



Financing Options for Long-Term Services and Supports

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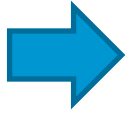
Is There a Better Way to Finance LTSS?

- Americans face a significant risk of needing LTSS
- For those who require LTSS, needs may endure for a long time
 - two main payers: families and Medicaid
 - 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

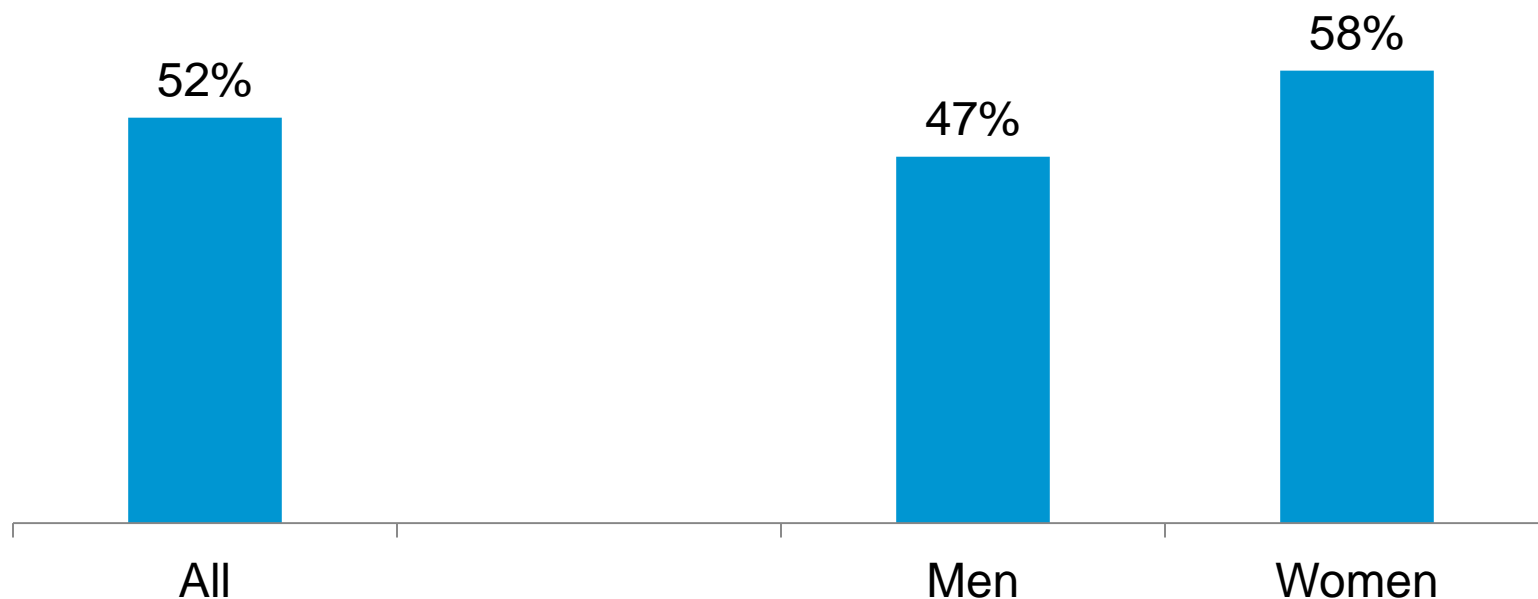
Outline



- 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)

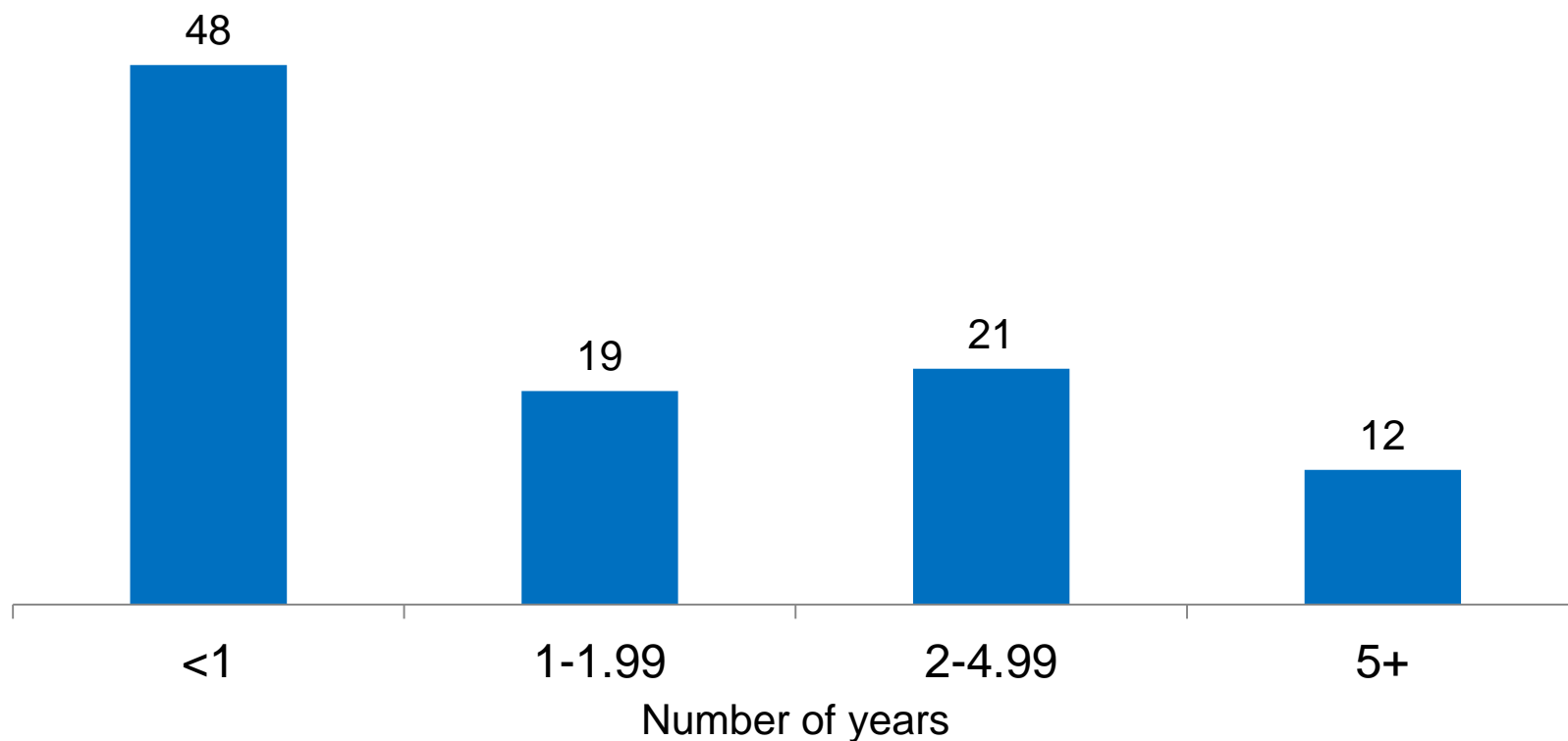
Share of adults with severe LTSS needs after age 65



Source: DYNASIM3

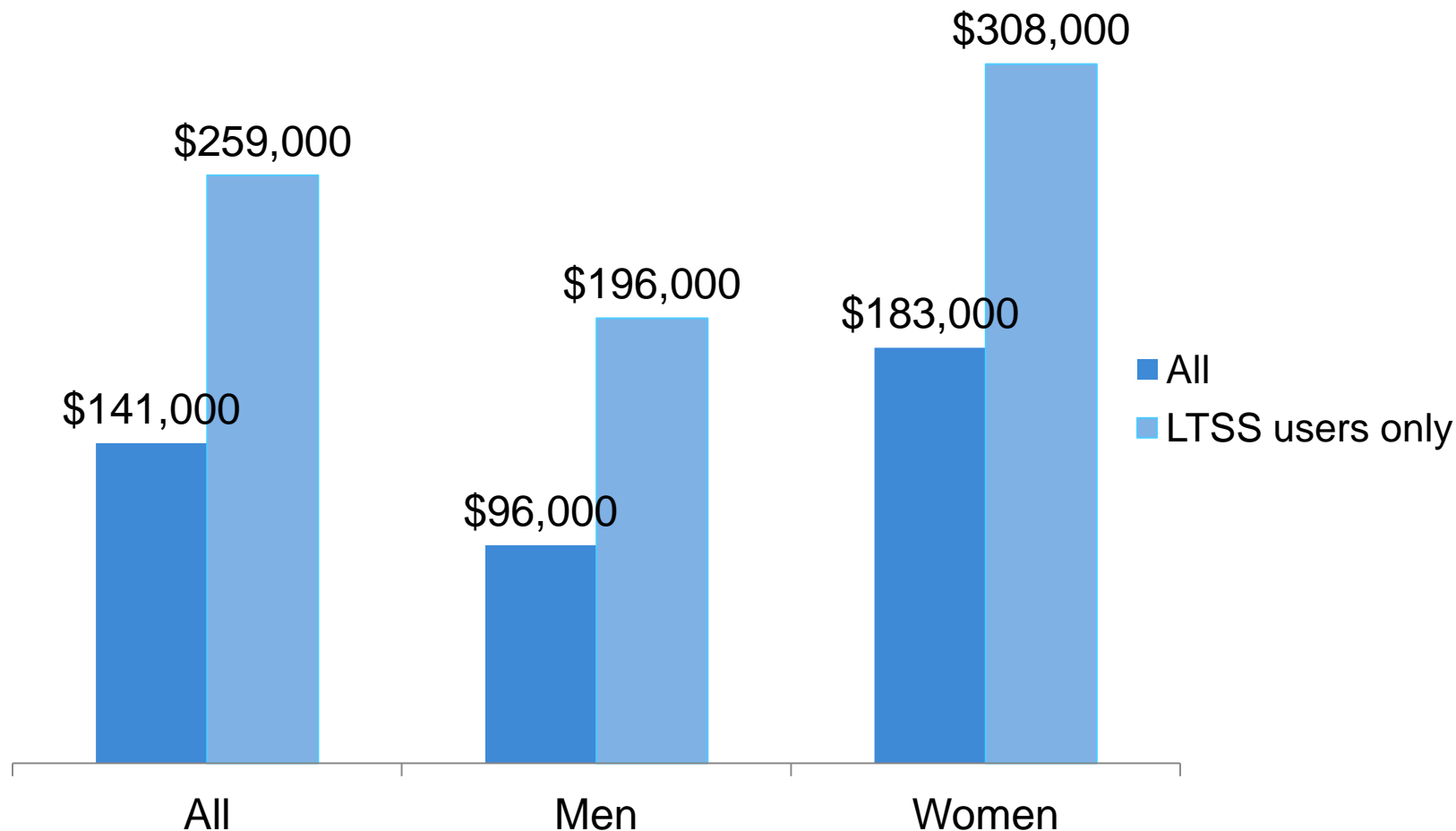
Most Older Adults Need High Levels of LTSS for Only a Short Time, But Some Spells Are Lengthy

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



Source: DYNASIM3

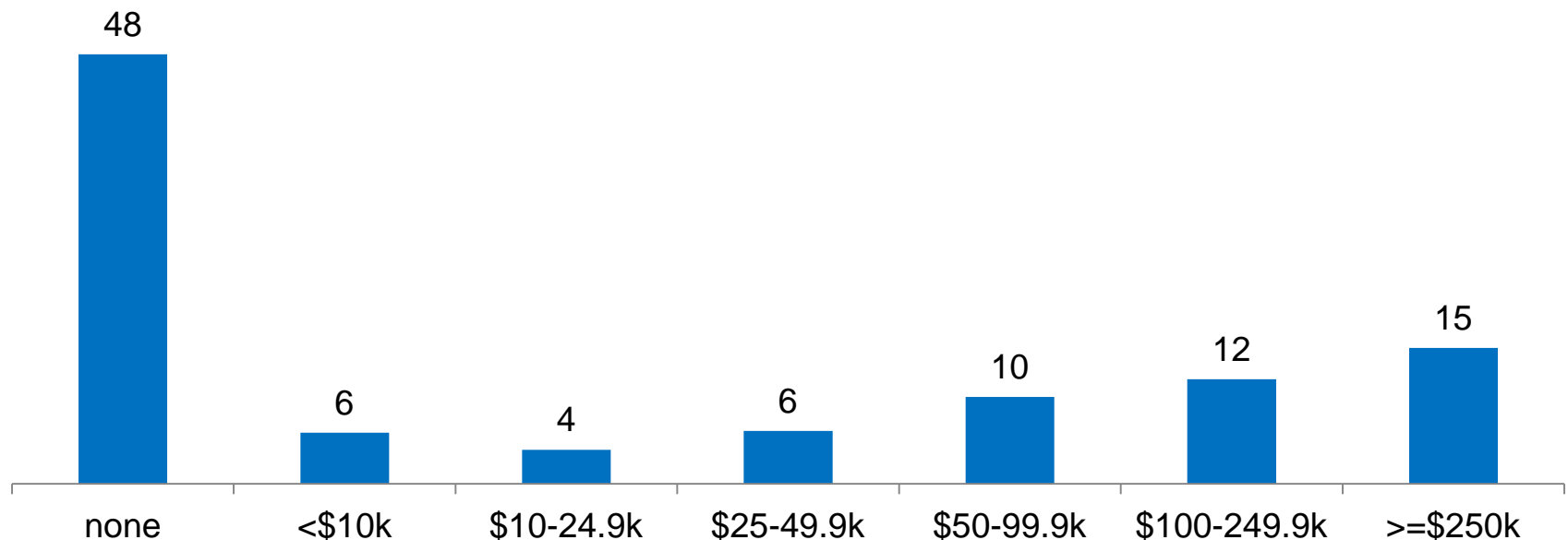
Expected Cost of Paid LTSS (\$2015) after Age 65 (Severe LTSS Needs)



Source: DYNASIM3

Lifetime Costs Vary Widely

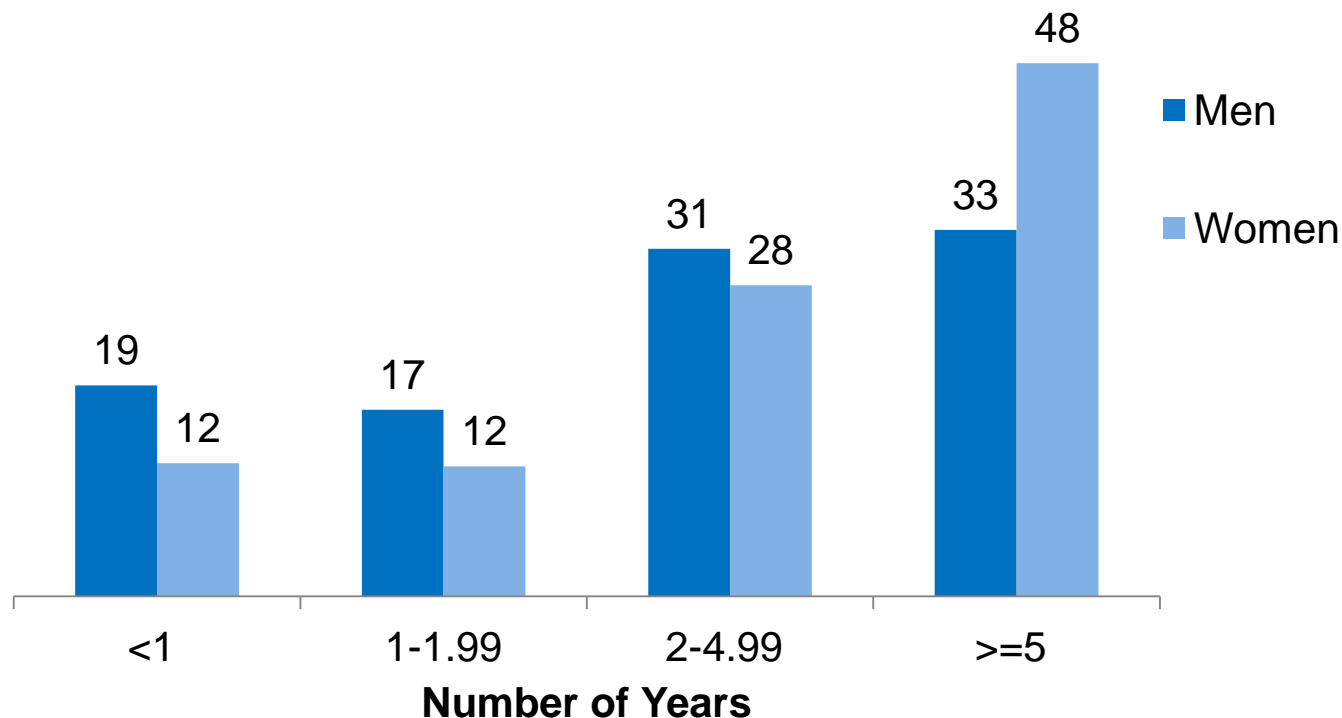
Distribution of paid LTSS costs (\$2015) after age 65 (%)



Source: DYNASIM3

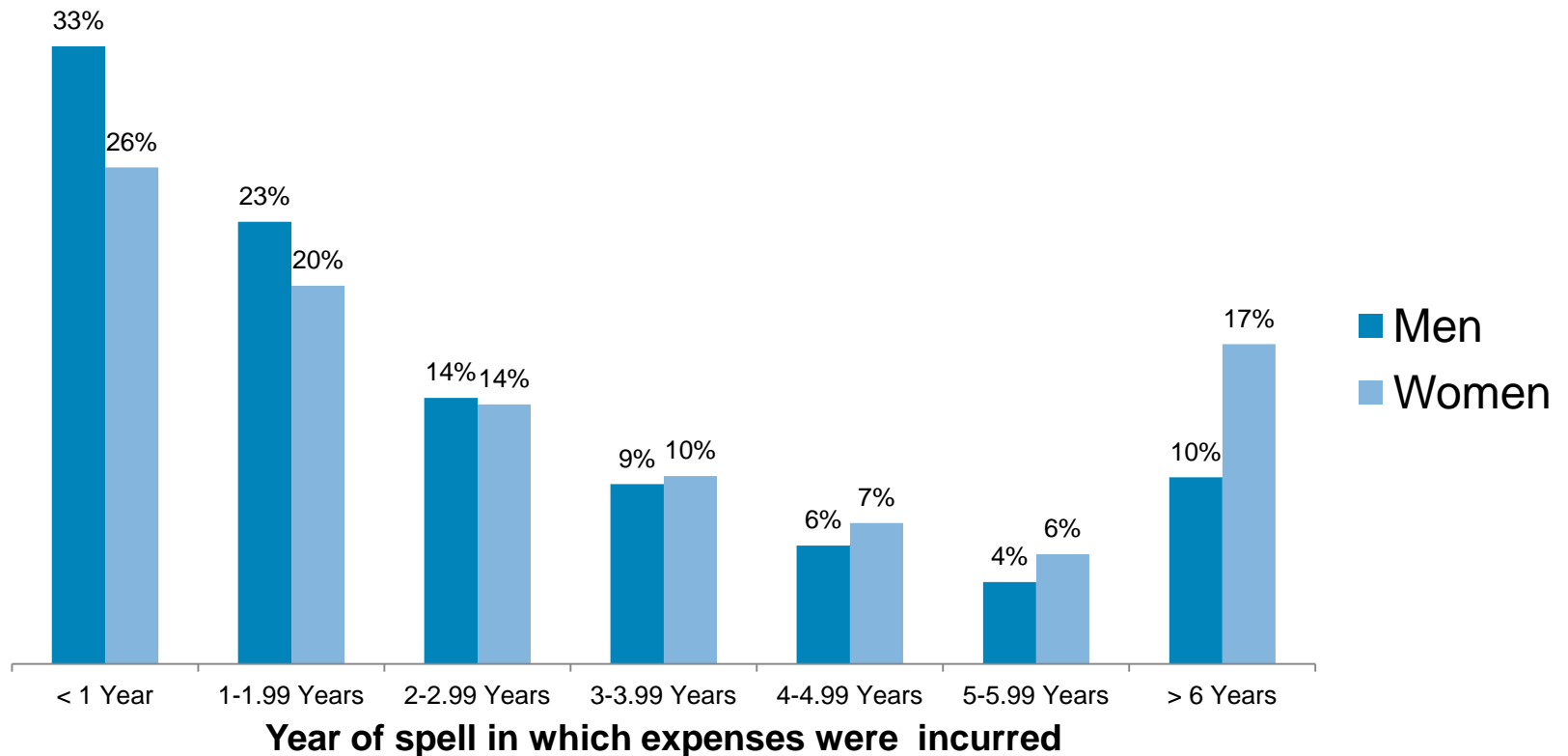
Those disabled for a long time account for a large share of total formal LTSS expenditures

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



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



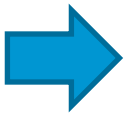
Source: DYNASIM3

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

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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

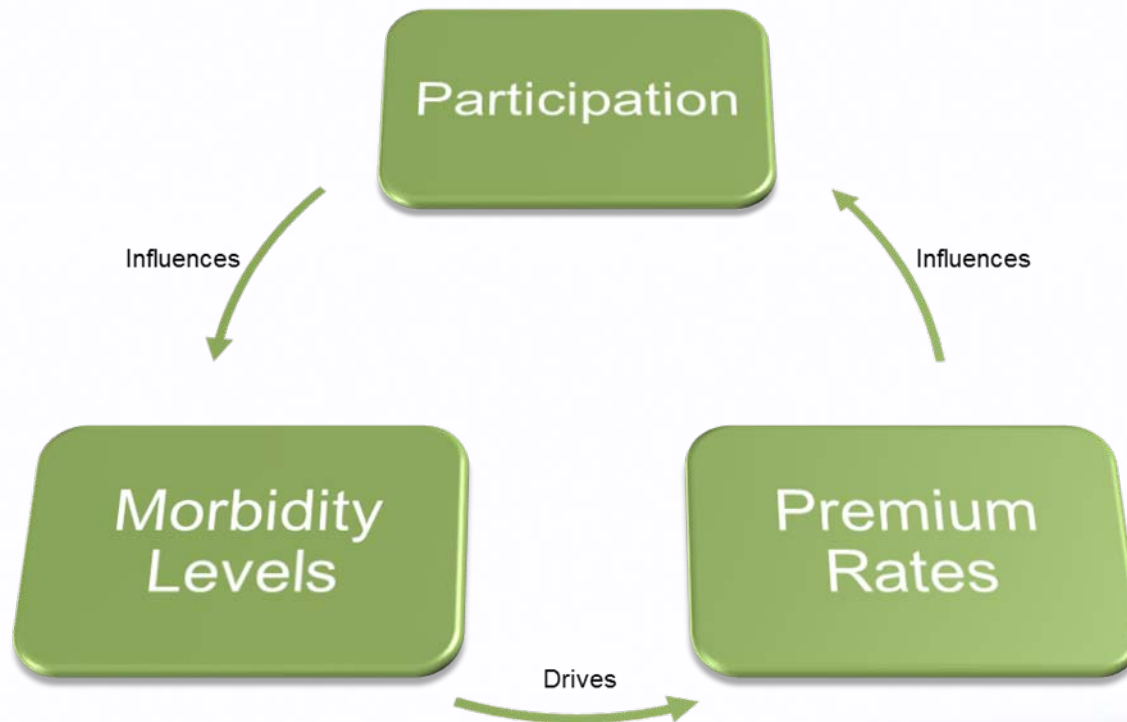
- Voluntary or mandatory
- Public, private, or hybrid
- Prefunded or pay-as-you-go
- Financing source
 - Premiums
 - Taxes
 - Both
- Low-income subsidies

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



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

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
 - Urban paper explores trade-offs further

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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

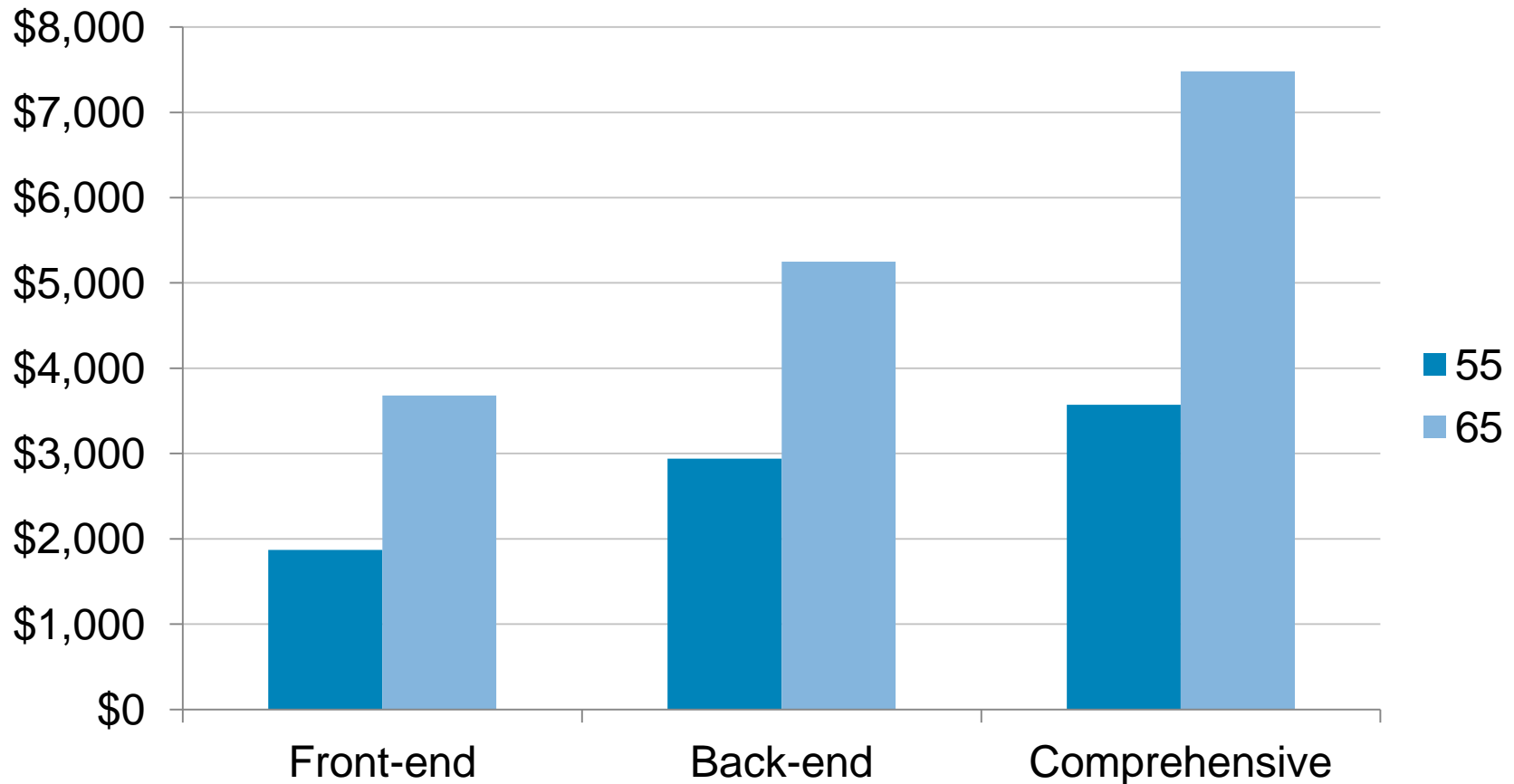
Nine Different Options

- 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

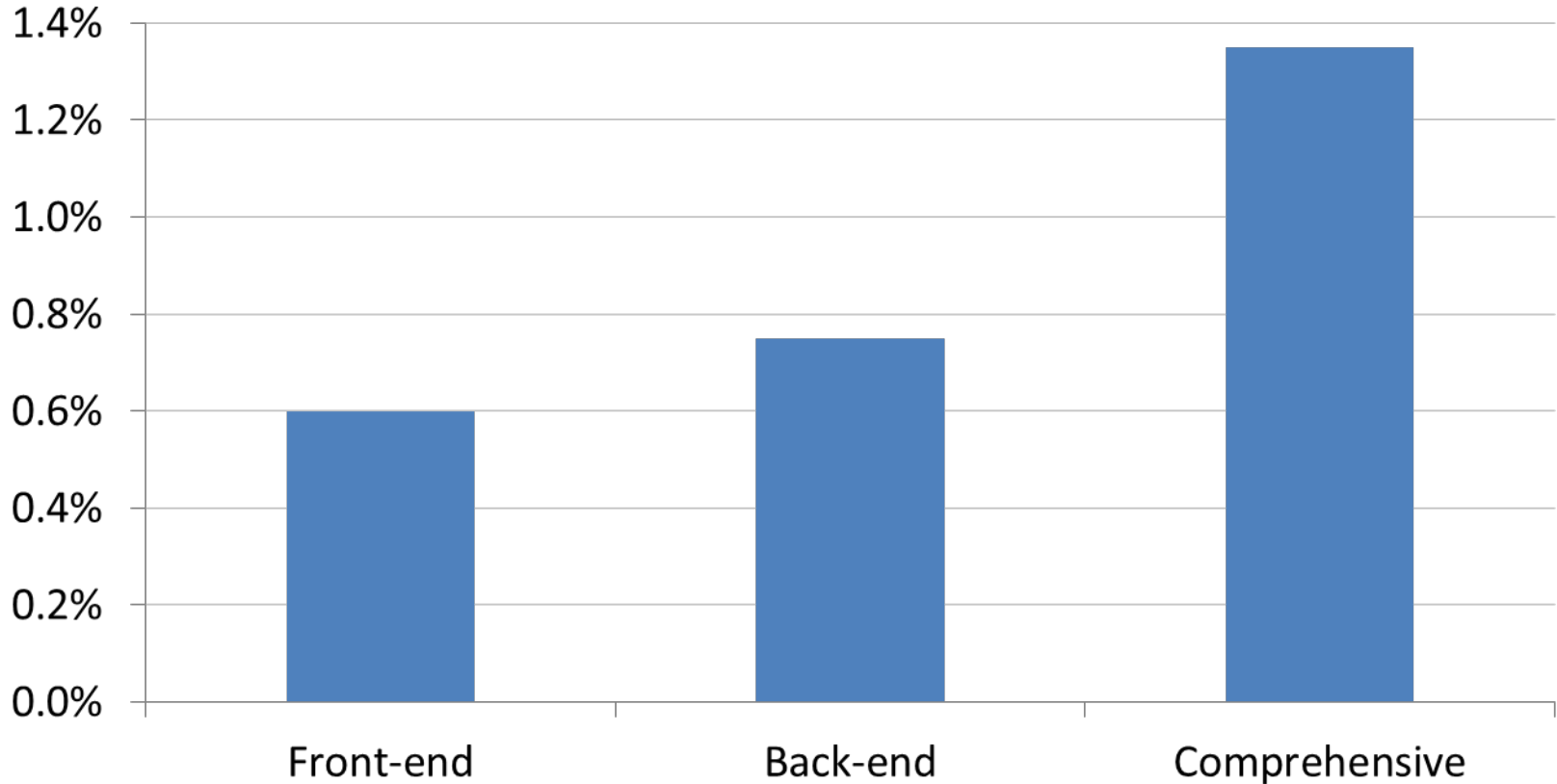
- Payroll tax funds mandatory options
 - uncapped payroll tax levied on employees only
 - need 10 years of work to qualify for benefits
 - mandatory
- Enrollee premiums fund voluntary options
 - general tax revenues fund the subsidies
 - must pay premiums for 5 years to qualify for benefits
- We assume that administrative costs are 50% higher for voluntary programs

Annual Premiums for Unsubsidized Voluntary Programs by Issue Age



Source: DYNASIM3

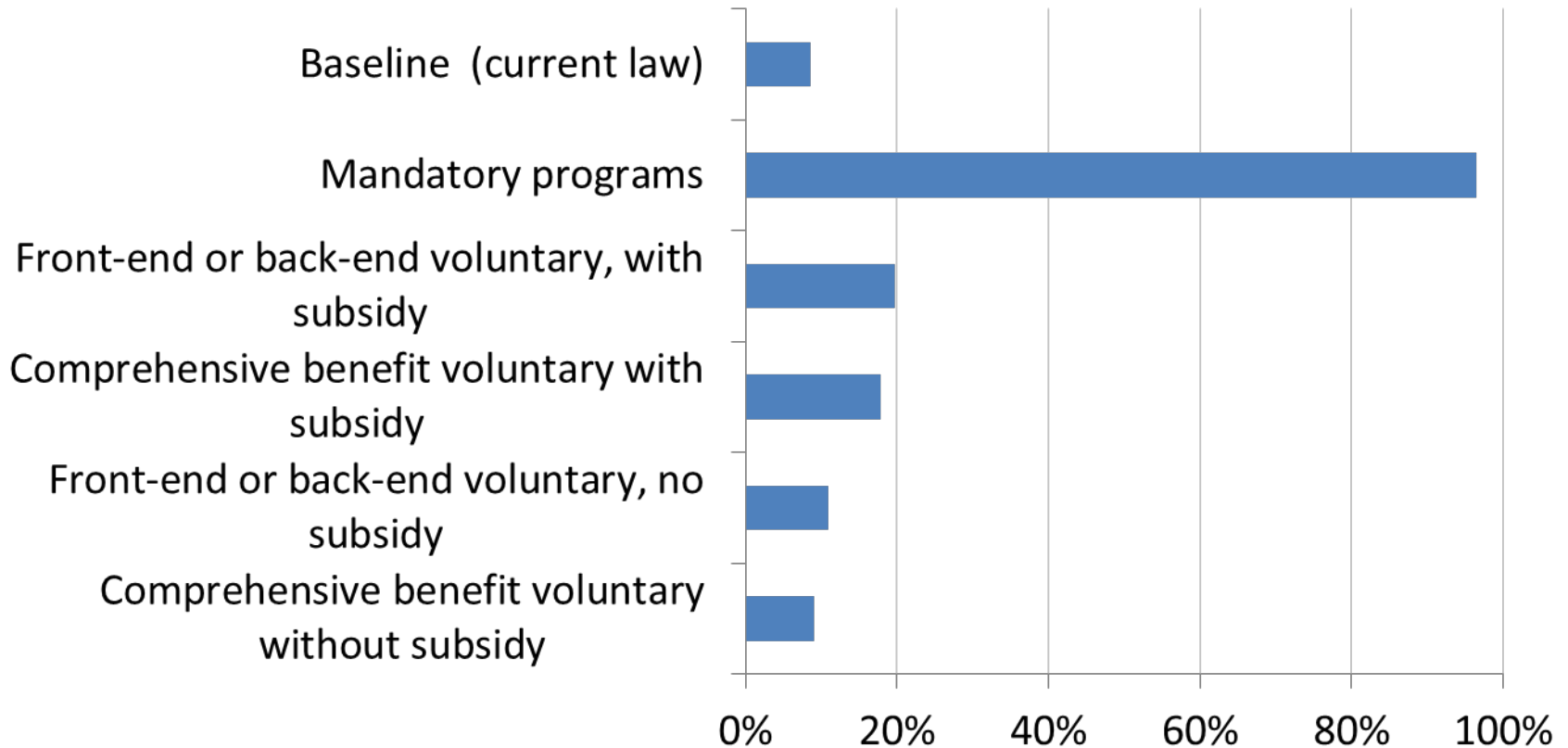
Payroll Tax Rate for Mandatory Programs



Source: DYNASIM3

Participation Rates

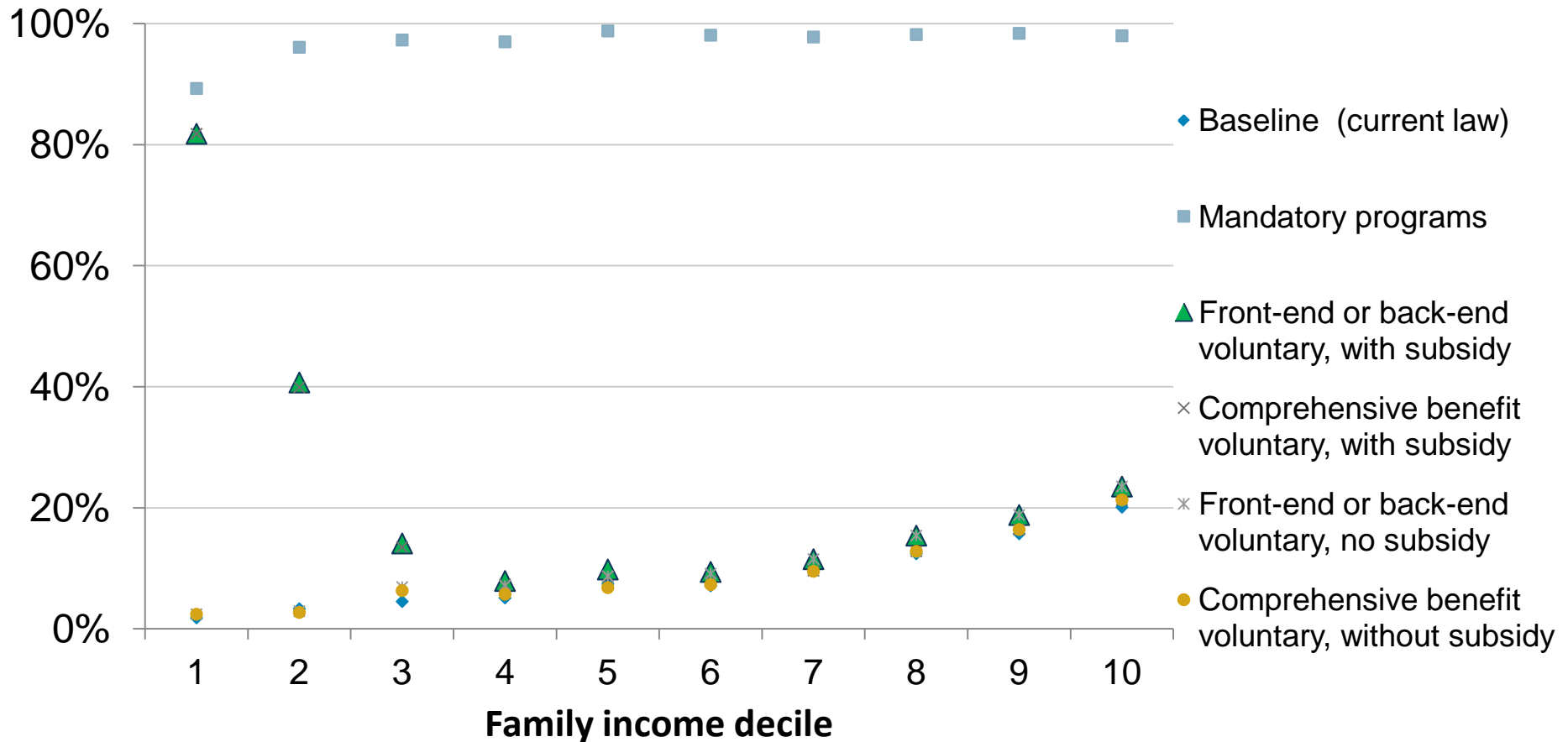
(Adults Born during 1976-80)



Source: DYNASIM3

Participation Rates by Income

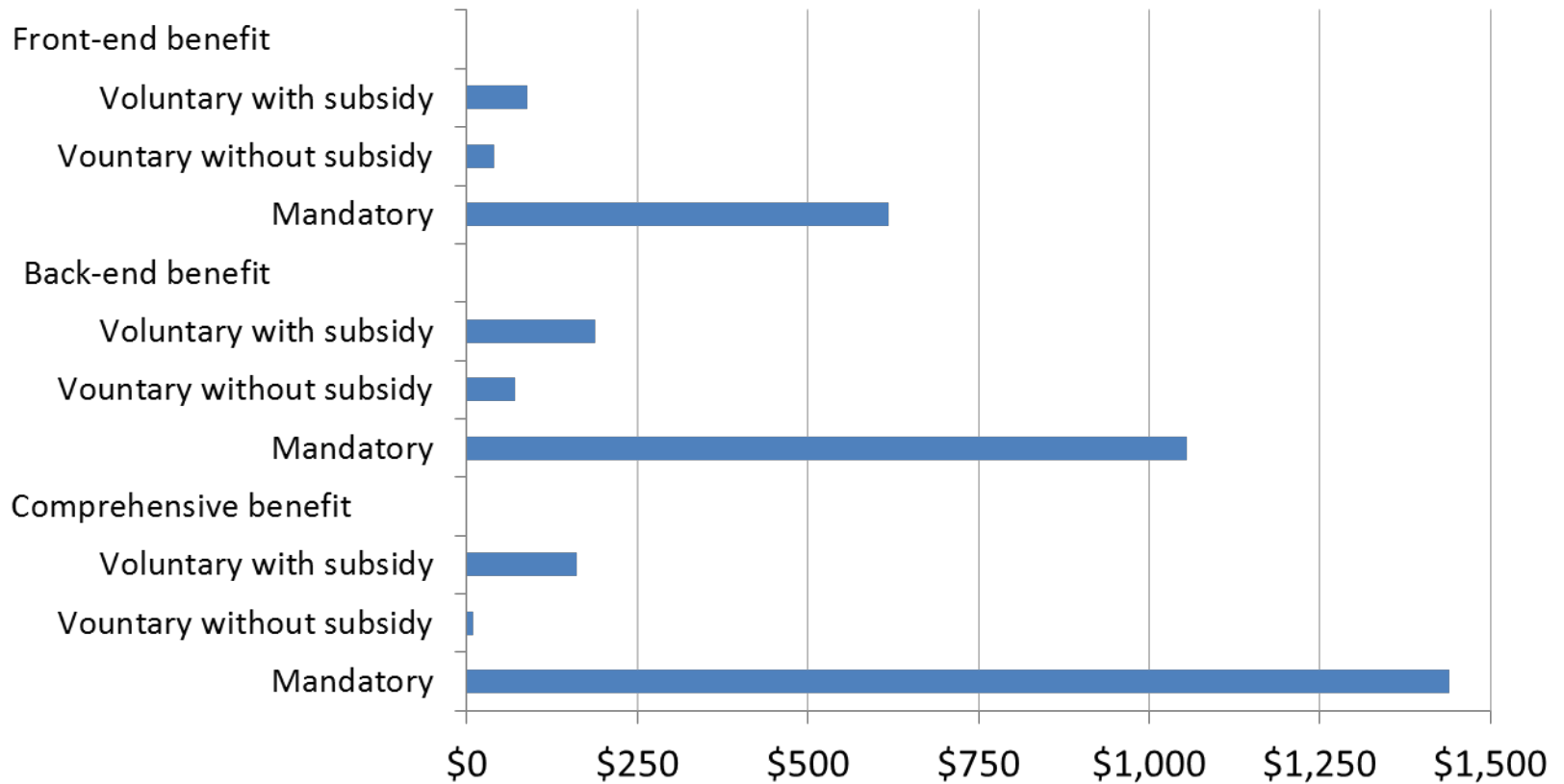
(Adults Born during 1976-80)



Source: DYNASIM3

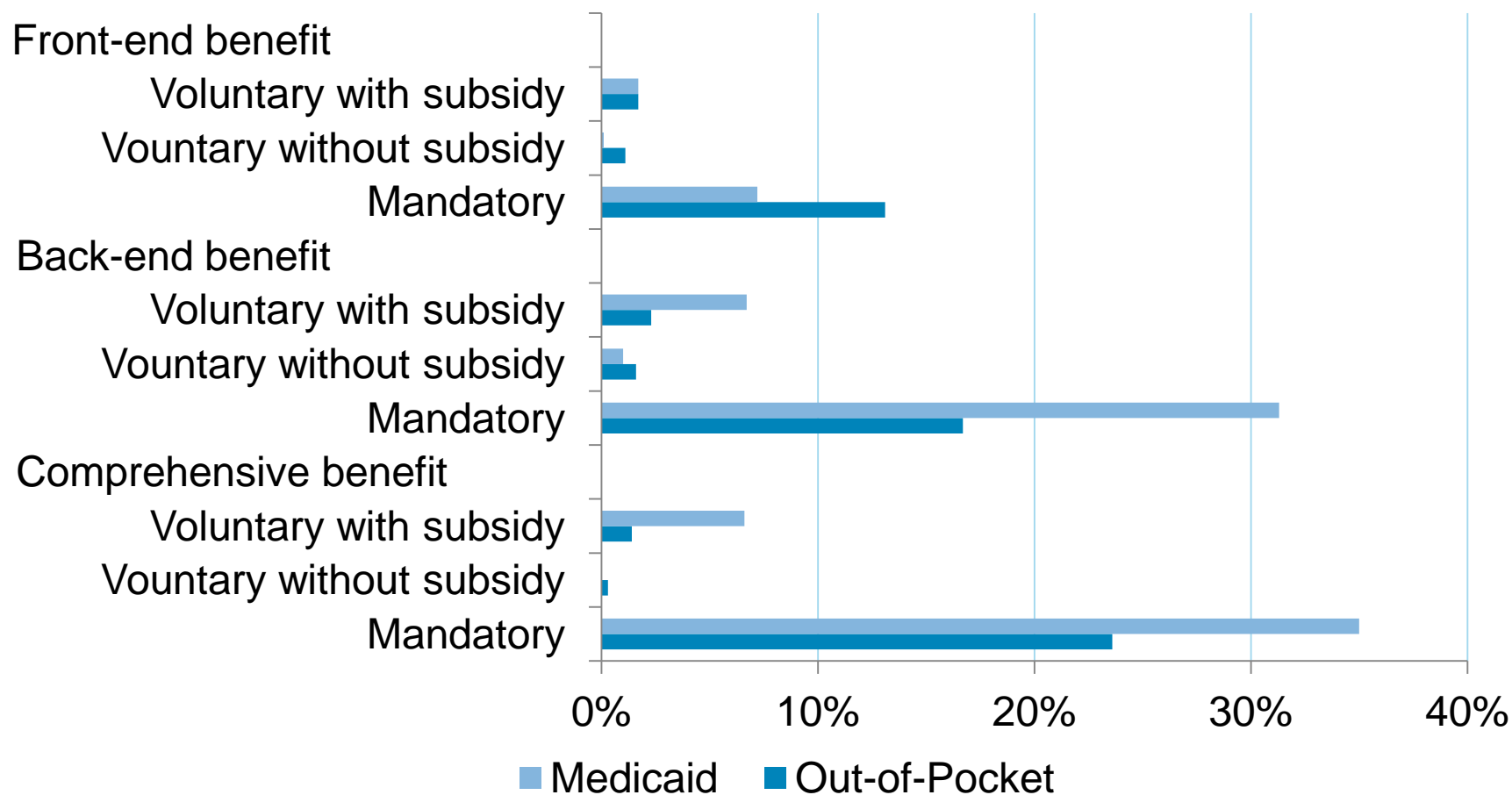
Annual Program Benefits Paid under Each Program, 2070

(billions of constant 2015 dollars)



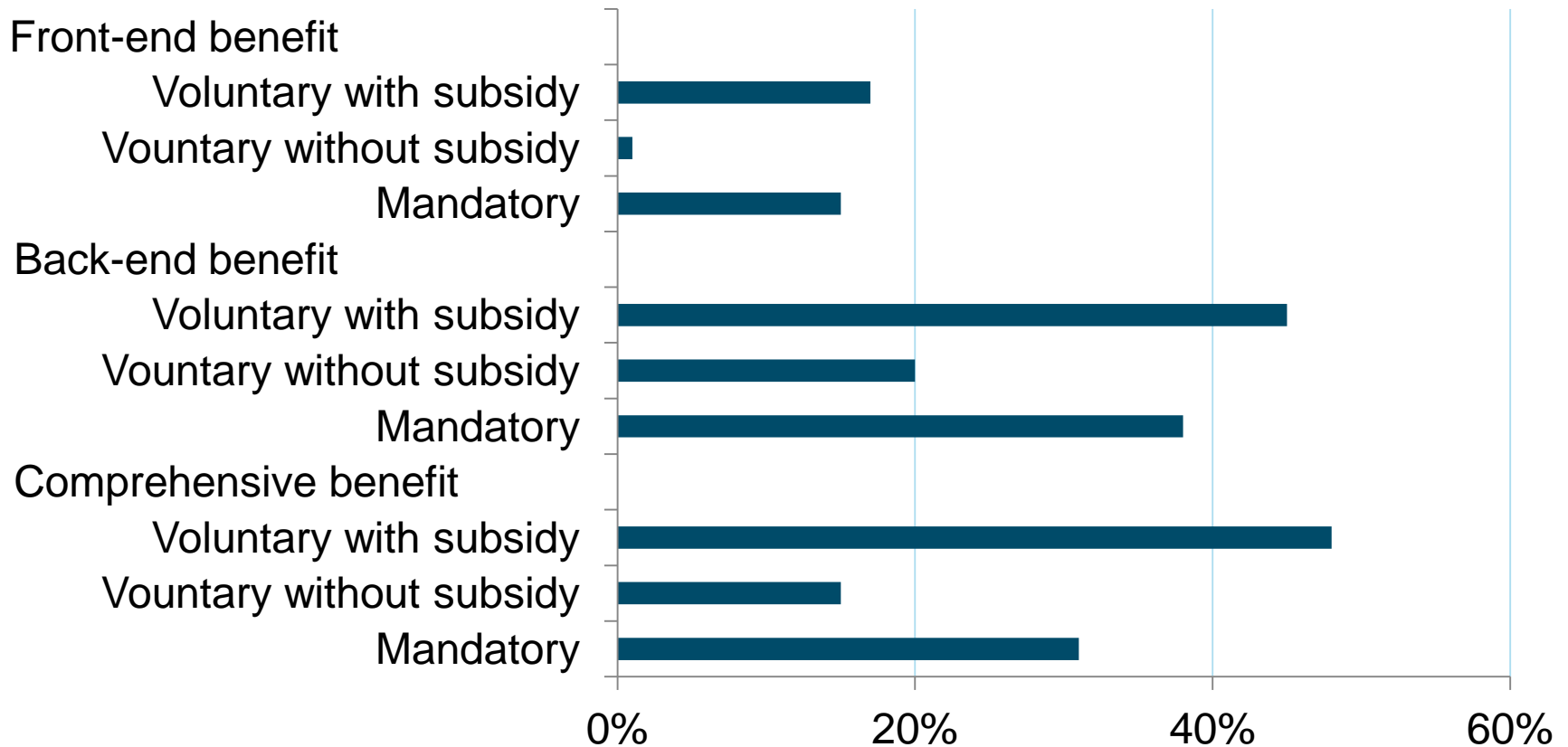
Source: DYNASIM3

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



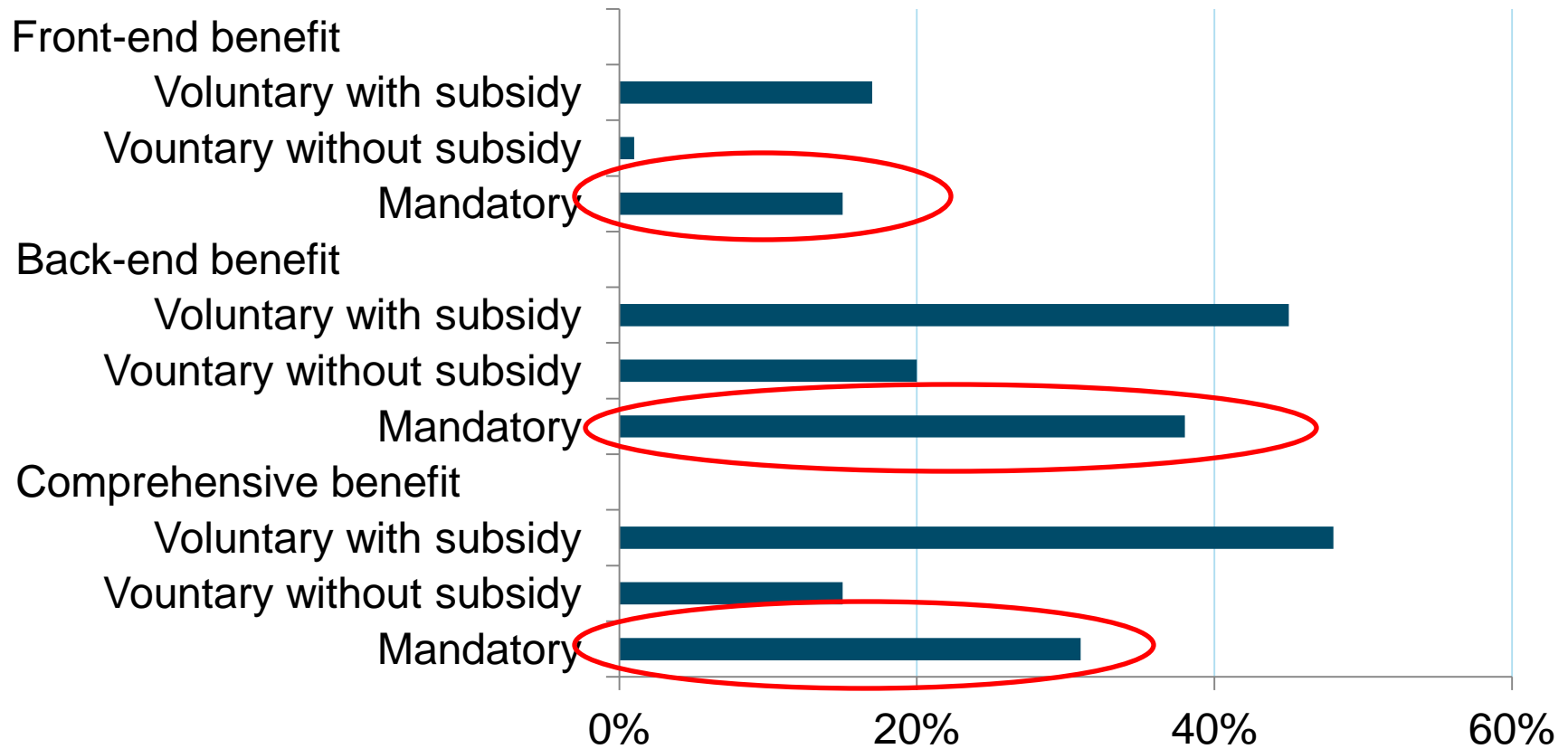
Source: DYNASIM3

Share of Program Spending that Would Offset Medicaid Spending, 2070



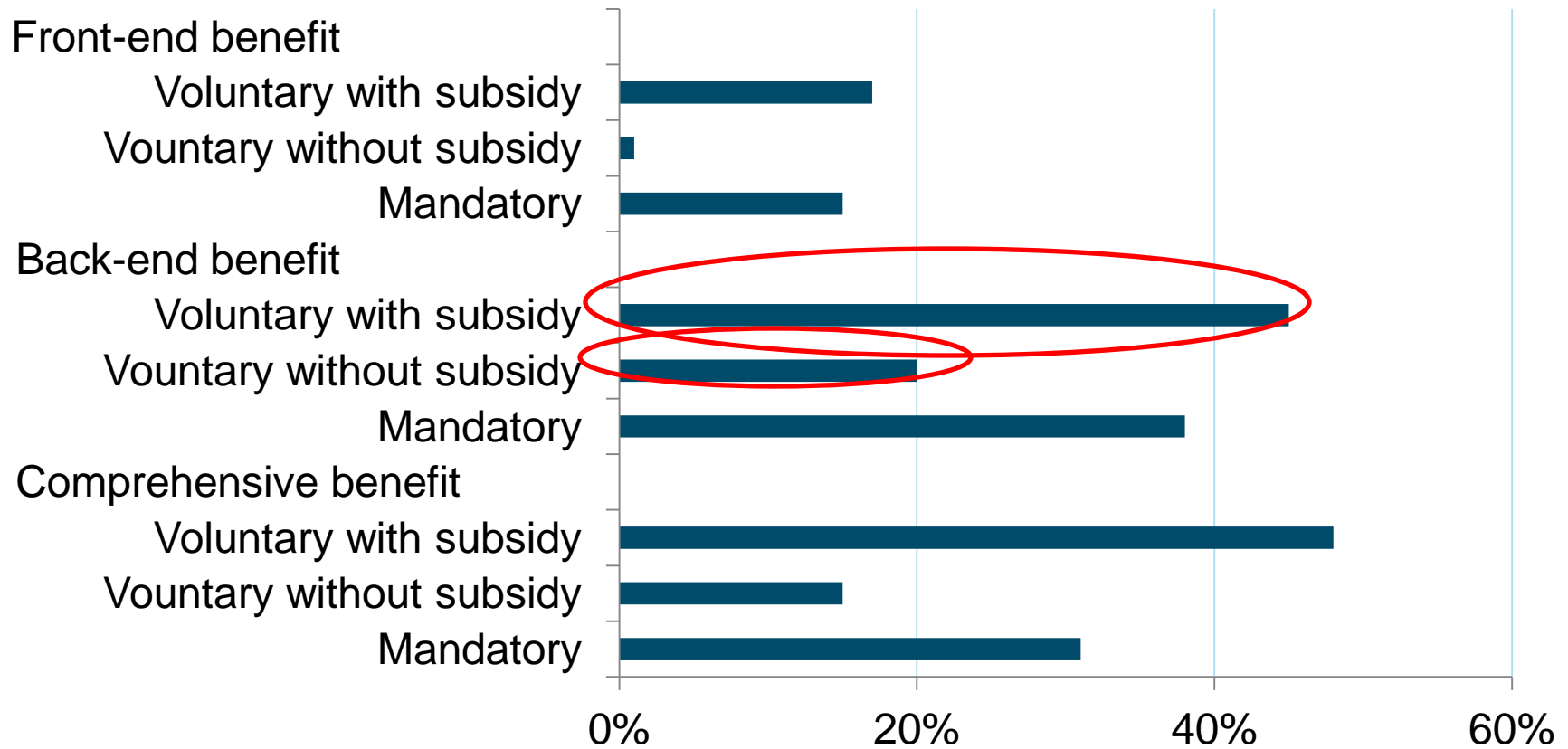
Source: DYNASIM3

Share of Program Spending that Would Offset Medicaid Spending, 2070



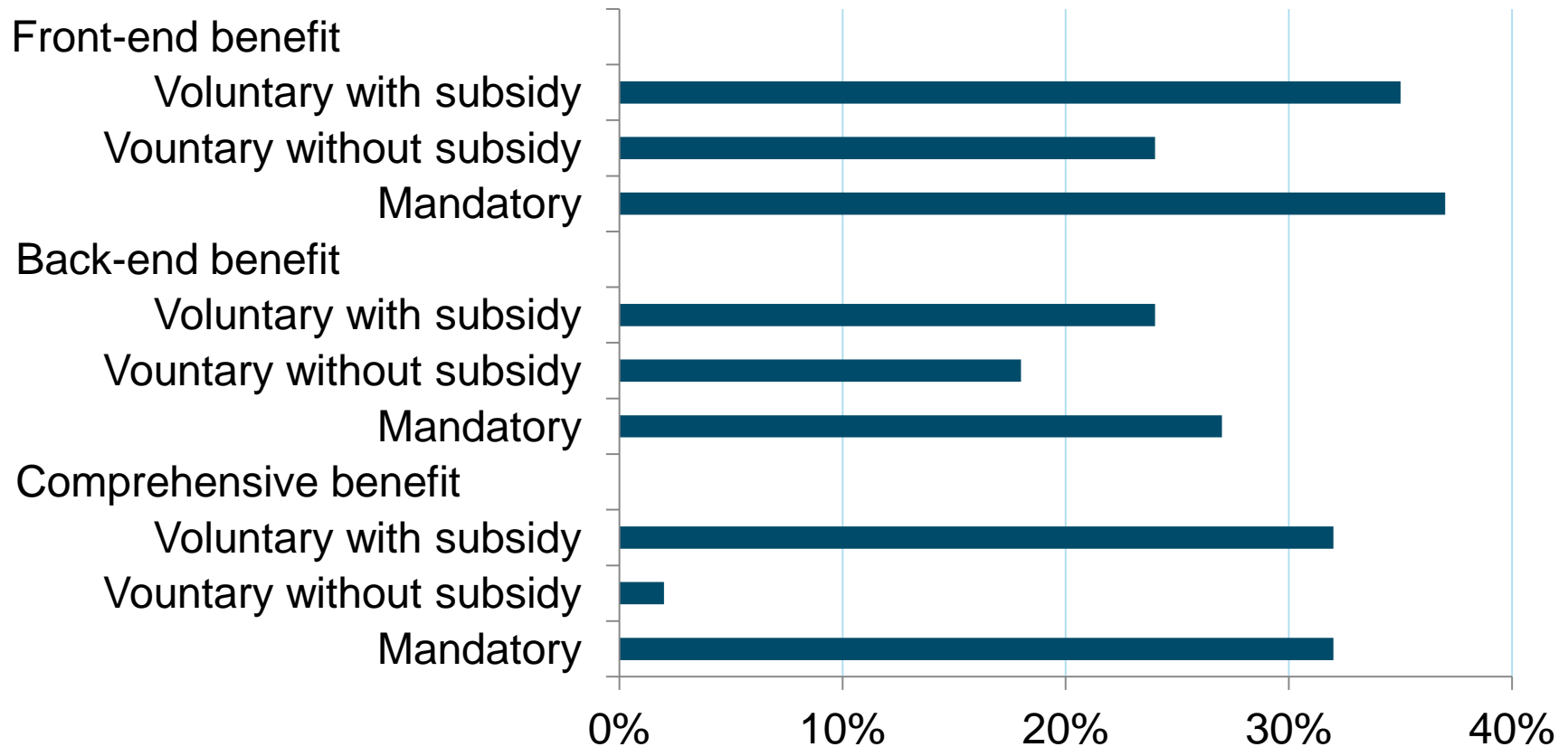
Source: DYNASIM3

Share of Program Spending that Would Offset Medicaid Spending, 2070



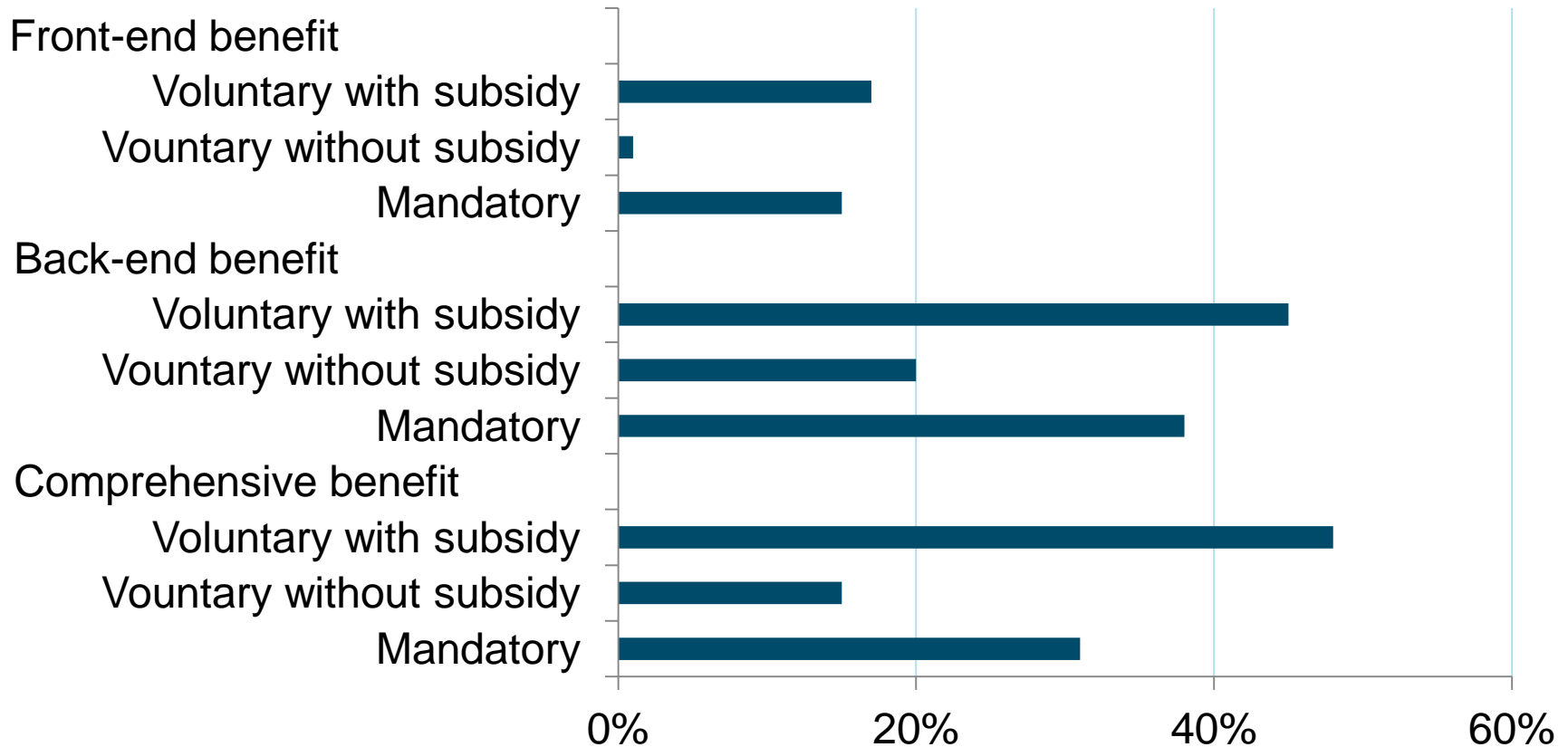
Source: DYNASIM3

Share of Program Spending that Would Offset Family Out-of-Pocket Spending, 2070



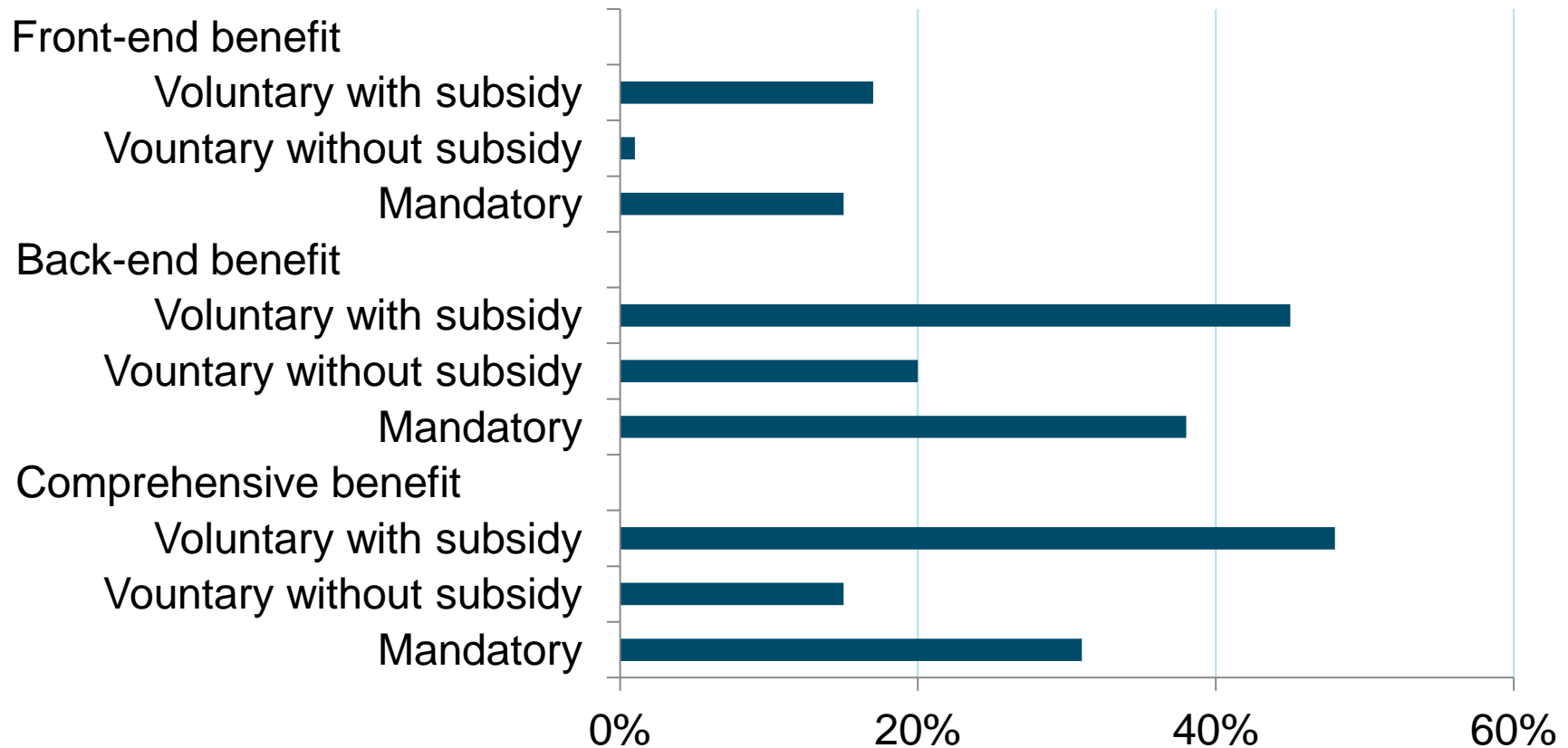
Source: DYNASIM3

Share of Program Spending that Would Offset Spending by Private Long-Term Care Insurance , 2070



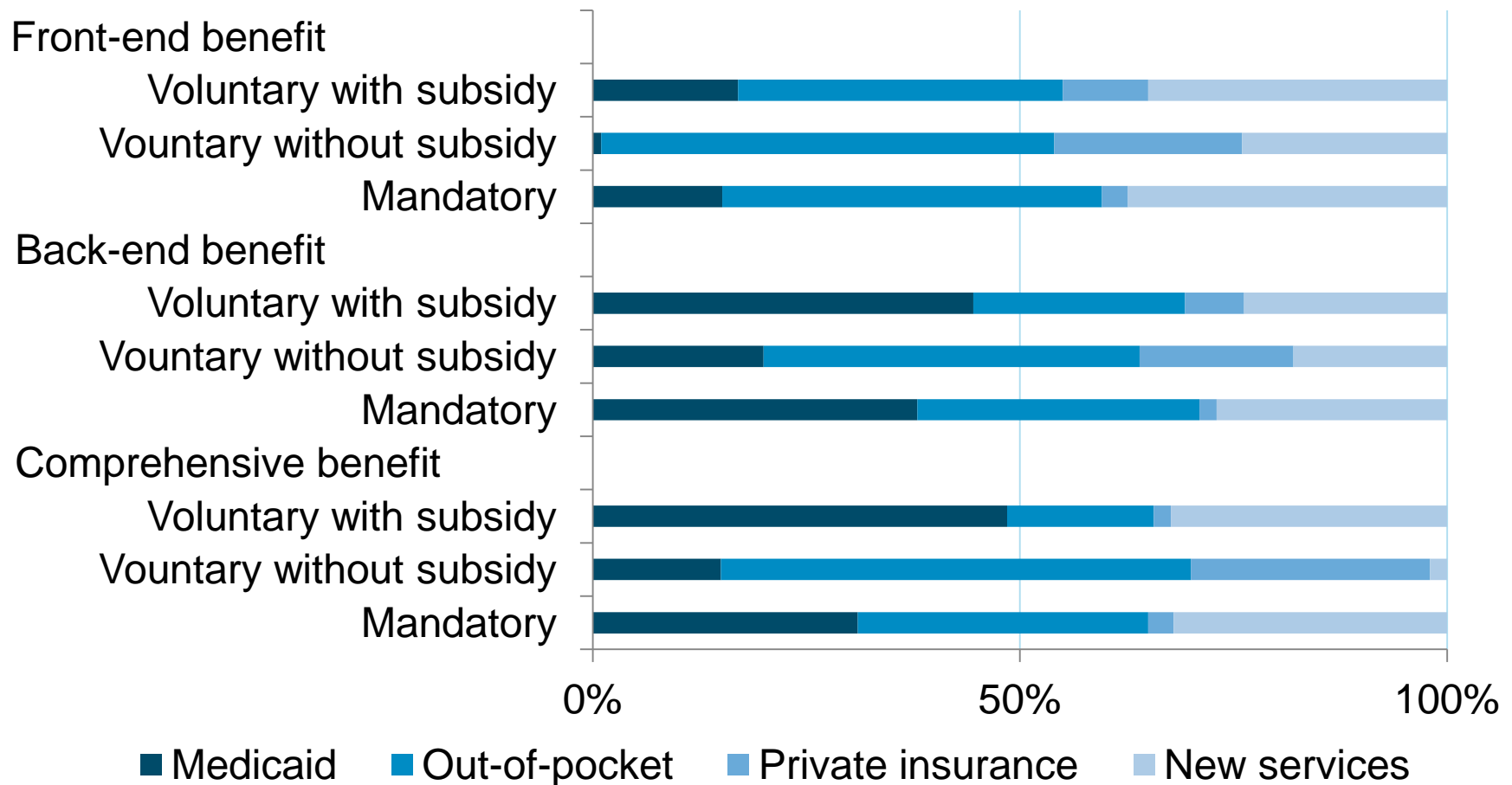
Source: DYNASIM3

Share of Program Spending that Would Fund New Services or Relieve Family Caregivers, 2070



Source: DYNASIM3

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



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

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