Financing Option for Long-Term Services and Supports

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Is There a Better Way to Finance LTSS?

• Americans face a significant risk of needing LTSS

• For those who require LTSS, needs may endure for a long time
  • two main payers: Medicaid, families
  • modest but significant risk of falling into poverty because of LTSS expenses
  • heavy caregiver burdens

• We simulated the potential impact of alternative financing options
We Used DYNASIM, Our Dynamic Microsimulation Model, to Project Outcomes

• Starts with representative sample of individuals and families
• Various equations age the data year by year
  • utilize the best and most recent data available
  • from multiple sources
• We forecast LTSS needs and costs over 75 years
• The model focuses on distributional differences
Outline

• LTSS under Baseline

• LTSS Financing Options
  • Premium development
  • Simulation results
About Half of Adults Surviving to Age 65 Will Develop Severe LTSS Needs before They Die (70% if Less Severe LTSS Needs Are Included)

Share of adults with severe LTSS needs after age 65

- All: 52%
- Men: 47%
- Women: 58%

Source: DYNASIM3
Most Older Adults Need High Levels of LTSS for Only a Short Time, But Some Spells Are Lengthy

Distribution of years of LTSS use after age 65, among users with severe needs (%)

<table>
<thead>
<tr>
<th>Number of years</th>
<th>Distribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1</td>
<td>48</td>
</tr>
<tr>
<td>1-1.99</td>
<td>19</td>
</tr>
<tr>
<td>2-4.99</td>
<td>21</td>
</tr>
<tr>
<td>5+</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: DYNASIM3
Expected Cost of Paid LTSS ($2015) after Age 65 (Severe LTSS Needs)

- All Men: $141,000
- All LTSS users only: $259,000
- Women: $96,000
- LTSS users only: $196,000
- Women: $183,000
- LTSS users only: $308,000

Source: DYNASIM3
Lifetime Costs Vary Widely

Distribution of paid LTSS costs ($2015) after age 65 (%)

<table>
<thead>
<tr>
<th>Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>none</td>
<td>48</td>
</tr>
<tr>
<td>&lt;$10k</td>
<td>6</td>
</tr>
<tr>
<td>$10-24.9k</td>
<td>4</td>
</tr>
<tr>
<td>$25-49.9k</td>
<td>6</td>
</tr>
<tr>
<td>$50-99.9k</td>
<td>10</td>
</tr>
<tr>
<td>$100-249.9k</td>
<td>12</td>
</tr>
<tr>
<td>&gt;=$250k</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: DYNASIM3
Those disabled for a long time account for a large share of total formal LTSS expenditures.

Distribution of formal LTSS expenses after age 65, by duration of severe disability (%)

<table>
<thead>
<tr>
<th>Number of Years</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1</td>
<td>19</td>
<td>12</td>
</tr>
<tr>
<td>1-1.99</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td>2-4.99</td>
<td>31</td>
<td>28</td>
</tr>
<tr>
<td>&gt;=5</td>
<td>33</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: DYNASIM3
Much (but Not All) of LTSS Expenses Occur within the First Two Years

Share of Lifetime LTSS Expenditures at Age 65 in 2015-2019, by Point in Spell in Which They Were Incurred

Source: DYNASIM3
Payer Mix Varies by Income Level, Care Setting, and Length of Disability Spell

• Medicaid LTSS users are concentrated in:
  • lowest income groups
  • nursing homes (despite efforts at rebalancing)
  • longer disability spells

• LTSS users paying out of pocket are concentrated in:
  • moderate to high income groups
  • home care and especially residential care
  • shorter disability spells

• Other payers play modest roles
Outline

• LTSS under Baseline

• LTSS Financing Options
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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
Milliman’s Modeling Role

- Estimate participation mix and premium levels -> voluntary designs

Diagram:
- Participation
- Morbidity Levels
- Premium Rates

Arrows indicate influences and drives between the components.
Milliman’s 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
## Sample Results – Private Market

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Issue Age</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>40</td>
</tr>
<tr>
<td>Baseline Plan</td>
<td>100%</td>
</tr>
<tr>
<td>Option #5</td>
<td>76%</td>
</tr>
<tr>
<td>Option #6 – Initial</td>
<td>53%</td>
</tr>
<tr>
<td>Option #6 – Age 65 Plus</td>
<td>88%</td>
</tr>
</tbody>
</table>

- **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

<table>
<thead>
<tr>
<th>Premium Ratios Compared to Baseline Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scenario</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Baseline Plan</td>
</tr>
<tr>
<td>Voluntary Front-End</td>
</tr>
<tr>
<td>Voluntary Back-End</td>
</tr>
</tbody>
</table>

- **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
  - Urban paper explores trade-offs further
Outline

- LTSS under Baseline
- LTSS Financing Options
  - Premium development
  - Simulation results
Our Options Share Common Elements

• Cash benefit

• Daily benefit of $100 in 2015
  • increases 3% per year

• Enrollees with severe LTSS needs qualify for benefits
  • requires help with 2+ ADLs, or
  • have severe cognitive impairment

• Benefits may not begin before age 65

• No underwriting
Differences across Insurance Options

- When benefits begin and end
  - front-end: begins after 90 days, lasts 2 years
  - back-end: begins after 2 years, lasts lifetime
  - comprehensive: begins after 90 days, lasts lifetime

- Mandatory vs. voluntary

- Subsidized vs. unsubsidized versions of voluntary options
  - fully subsidize up to 150% of federal poverty level (FPL)
  - partial subsidy up to 200% of FPL
Nine Different Options

• Front-end benefit
  • voluntary, with subsidies
  • voluntary, without subsidies
  • mandatory

• Back-end benefit (catastrophic)
  • voluntary, with subsidies
  • voluntary, without subsidies
  • mandatory

• Comprehensive benefit
  • voluntary, with subsidies
  • voluntary, without subsidies
  • mandatory
Financing

• Payroll tax funds mandatory options
  • uncapped payroll tax levied on employees only
  • need 10 years of work to qualify for benefits
  • mandatory

• Enrollee premiums fund voluntary options
  • general tax revenues fund the subsidies
  • must pay premiums for 5 years to qualify for benefits

• We assume that administrative costs are 50% higher for voluntary programs
Annual Premiums for Unsubsidized Voluntary Programs by Issue Age

Source: DYNASIM3
Payroll Tax Rate for Mandatory Programs

Source: DYNASIM3
Participation Rates
*(Adults Born during 1976-80)*

- Baseline (current law)
- Mandatory programs
- Front-end or back-end voluntary, with subsidy
- Comprehensive benefit voluntary with subsidy
- Front-end or back-end voluntary, no subsidy
- Comprehensive benefit voluntary without subsidy

_Source: DYNASIM3_
Participation Rates by Income
(Adults Born during 1976-80)

- Baseline (current law)
- Mandatory programs
- Front-end or back-end voluntary, with subsidy
- Comprehensive benefit voluntary, with subsidy
- Front-end or back-end voluntary, no subsidy
- Comprehensive benefit voluntary, without subsidy

Source: DYNASIM3
Annual Program Benefits Paid under Each Program, 2070
(billions of constant 2015 dollars)

Source: DYNASIM3
Percentage Decline in Out-of-Pocket and Aged LTSS Medicaid Expenditures Relative to Baseline, 2070

Front-end benefit
- Voluntary with subsidy
- Voluntary without subsidy
- Mandatory

Back-end benefit
- Voluntary with subsidy
- Voluntary without subsidy
- Mandatory

Comprehensive benefit
- Voluntary with subsidy
- Voluntary without subsidy
- Mandatory

Source: DYNASIM3
Share of Program Spending that Would Offset Other Financing Sources or Fund New Services, 2070

Front-end benefit
- Voluntary with subsidy
- Voultary without subsidy
- Mandatory

Back-end benefit
- Voluntary with subsidy
- Vountary without subsidy
- Mandatory

Comprehensive benefit
- Voluntary with subsidy
- Vountary without subsidy
- Mandatory

Source: DYNASIM3
Important Considerations in Program Design

• Understanding the policy objective
• Voluntary vs. mandatory
• Front-end benefit vs. back-end benefit
• Financing approach
• Availability of subsidies
• Phase-in of coverage
• Size of the daily benefit