Reforming long-term care financing through insurance

by Mark R. Meiners

Until recently, insurance for long-term care was not viewed as feasible. This perception has changed dramatically in the past few years. Several models of long-term care insurance have begun to be tested. Although the application of insurance principles to long-term care is still new, the emergence of private market interest in developing long-term care insurance has been a catalyst to renewed public-policy support for reforming the way we pay for long-term care. States, in particular, have become interested in developing public-private partnerships to support the emergence of long-term care insurance that could help relieve the mounting pressure on Medicaid budgets.

Background

The recent push to develop protection against catastrophic health care expenses has helped to focus attention on the need for better long-term care financing options. Recognition of long-term care as a major cause of catastrophic expense, however, is not new. In the late 1970's, during the previous cycle of interest in catastrophic health care costs, the Congressional Budget Office issued a report that identified the need for nursing home care, a major component of long-term care, as the single most significant cause of catastrophic expenses (Congressional Budget Office, 1977). What is new today is that long-term care has begun to be accepted as an insurable risk.

As little as 10 years ago, insurance principles were generally perceived as not applicable to long-term care. Then, as now, Medicare, did not address the long-term care problem. The burden of long-term care expenses fell first to individuals and their families until their resources were exhausted and then to the Medicaid program. Private-market insurance options have now begun to emerge, and there is a wave of renewed public-policy interest in dealing with the long-term care financing problem. Recognition of long-term care as an insurable risk has, for the first time, provided a framework for considering the components of the long-term care financing problem. Risk-pooling mechanisms provide individuals the opportunity to pay for their long-term care needs in a more reasonable way than the all-or-nothing situation that exists when individuals have to self-insure.

A growing debate has developed as to how insurance options for long-term care should be structured and who should sponsor them. The presence of this debate is now clearly evident on Capitol Hill. The recent legislative session saw numerous proposals that look to insurance as a major vehicle for the reform of long-term care financing. The approach to encouraging risk pooling as well as the benefits, premium structures, and proposed sponsors vary widely. This variation demonstrates the wide range of possible approaches for insurance program development, and it indicates the need to further investigate the possible components of a broad-based insurance program. The emergence of private-market interest in developing long-term care insurance has been a catalyst to the current thinking.

Reprint requests: Mark R. Meiners, Ph.D., Center on Aging, Room 1240A, PERH Building, University of Maryland, College Park, Maryland 20742-2611.

Several models have emerged

Basic models of long-term care (LTC) insurance include freestanding indemnity products, social health maintenance organizations (S/HMO's), and continuing care retirement communities (CCRC's). Each of these models differs along a variety of dimensions, including the comprehensiveness of the benefit package, the management of risk, and the organizational structure. The freestanding indemnity model typically focuses on the long-term care risk alone, with emphasis on nursing home benefits and more modest coverage of home health care. The S/HMO model expands the concept by integrating a broader array of chronic-care benefits, with acute-care benefits in a managed-care environment. The CCRC model (in its broadest configuration) expands the concept further by providing sheltered housing as well as a comprehensive health care guarantee. Each model is undergoing testing, revisions, and further development.

Current market

The market for all forms of LTC insurance is still new and not well developed. The recent congressionally mandated report of the Task Force on Long-Term Health Care Policies found that more than 70 products are now being sold (U.S. Department of Health and Human Services, 1987). Although many of these became available only recently, the same report found some 420,000 policies in force. This represents dramatic growth, compared with a few years back. Nonetheless, the market is still very small relative to the need for such protection.

Most of the policies are the freestanding type. Chronic illness rather than acute illness or post-acute recovery is the focus of the insurance, so the benefits are designed to address the need for personal assistance with basic activities of daily living (often termed intermediate or custodial care) in addition to skilled nursing and therapeutic services. The benefits are designed to pay for an extended spell of illness.

These are the key features that distinguish long-term care insurance from the acute care related nursing home and home care benefits of Medicare and Medigap insurance. Also, the policyholder is not locked into a particular provider system, as is the case with the S/HMO's and CCRC's.

The freestanding type of product has captured much of the initial interest in dealing with the problem of financing long-term care. By focusing on the long-term care risk alone, it is somewhat easier to define what constitutes an affordable set of long-term care benefits. However, features of the S/HMO and CCRC approach are receiving close scrutiny. By integrating the financing mechanism with the delivery system, this approach may be better suited to including home and community care in the benefit package and to controlling the risk with case management mechanisms.

Until recently, most of the insurers involved in selling long-term care insurance were small companies. This has begun to change, however, and some of the largest insurance companies are actively marketing their own products. Most are sold on an individual basis, but there is strong interest in developing group marketing strategies. One approach that has emerged in the past year is for employer groups to actively facilitate the marketing of affordable options for their workers and retirees on an employee pay-all basis.

Further development needed

In assessing the products currently available, it is easy to find fault. Many tend to perpetuate the institutional bias that prevails in our public programs, they use restrictive risk-management techniques; and the better ones, although not exorbitant, are also not cheap. All these factors serve to limit the market for such protection. Nonetheless, there has been a concerted effort to address the limitations, and there are products now available that deserve serious consideration (Meiners and Greenberg, forthcoming).

Further research and development will be necessary to achieve the full potential of private market LTC insurance. Products sold to groups before retirement that use some form of managed-care environment are good candidates for overcoming the major barriers to such a market. Insurers should be encouraged to offer Medicare supplemental options that include long-term care benefits. The interest on the part of some Medicare-HMO's in offering LTC insurance to their members is a move in this direction worthy of note. Revisions to Medicare may encourage medigap insurers to adjust their products by providing long-term care benefits.

Further opportunities to expand the market for LTC insurance include reinsuring retirement communities for their chronic care guarantee and developing similar risk pools among community members preferring to stay in their own homes. Both of these strategies are appealing because they involve group sales where all parties to the agreement work together to control the risk in a managed-care environment that includes the home setting.

Strategies for market expansion might also involve links with other financing vehicles, such as home equity conversion, life insurance, or pension annuities to take advantage of offsetting risks while promoting recognition of the need for long-term care protection. Other strategies involve tax preferences for individual savings accounts dedicated to the purchase of LTC insurance or for encouraging employers to offer such protection as a retirement option. Although the current fiscal environment is not encouraging for tax incentives, the need for protection against the catastrophic expenses associated with long-term care may lead people to conclude that these strategies may warrant special consideration.

Possible public-policy roles

One intriguing aspect of LTC insurance that has fueled interest in supporting market development is the potential it holds for relieving some of the pressure on Medicaid. Government payers will benefit if private insurance can reduce the role of Medicaid as a source of payment for middle income elderly by delaying or avoiding the need to spend down their resources. It also may be viewed as an alternative to the current incentive to transfer assets to gain eligibility. The possibility that there could be savings to public budgets as well as benefits to consumers suggests that there is a public role in encouraging the market.

A variety of public-policy interventions to support the emerging market are possible. A relatively inexpensive yet extremely important role is that of consumer education. Further efforts are needed at both the Federal and State levels to inform consumers that Medicare and most private insurance policies do not provide extended-care benefits for chronic illness and disability. This may be especially important with the passage of the new Medicare Catastrophic Coverage Act of 1988 because people may be confused by the idea that they are now covered against catastrophic expenses without understanding that Medicare benefits are not designed to pay for long-term care. As long-term care insurance products become available, consumers will also need information and guidance to make informed choices.

States in particular can play a significant educational role through the office of the commissioner of insurance. They can also encourage insurance regulators to assist in the development and marketing of such benefits by removing regulatory restrictions that inhibit reasonable product experimentation. Significant additional support for market development may be achieved by coordinating the cost- and care-management mechanisms of public long-term care programs with those that the private market views as important to its success.

The significant role that States have in financing long-term care, along with having been delegated much of the responsibility for the structure and administration of long-term care programs, also provides the incentive for more direct support of the emerging insurance options. Over the last 20 years, States have had a major role in shaping the delivery and financing of long-term care services. Not only do they pay for a large portion of the long-term care costs through the Medicaid program, they are also responsible for many other aspects of care delivery and reimbursement, including determining the need for nursing home beds and community-based provider capacity under the certificate-of-need program, establishing a reimbursement methodology for nursing homes and home health care providers, and monitoring the quality of care by all providers. States also administrate several other Federal and State community-based long-term care programs such as Title III of the Older Americans Act and the Social Services Block Grant Program. Furthermore, State-only funds are increasingly being used as one of the basic sources of financing for home and community long-term care by those States judged most advanced in developing community-based systems (Justice, 1988).

States may want to reevaluate their current role in financing long-term care. The rules governing eligibility for Medicaid through the spend-down process should encourage the use of individuals' resources for their own long-term care. In structuring interventions to deal with problems such as spousal impoverishment, consideration should be given to incentives that encourage private initiative and responsibility. Medicaid cannot afford to act as inheritance insurance for heirs, and a private LTC insurance market cannot fully develop if Medicaid plays this role.

More aggressive strategies may involve direct market subsidies. Although there has been considerable interest in product development, the market is small and underdeveloped. Until there is more experience with insuring long-term care, we can expect progress to be slow and conservative. The limited market size and conservative pricing, in turn, tend to restrict the market to relatively high-income persons. It is in this context that strategies to subsidize the market may make sense. By targeting subsidies to persons otherwise unable to afford the insurance, the market size is increased; and greater numbers of those most likely to spend down to Medicaid are included.

Market subsidies could take several different forms (Meiners, 1988). One approach would be to guarantee full protection from further asset spend down for anyone paying through insurance or out of pocket for a set number of years. Premium subsidies in the form of tax credits or deductions if a person buys a State-certified level of insurance protection is another way to support market development. This type of subsidy could increase the affordability of current products. Both asset waiver and premium subsidy strategies are targeted to the consumer, and they could be varied on the basis of income.

Other subsidy strategies could be in the form of premium tax breaks or public reinsurance programs targeted to help insurers overcome their hesitancy to enter or expand the market. A State reinsurance program might serve as the basis for a data-collection initiative that could help overcome insurers hesitancy to share information on utilization and cost patterns under their programs. The lack of such data has been perceived as one of the barriers to more rapid market expansion.

Assistance to market development might also be accomplished by paying the insurance premium for persons eligible for Medicaid on the basis of low income. This would serve to broaden the risk pool and help spread administrative costs.

There is no one approach to supporting the market that is obviously the best at this stage of market development, but it does seem clear that the States should be key actors in long-term care system reform. Depending on specific market characteristics and its particular objectives, a State might choose to use one or several of these strategies to encourage development of this type of insurance. The uniqueness of a State's Medicaid eligibility criteria, in addition to its regulatory approach to long-term care insurance, will drive State-initiated efforts to conform with the constraints they impose in other areas. In addition, a State's own fiscal outlook and political climate will play a role in determining whether strict budget neutrality will be the measure of feasibility and success or whether the benefits of a more workable method of paying for long-term care will be viewed as worthy of more resources.

Program to promote progress

In August 1987, The Robert Wood Johnson Foundation (RWJF) initiated a grant program for the development and evaluation of public-private partnerships in the creation of long-term care insurance programs. The purpose of the program is to provide those States that have demonstrated a commitment to reforming long-term care financing with the resources to evaluate the potential of private market products and to design demonstration models in which States will work with insurers to expand the role and comprehensiveness of their products. Eight grants have been given (California, Connecticut, Indiana, Massachusetts, New Jersey, New York, Oregon, and Wisconsin), under the RWJF Program To Promote Long-Term Care Insurance For The Elderly.

By locating the grants in the States, the program takes advantage of the only substantial body of experience with all aspects of long-term care, including benefit determinations through nursing home screening programs, eligibility determinations through the Medicaid spend-down process, and initiation of a wide variety of community-based services through the 2176 and other waiver programs. This experience combined with the variation in approaches to long-term care makes the States an ideal laboratory for the development of new financing options. Given the large portion of the States' budgets that are devoted to long-term care, there is a clear incentive to explore new financing methods while maintaining their well-established commitment to long-term care.

The grant program is structured so as to encourage individual States to select conceptual models that best complement their existing financing and service delivery systems while remaining consistent with the following five overall goals:

- Develop public-private partnerships that avoid requiring the elderly to impoverish themselves before becoming eligible for public benefits.
- Ensure access to quality long-term care services.
- Cover the full range of home-based and community-based services.
- Establish a case-managed benefit structure.
- Design programs that will provide for the participation of all income groups.

Working within these goals, States are considering a number of the strategies outlined above for the development of partnerships with private insurers.

The grant program provides a method for States to benefit from an insurance perspective on the delivery and financing of long-term care and for private insurance companies to benefit from the experience which the States have gained through years of long-term care system experimentation. Through the course of the planning phase and subsequent demonstration phase, a broad array of insurance components will be evaluated and tested. The results from these grants should be of great assistance to the further development of future long-term care insurance programs in other States or on the Federal level.

Conclusion

The need for long-term care is the single most important cause of catastrophic health expenses for the elderly. Although this fact is not new, it is only recently that it is receiving much attention. Perhaps the reason for the previous lack of recognition was that there was no alternative short of a national program, and that has repeatedly been avoided as too costly. It made little sense to alert the public to the significant financial risk associated with the need for long-term care if there was no workable solution. A break in this stalemate has occurred with the recognition of long-term care as an insurable risk. The new private financing initiatives have begun to show how the risk can be shared in a way that encourages individuals with resources to participate in risk pooling and, in the process, help clarify those areas where there will be a need for public involvement on behalf of individuals without adequate resources.

The development of LTC insurance is in its infancy, and there is a need for improved data on virtually all aspects of that development, including information on utilization, costs, risk management, marketing, and the impact of such coverage. At the current time, it seems that supporting this development is a wise first step.

References

Congressional Budget Office: *Catastrophic Health Insurance.* Budget Issue Paper. Washington. Congress of the United States, Jan. 1977.

Justice, D.: *State Long Term Care Reform: Development of Community Care Systems in Six States.* Washington, D.C. National Governors Association, Apr. 1988.

Meiners, M. R.: Enhancing the market for private long-term care insurance. *Business and Health 5(7):22, May 1988.*

Meiners, M. R., and Greenberg, J. N.: Improving the role of private markets in financing long-term care services. In McLennan, K., and Meyer, J. A., eds., *Care and Cost: Current Issues in Health Policy,* Colorado. Westview Press, Forthcoming.

U.S. Department of Health and Human Services: *Long-Term Health Care Policies: Report to Congress and the Secretary.* Washington. U.S. Government Printing Office, Sept. 1987.