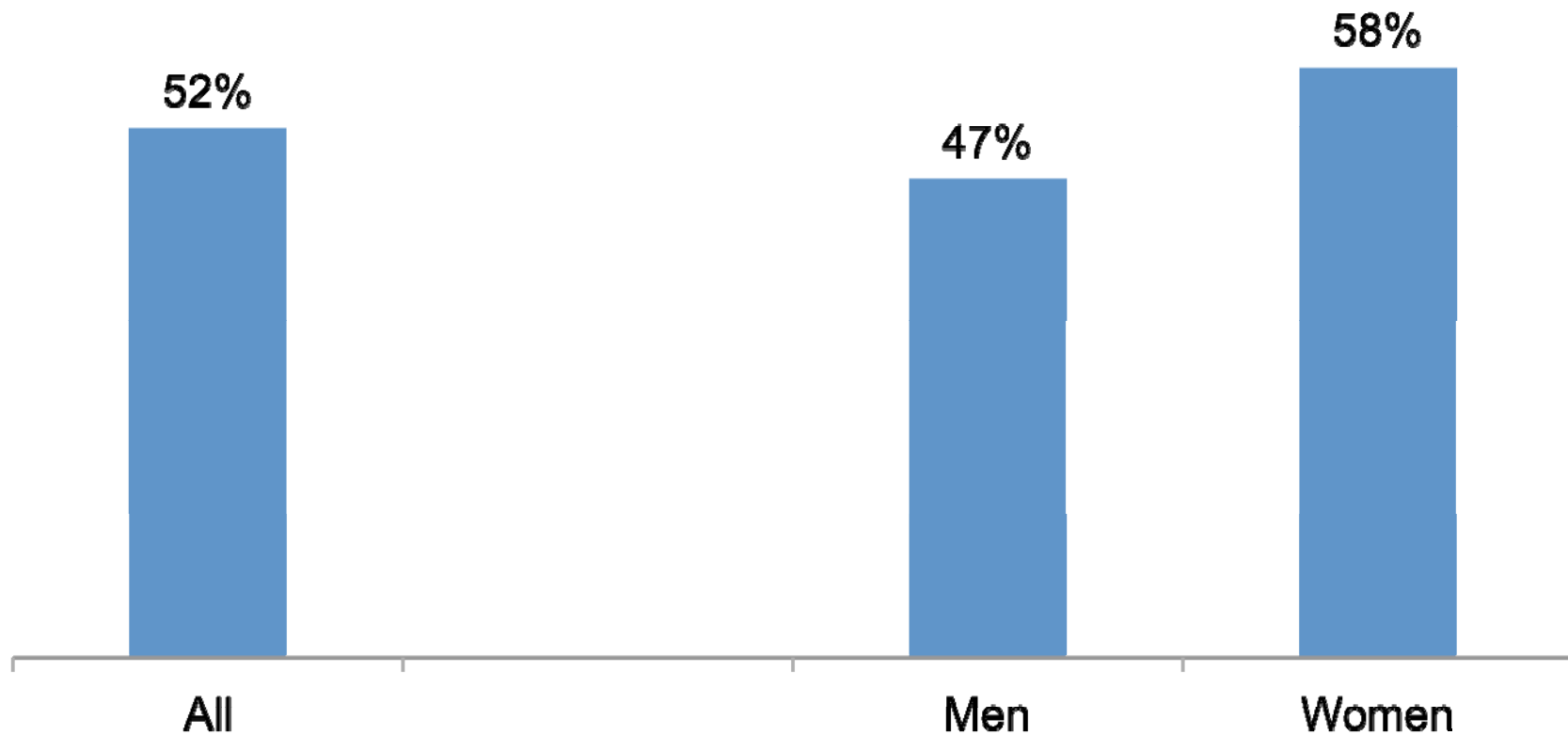
- Takes data on real individuals and families
- Makes assumptions about the future for each individual in the data set based on various characteristics
- Forecasts LTSS needs and costs over 75 years

Allows us to:

- Estimate a group's risk and costs over their lifetimes
- Estimate impact of new policies on different types of people (distributional analysis)

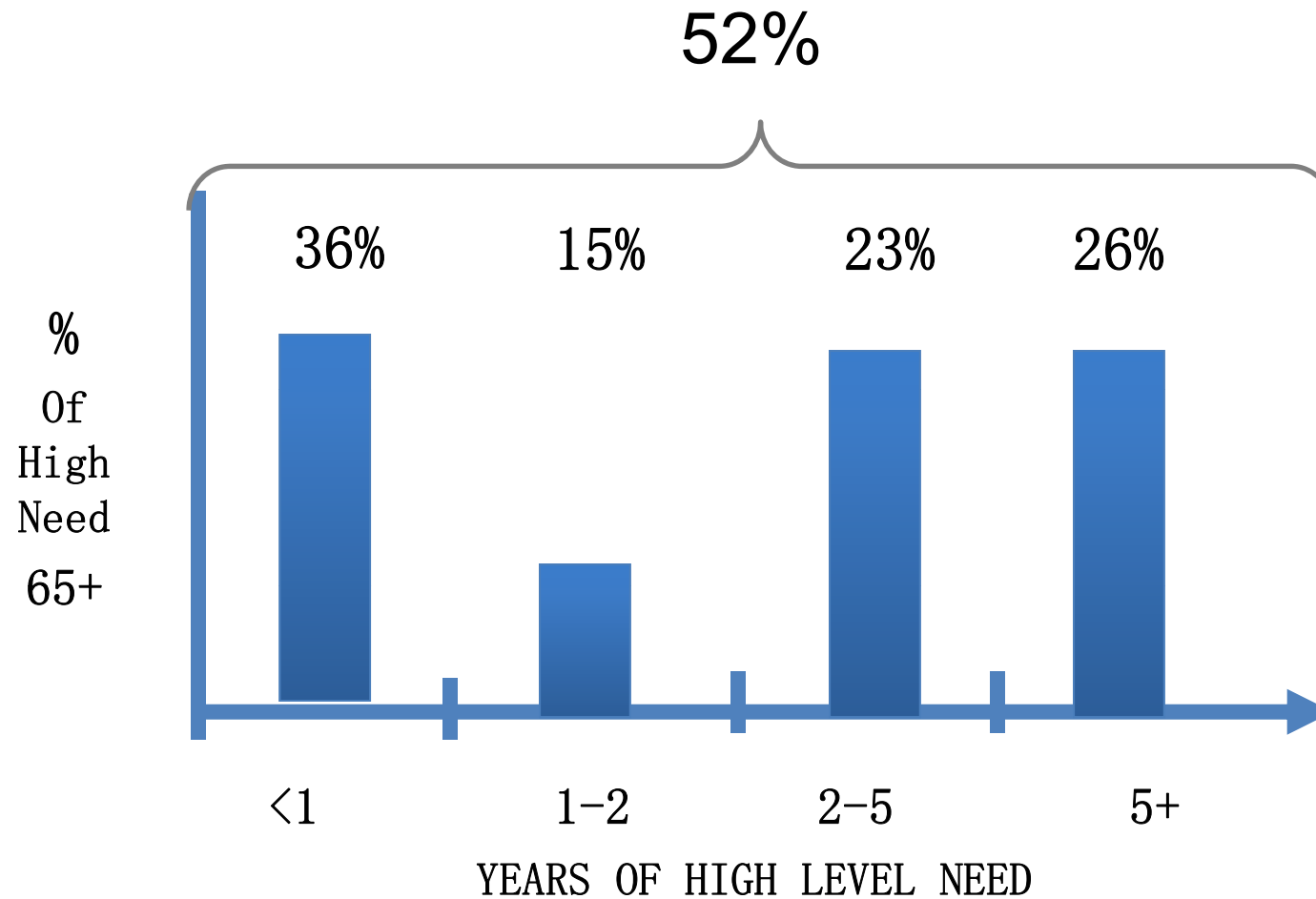


Share of adults with severe LTSS needs after age 65



Severe LTSS need = HIPAA level loss

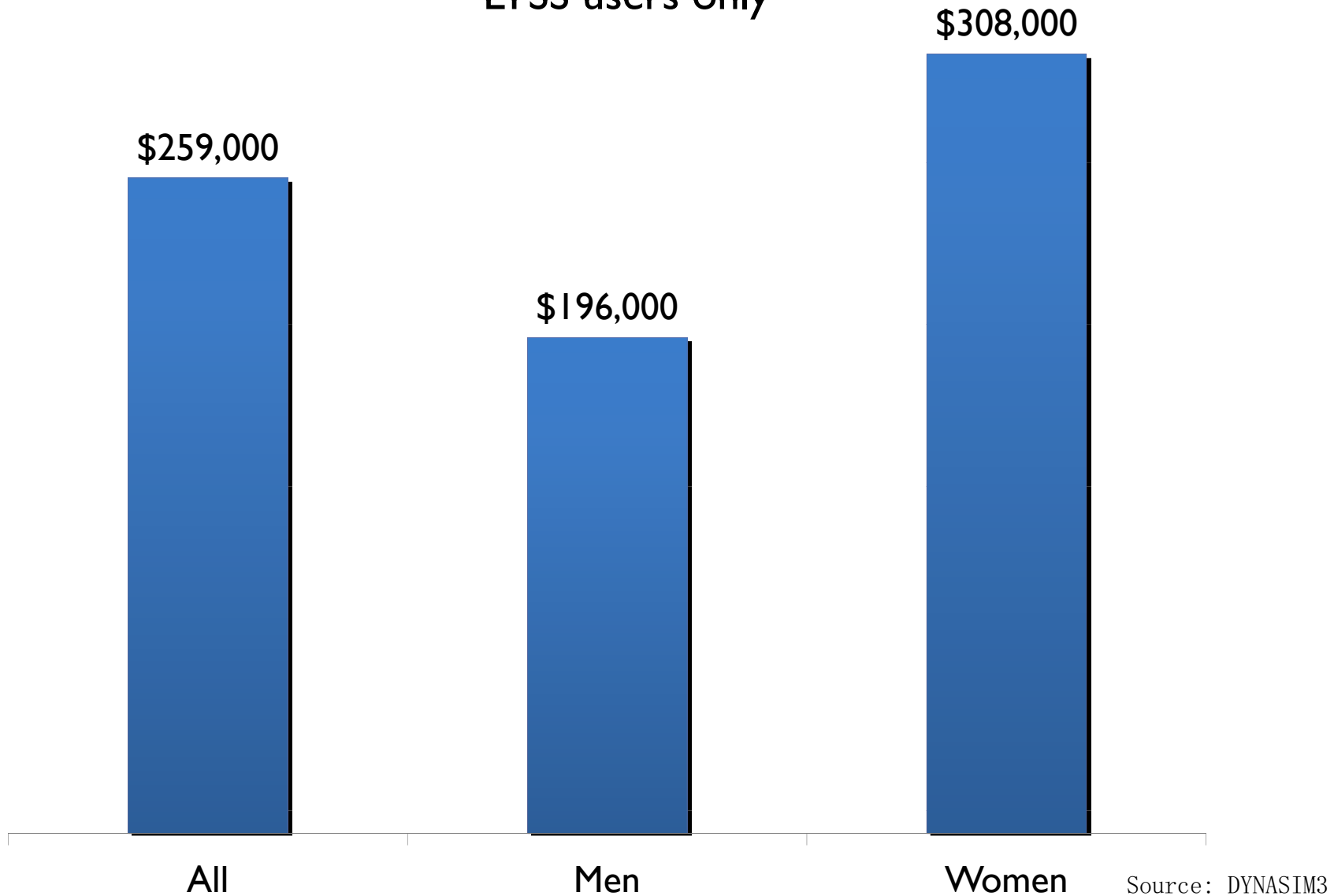
1 in 4 of Those Will Live with High Need for 5+ Years



They will Have Spending of \$260K on Average



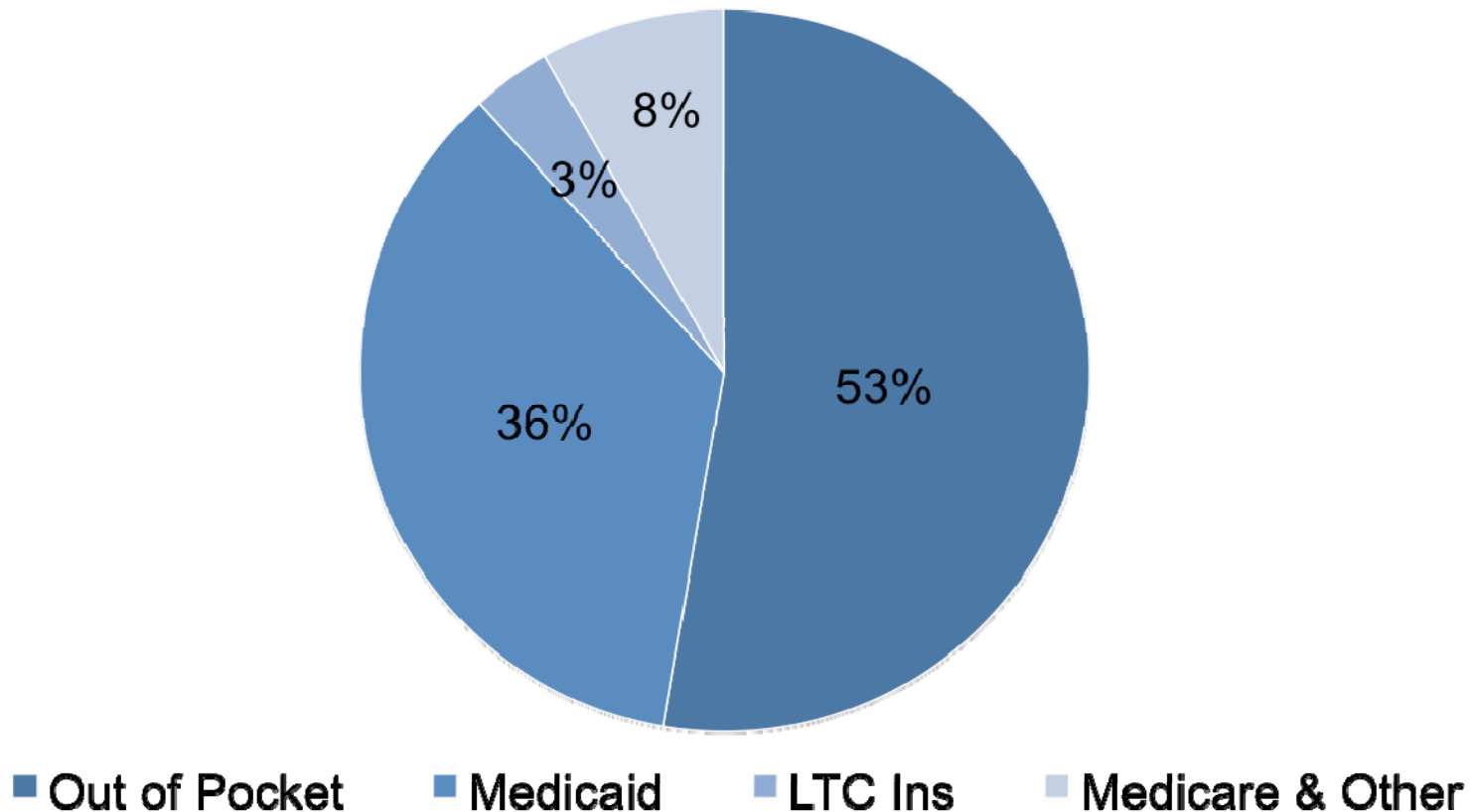
LTSS users only



Over Half of the \$260k Paid Out of Pocket



Individuals Pay Over Half the
Average Lifetime Cost of \$260,000

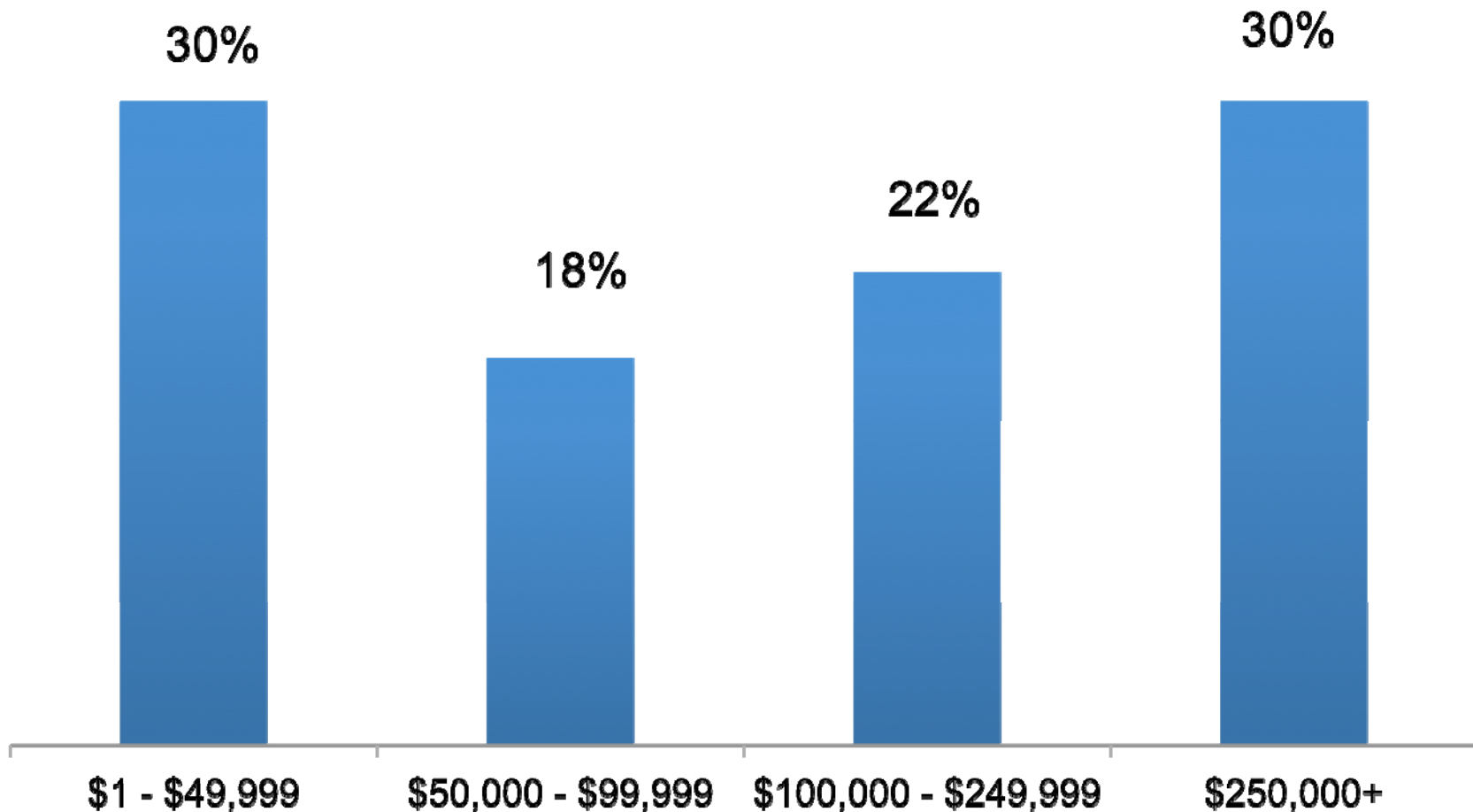


Source: Long-Term Supports and Services for Older Americans: Risks & Financing Research Brief for the DHHS Office of the Assistant Secretary for Planning and Evaluation (ASPE). Melissa Favreault (Urban Institute) and Judith Dey (ASPE) 7/13/2015

A Third of users will Spending at Least \$250k

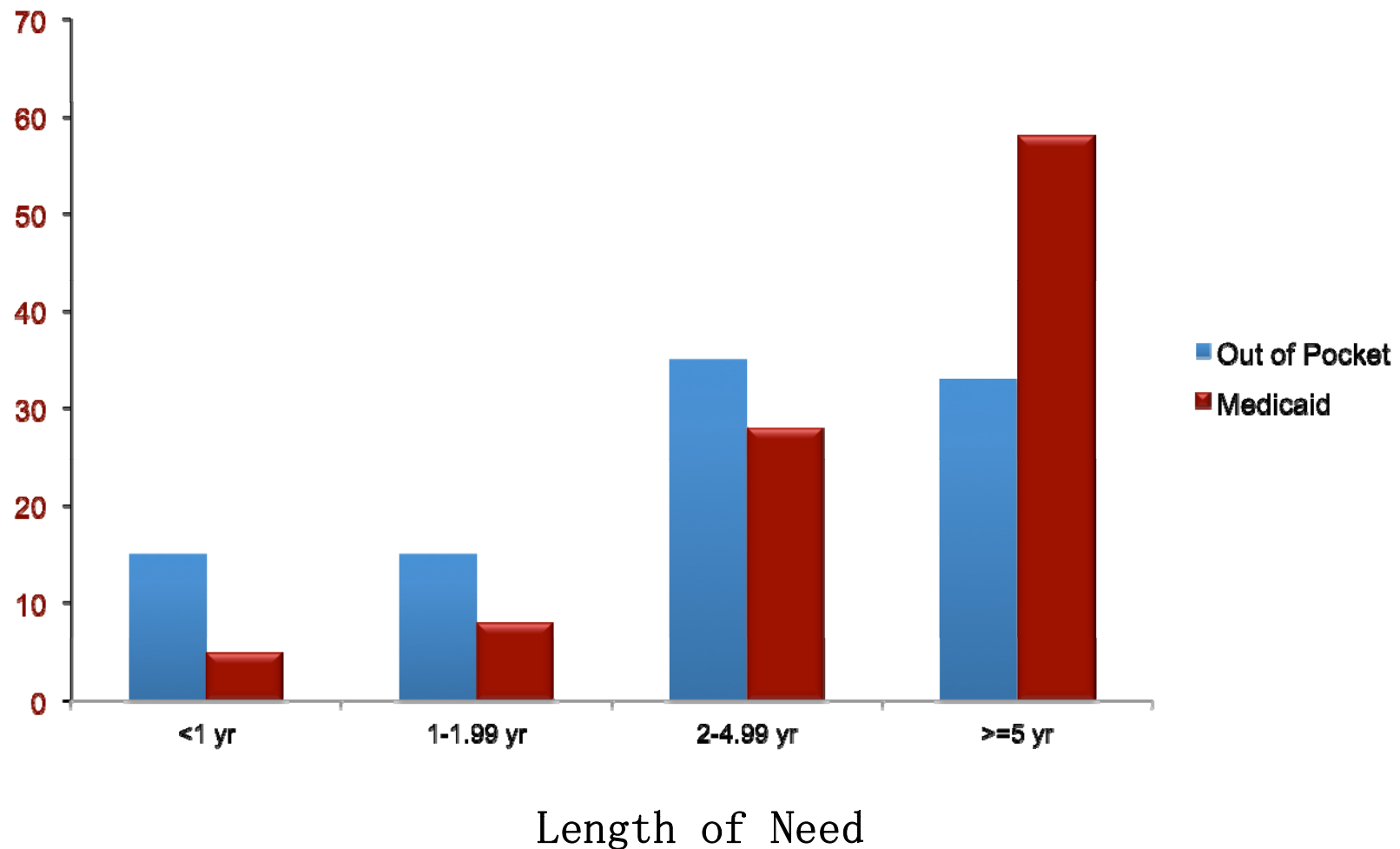


Individuals with Expenditures



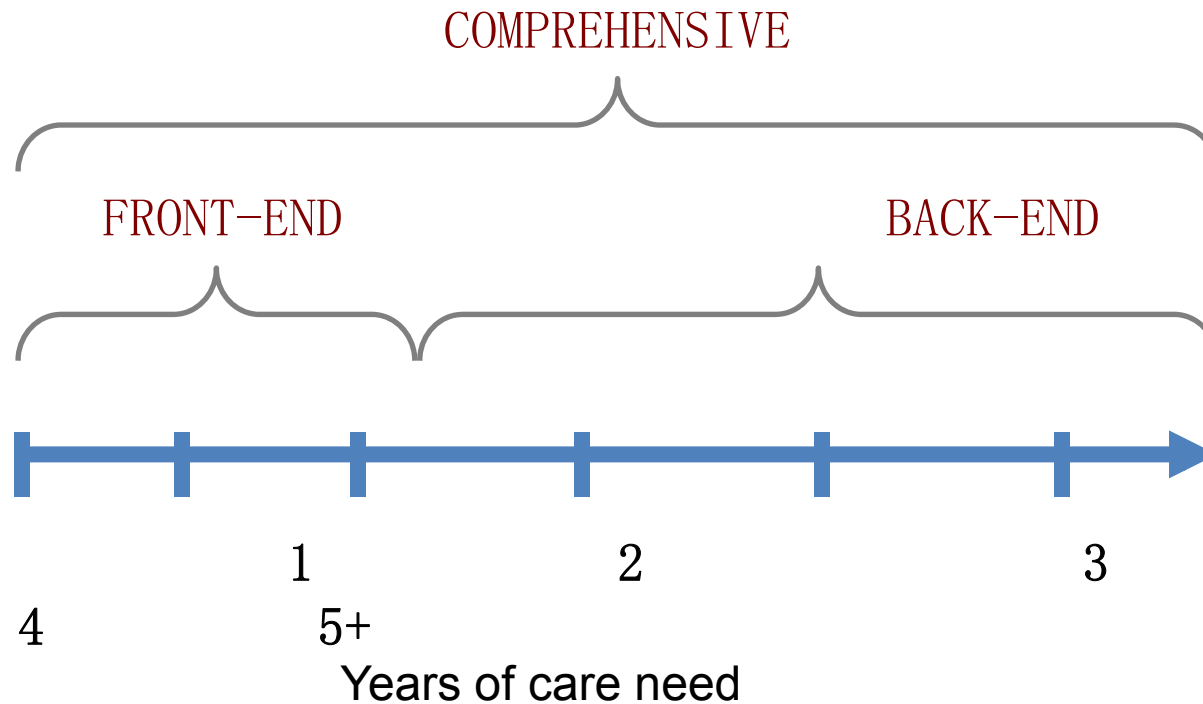
Source: Long-Term Supports and Services for Older Americans: Risks & Financing Research Brief for the DHHS Office of the Assistant Secretary for Planning and Evaluation (ASPE). Melissa Favreault (Urban Institute) and Judith Dey (ASPE) 7/13/2015

Medicaid Contributes Heavily to Long Duration



Source: Projections of lifetime risk of long-term services and supports at ages 65 and older under current law from Dynasim, June 8, 2015, Urban Institute

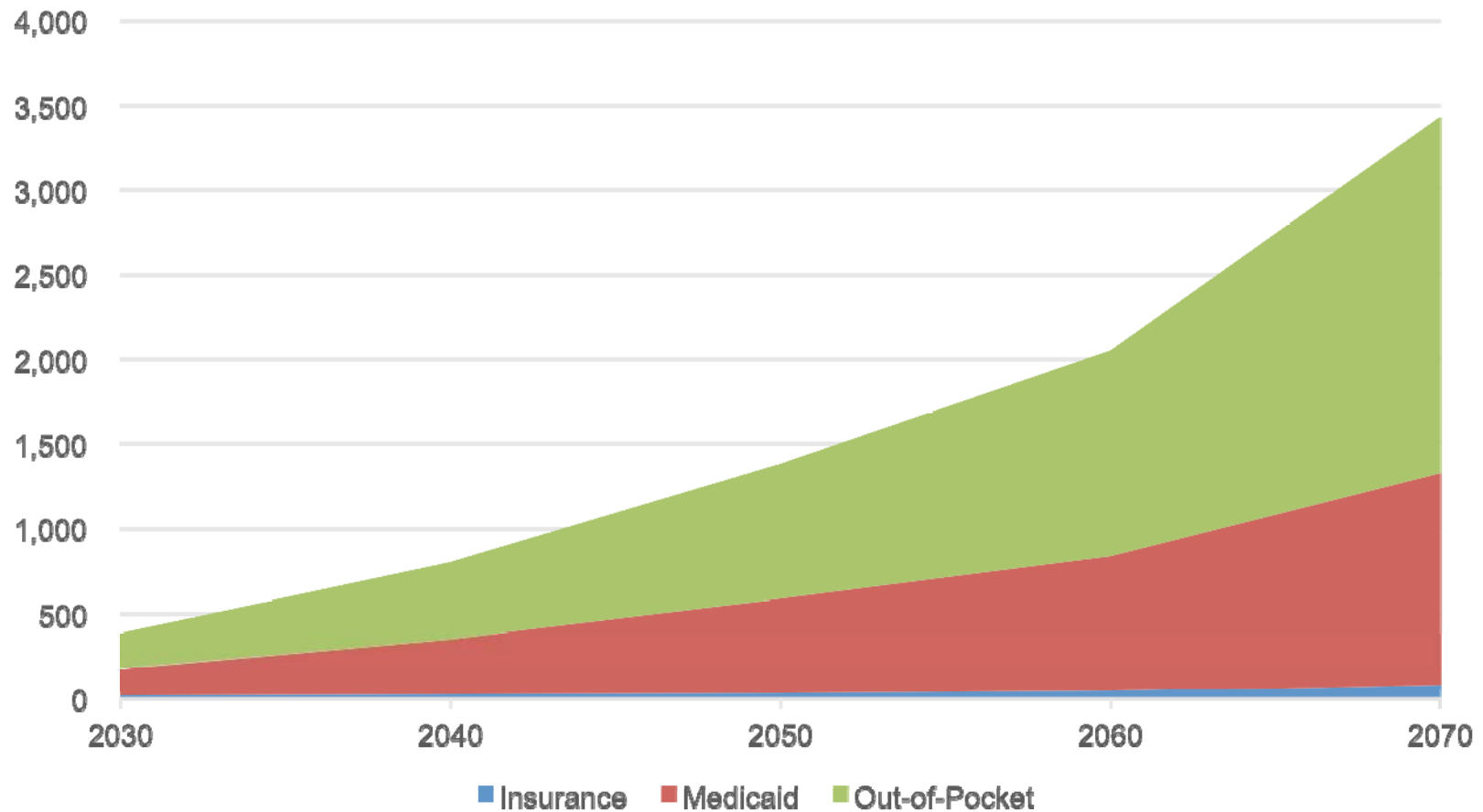
A Limited Number of Policy Options were Modeled



Status Quo: LTSS Spending Rises Sharply 2060



Total LTSS Spending by Payer,
Status Quo/Baseline
Billions of Dollars

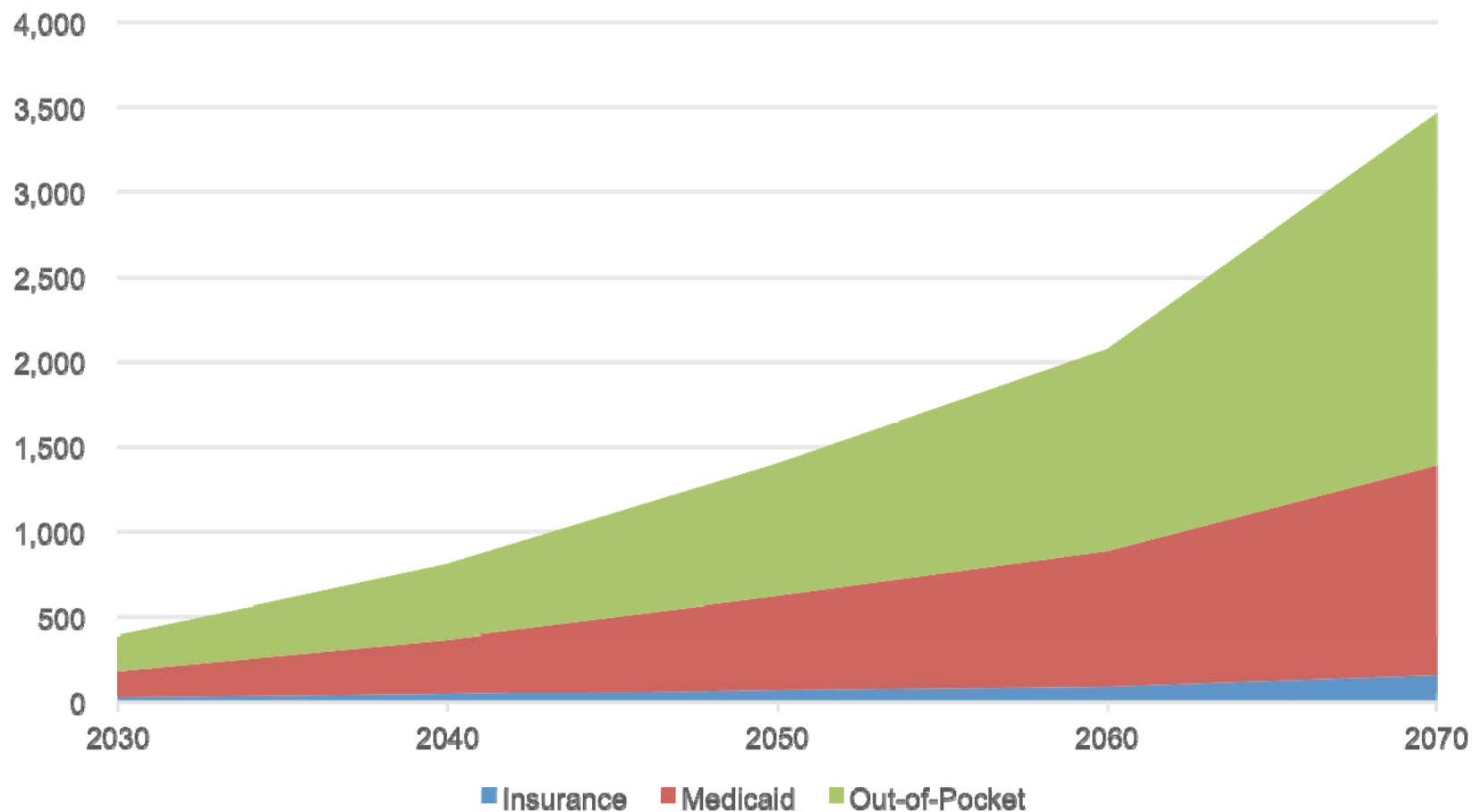


Source: Favreault and Johnson (2015) "Microsimulation Analysis of Financing Options for LTSS" Urban Institute Research Report, Table 15

Voluntary Program Limited Impact on Status Quo



LTSS Spending by Payer, Voluntary Front-End, Subsidized
Billions of Dollars

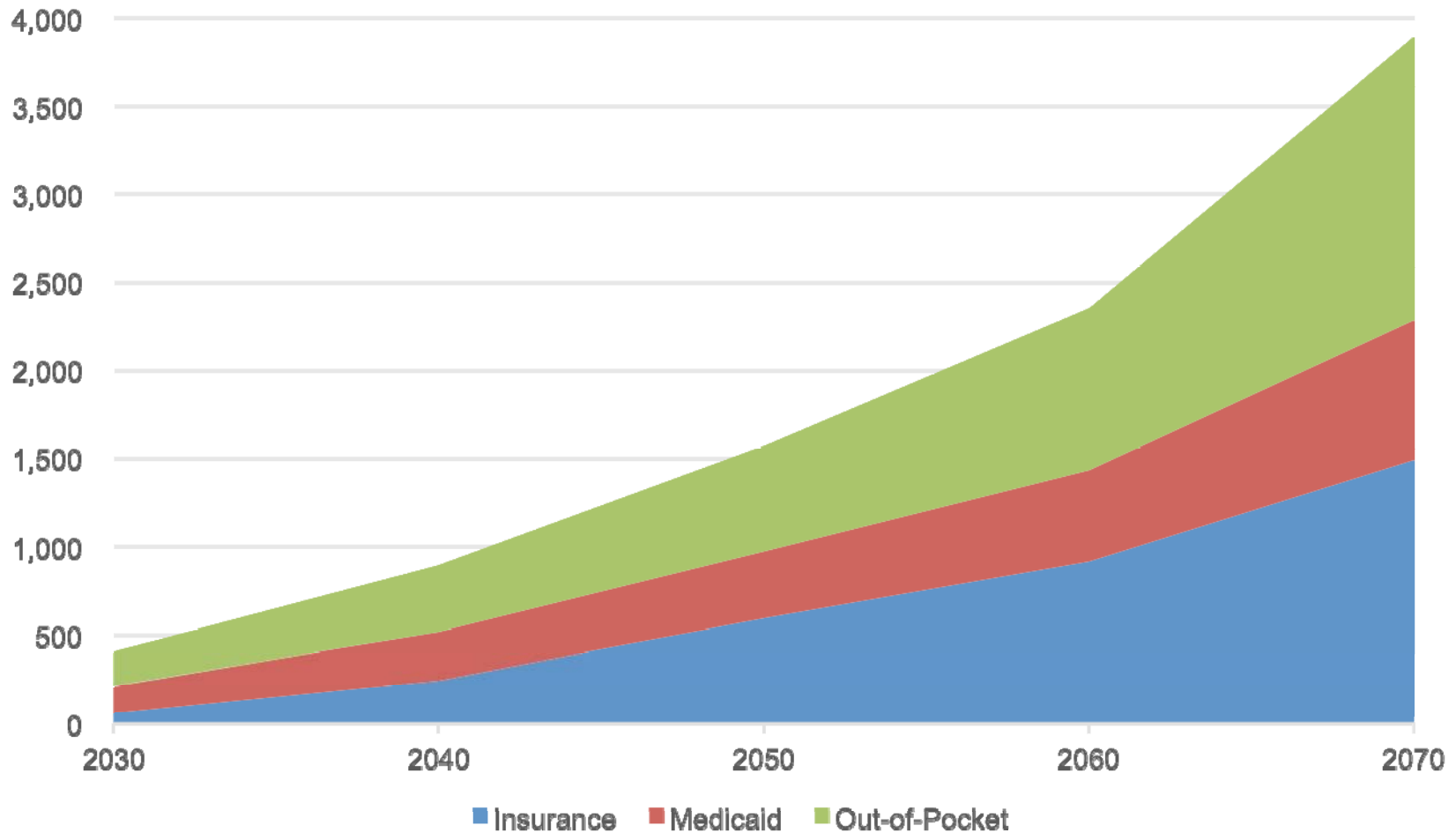


Source: Favreault and Johnson (2015) "Microsimulation Analysis of Financing Options for LTSS" Urban Institute Research Report, Table 15

Mandatory Shifts \$s from Medicaid and OOP



LTSS Spending by Payer, Mandatory Comprehensive
Billions of Dollars

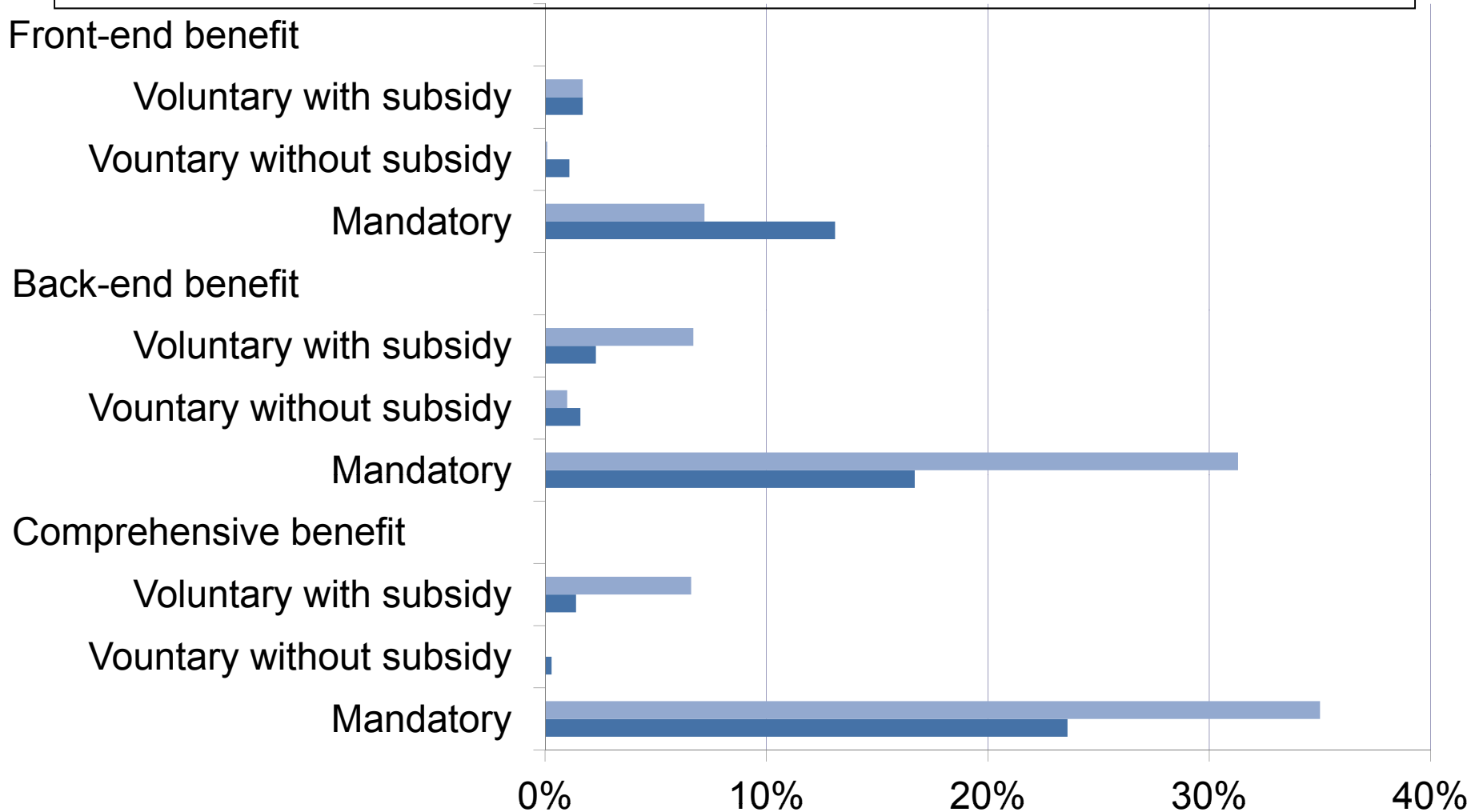


Source: Favreault and Johnson (2015) "Microsimulation Analysis of Financing Options for LTSS" Urban Institute Research Report, Table 15

Mandatory Catastrophic: Greatest Relative Impact



Impacts Medicaid and OOP nearly as much as Comprehensive at Lower Cost

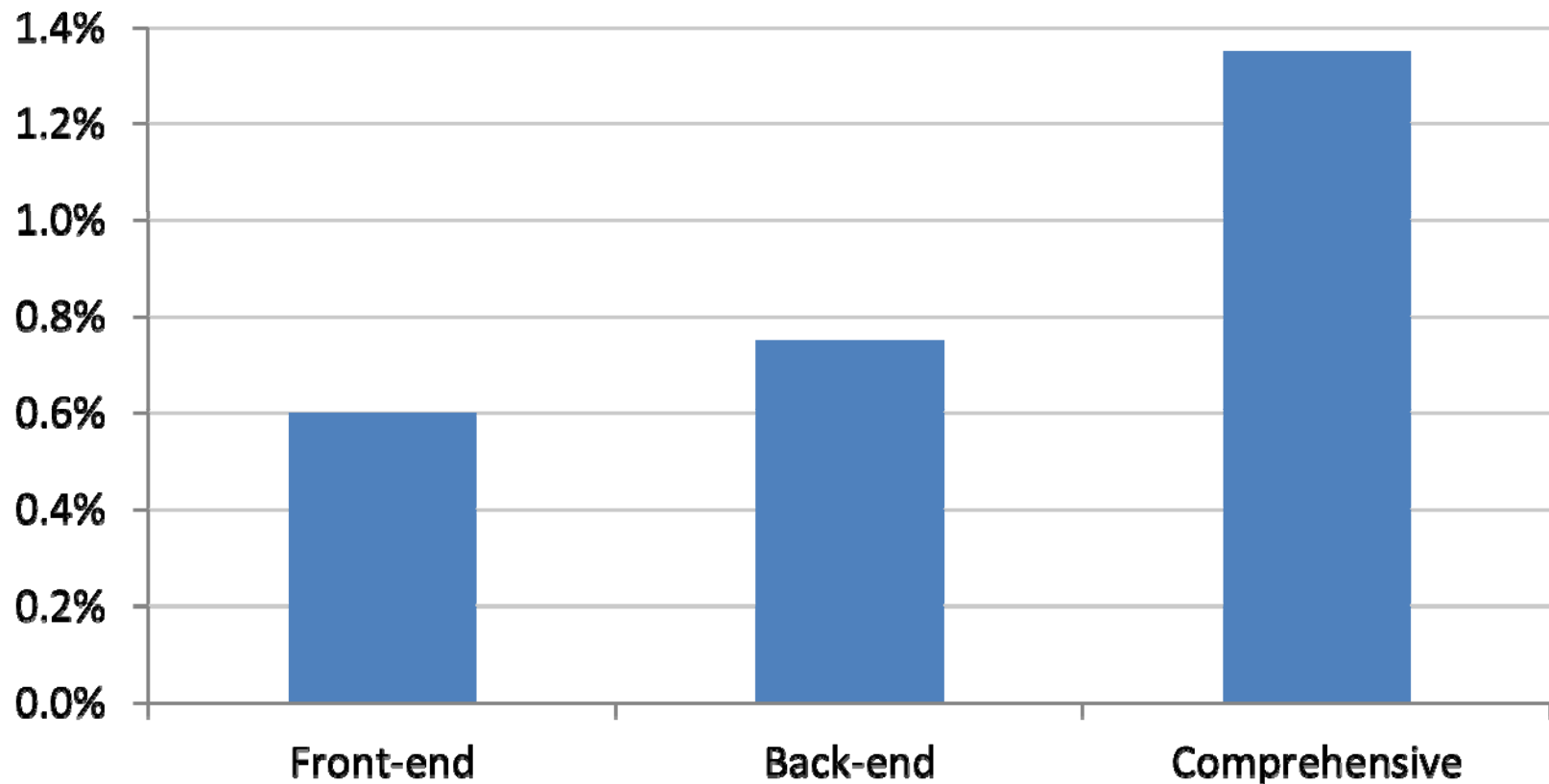


Legend: ■ Medicaid ■ OOP Source: DYNASIM3

Back-End Mandatory = High Value



Estimated% payroll tax

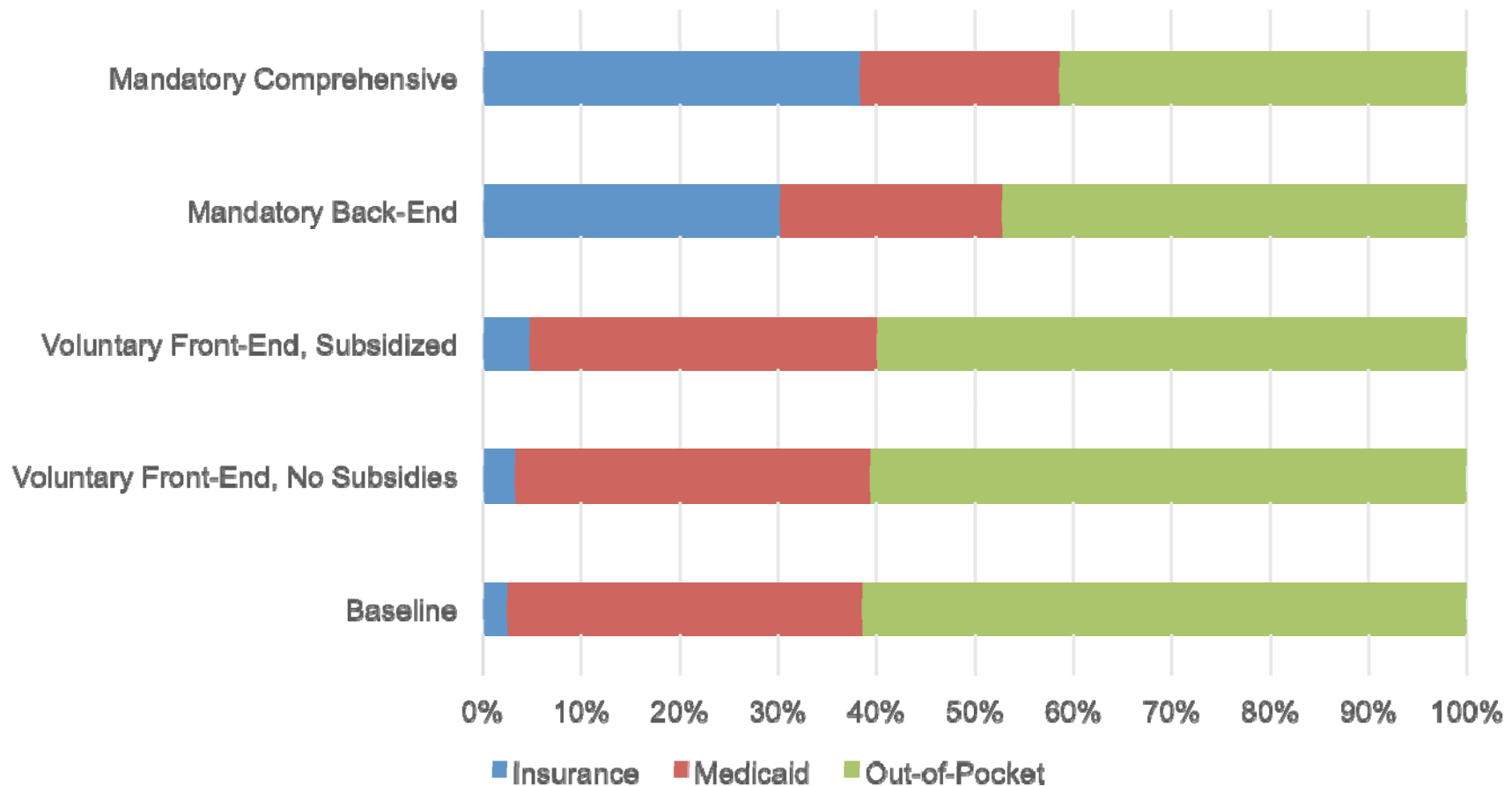


Source: DYNASIM3

Reforms Can Shift Role of OOP and Medicaid



LTSS Spending by Payer, Select Policy Options, 2070
Share of Total

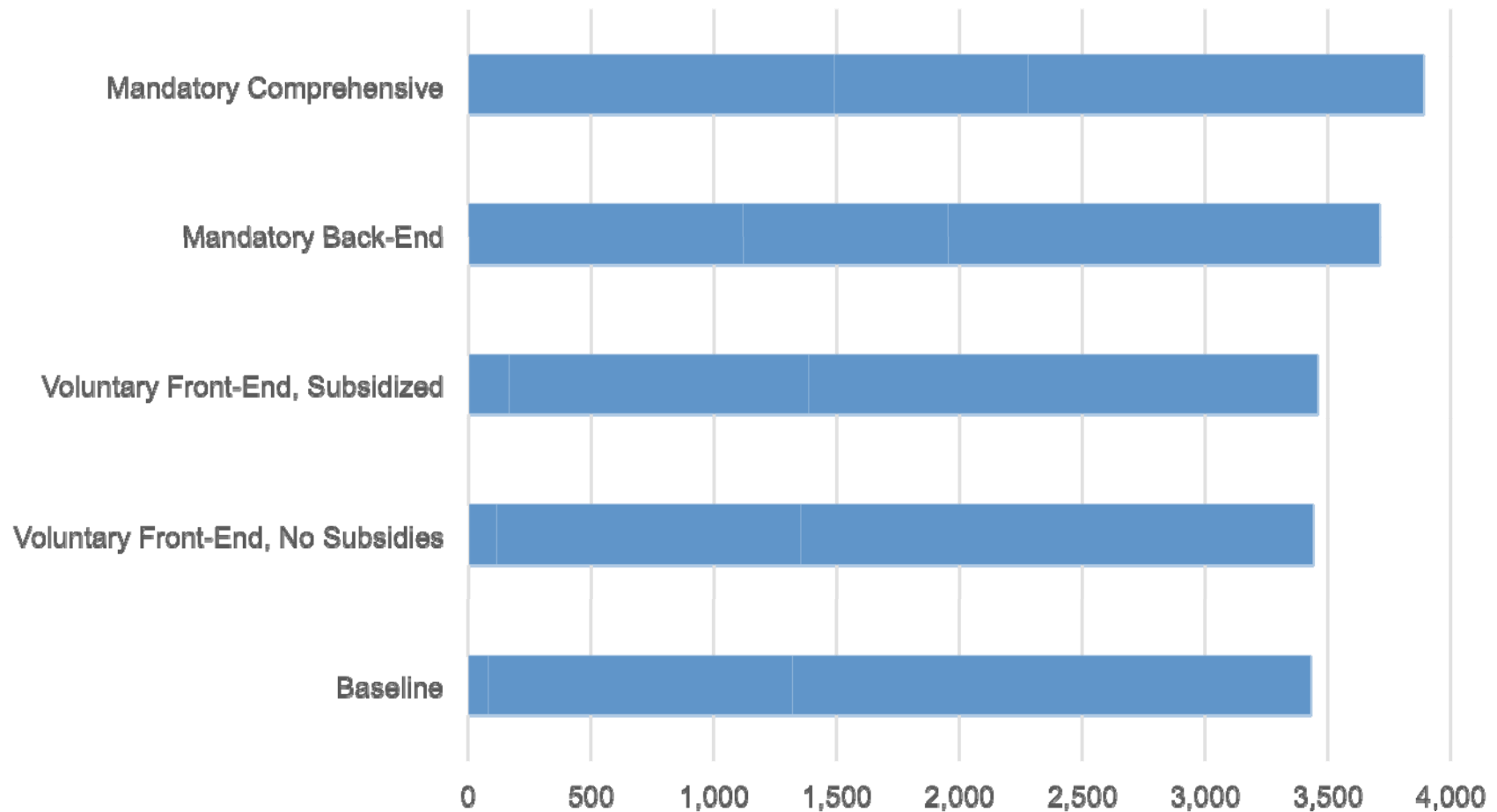


Source: Favreault and Johnson (2015) "Microsimulation Analysis of Financing Options for LTSS" Urban Institute Research Report, Author's calculation from Table 15

But, They Still Increase Overall Spending



All Payers Spending, Select Policy Options, 2070
Billions of Dollars



Source: Favreault and Johnson (2015) "Microsimulation Analysis of Financing Options for LTSS" Urban Institute Research Report, Table 15

Where Do We Go From Here?



- Microsim 2.0
 - Model refinement
 - Work on under-age 65
 - More dimension/detail on catastrophic approaches
 - Health care effects of LTSS insurance coverage
 - Further development of private sector options
 - Consumer research

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Actuarial Modeling LTC Reform Options

ILTCI

San Antonio

March 14, 2016

Presented by: Al Schmitz



16th Annual Intercompany Long Term Care Insurance Conference



Evaluating LTSS Policy Options

- Financial soundness/sustainability
- Affordability
- Number of people covered
- Efficient use of system funds
- Comprehensiveness (benefits)
- Choice
- Understandability of the program



Design Considerations

- Voluntary or mandatory
- Public, private, or hybrid
- Prefunded or pay-as-you-go
- Financing source
 - Premiums
 - Taxes
 - Both
- Low-income subsidies



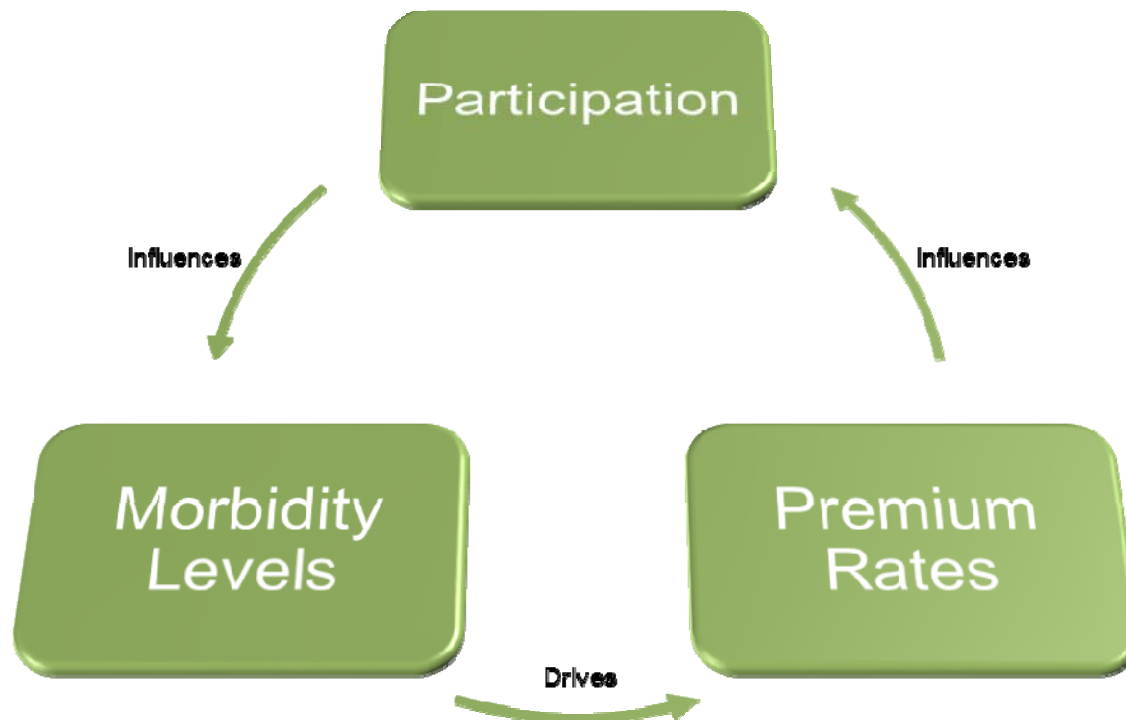
Design Considerations (Cont.)

- Issuing coverage
 - Guaranteed coverage
 - Vesting periods
 - Underwriting
- Benefit design features such as
 - Cash vs. reimbursement
 - Front-end vs. Back-end
 - Benefit eligibility
 - Inflation protection

Modeling LTC Reform Options



- Estimate participation mix and premium levels -> voluntary designs





Modeling Approach

- 1) Baseline pricing model
 - “Recreate” insurance market premiums
 - Industry data / research
- 2) Participation mix model
 - LTSS needs
 - Health and wealth characteristics
- 3) Estimate incremental impacts
 - Use framework from #1 and #2
 - Consistent evaluation of reform options

Pricing Detail



- Baseline Plan: Level premium, full underwriting, 3-year benefit period, 90-day elimination period, \$180 daily benefit, 3% Inflation
- Pricing Formula:
 - Premium + Investment Income = Benefits + Expenses + Taxes + Capital Costs + Profit
- Composite marital status and gender mix
- Morbidity
- Persistency
- Expenses
- Investment Income
- Target Surplus
- Profit Target

Baseline Plan Design and Premiums



Base Line Plan Annual Premiums						
	Issue Age					
	40	45	50	55	60	65
Baseline Plan	1,961	2,159	2,420	2,814	3,380	4,496

Baseline Plan: Level premium, full underwriting, 3-year benefit period, 90-day elimination period, \$180 daily benefit, 3% Inflation

Private Market Reform Options Analyzed



Baseline Plan: Level premium, full underwriting, 3-year benefit period, 90-day elimination period

Option #1

Premiums increase 3% annually up to age 65 and remain level thereafter

Option #2

Policy benefits automatically increase annually based on an inflation index (assumed to be 3.5%)

Option #3

No underwriting with a five year vesting period of paying premiums before any policy benefits are paid

Option #4

No sales commission and no waiver of premium benefit while on claim

Option #5

Baseline modified to no underwriting, 5-year vesting period, actively working requirement, auto enrollment with opt-out, no commissions

Option #6

Option 5 modified to 1-year elimination period, indexed benefit inflation, 2% annually increasing premium up to age 65 and level thereafter, group commissions



Sample Results – Private Market

Premium Ratios Compared to Baseline Plan						
Scenario	Issue Age					
	40	45	50	55	60	65
Baseline Plan	100%	100%	100%	100%	100%	100%
Option 5	76%	76%	76%	76%	77%	76%
Option 6 – Initial	53%	54%	55%	56%	59%	61%
Option 6 – Age 65 Plus	88%	80%	74%	69%	65%	61%

- » **Baseline Plan:** Level premium, full underwriting, 3-year benefit period, 90-day elimination period
- » **Option 5:** Baseline modified to no underwriting, 5-year vesting period, actively working requirement, opt-out, no commissions
- » **Option 6:** Option 5 modified to 1-year elimination period, indexed benefit inflation, 2% annually increasing premium up to age 65 and level thereafter, group commissions



Sample Results – New Programs

Premium Ratios Compared to Baseline Plan						
Scenario	Issue Age					
	40	45	50	55	60	65
Baseline Plan	100%	100%	100%	100%	100%	100%
Voluntary Front-End	57%	59%	63%	70%	77%	75%
Voluntary Back-End	89%	93%	101%	110%	118%	107%

- » **Baseline Plan: Full underwriting, 3-year benefit period, 90-day elimination period, \$180/day service reimbursement benefit**
- » **Front-End: Baseline modified to 2-year benefit period, \$100/day cash benefit, no underwriting, 5-year vesting period, low-income premium subsidies (issue age 65 only), no commissions, zero administrator profits**
- » **Back-End: Front-End modified to lifetime benefit period and 2-year elimination period**



Key Modeling Takeaways

- Participation mix: critical assumption
 - Little data exists on overall level
 - Approach taken provides new framework for relative comparisons
- Reforms: Varying premium impacts
 - Initial insight into trade-offs such as:
 - Reduced benefits -> Lower premiums
 - Remove underwriting -> Higher premiums
 - Other

What is Next?



- Keep the Conversation Going
- Research the tough questions
- Examination of additional plan designs
 - Longer vesting
 - Different premium scales
 - Cash vs reimbursement
 - Etc.
- Pilot Programs?