Adopting Catastrophic Public Insurance for LTSS: Will the US Follow Australia and England?

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Background

- The US lacks universal coverage for LTSS expenses
- Public coverage available only through the safety-net Medicaid program
  - **Relatively small percentage (<10%) enrolled in private insurance plans for LTSS)**
- No consensus on what the exact parameters of a public program might look like, BUT
  - **Must be consistent with US values – "Anglo-liberal welfare regime"**
  - **Must leave room for private insurance**
- Ongoing debate on models – specifically "front-end" (aka "first-dollar") coverage vs "back-end" or "catastrophic" coverage

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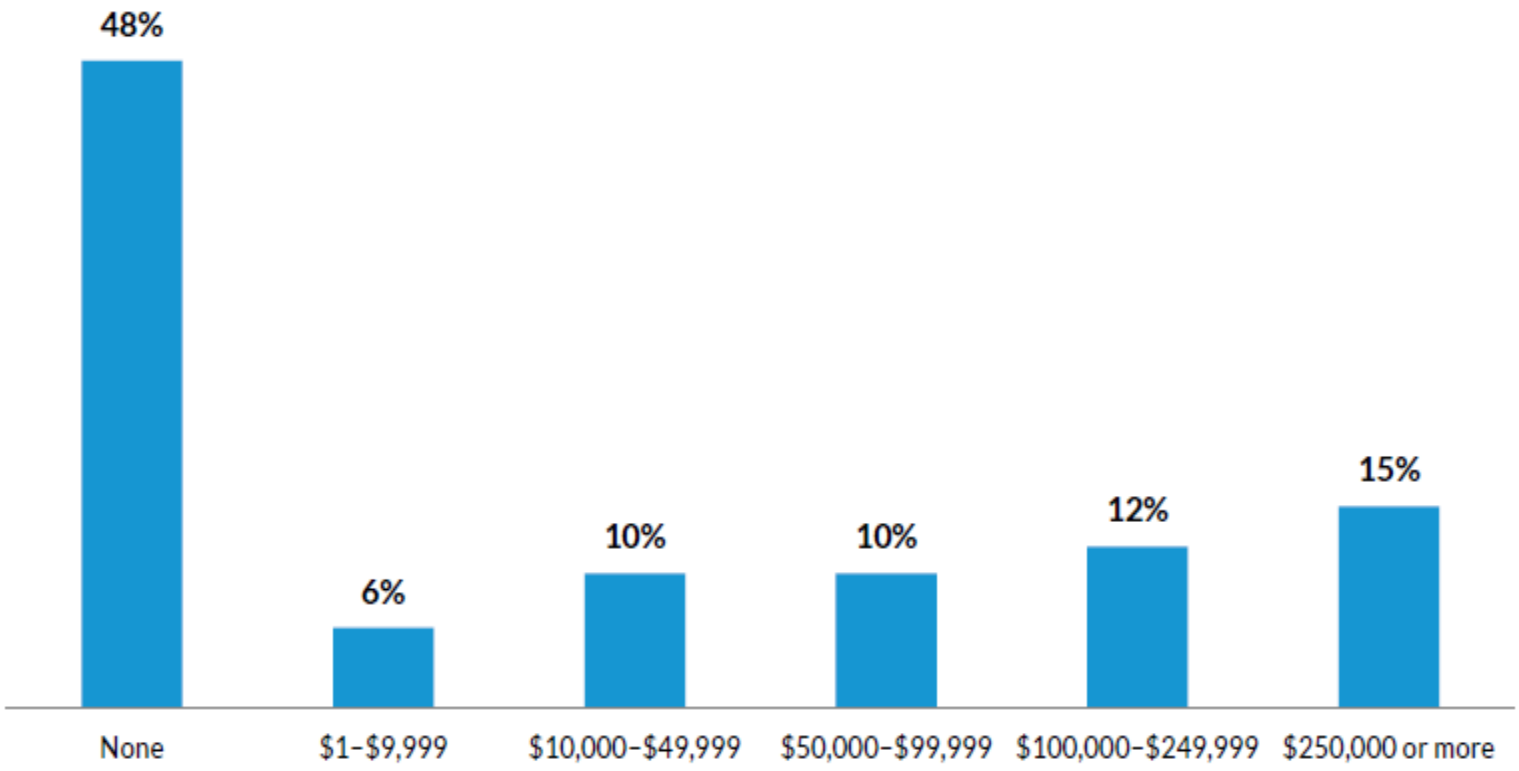
The Long Tail of LTSS Expenditures



Source: Favreault and Dey (2015).

Note: The figure shows the distribution of the sum of future expenditures, without adjusting for when costs are incurred. Expenditures do not sum to 100 percent because of rounding.

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However, Significant Variation Across Income Quintiles

Mean and Distribution of Sum ($2015) of Lifetime Family Out-of-Pocket LTSS Expenditures Projected for Individuals Turning Age 65 in 2015-2019, by Income Quintiles

Payer	Distribution of Sum ($2015) of Out-of-Pocket LTSS Expenditures (% of people)											
	Average Expend. ($)	Percent of People with Expend.	0	<$10,000	$10,000-$24,999	$25,000-$49,999	$50,000-$74,999	$75,000-$99,999	$100,000-$149,999	$150,000-$199,999	$200,000-$249,999	>$250,000
Lowest	45,000	28.9	71.1	4.6	3.7	4.5	2.6	2.4	2.8	2.2	0.9	5.2
Second	57,000	35.6	64.4	4.1	4.6	4.4	3.9	3.9	3.8	2.4	1.8	6.8
Middle	69,000	40.4	59.6	5.8	5.4	4.9	3.7	4.1	4.0	3.1	2.3	7.3
Fourth	85,000	39.0	61.0	3.3	3.3	4.8	4.2	3.3	5.2	2.4	2.3	10.2
Highest	97,000	41.1	58.9	6.0	3.6	3.4	4.2	2.7	4.9	2.3	2.5	11.7
Total	**73,000**	**37.3**	**62.7**	**4.7**	**4.0**	**4.3**	**3.8**	**3.2**	**4.2**	**2.4**	**2.0**	**8.6**

Source: Favreault & Dey, (February 2015). Long-term Services and Supports for Older Americans: Risks and Financing Research Brief. Washington, DC: ASPE

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What Are the Goals?

- Offering an appropriate distribution of benefits
  - **To justify public expenditures/tax increases, the public must perceive that (enough/the right) people benefit**
- Protecting against impoverishment
  - **Saving public money by preventing spend-down to Medicaid**
- Protecting family caregivers
- Encouraging personal responsibility
  - **Including encouraging a market for private LTCI**

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Recent Revival of Interest in Catastrophic Coverage in the US

- Bipartisan Policy Commission report
- Society of Actuaries (Land This Plane)
- Urban Institute Simulations
- LTC Financing Collaborative
- ASPE-commissioned projections from Feder & Cohen
  - **Researchers putting forward series of proposals on catastrophic program designs, improved first-dollar coverage approaches, and new models that build on Medigap coverage**

- The catastrophic design has been in the policy mix for some time but few serious proposals

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Urban Simulations

- Modeled a variety of financing options
  - **Front-end -- 90-day waiting period/2 yrs of coverage**
  - **Back-end (catastrophic) – full coverage after 2 yrs**
  - **Comprehensive -- 90-day waiting period/lifetime coverage**
  - **Mandatory vs voluntary**
  - **For the voluntary option, looked at both subsidized and unsubsidized purchases**
- Assessment criteria: impact on out of pocket spending, savings to the Medicaid program, new service benefits, and distributional impacts (i.e. progressivity)
- Unsurprisingly, voluntary programs met fewest objectives due to low participation rates
- Front-end did best re out of pocket savings
- Back-end did best re Medicaid savings and progressivity

Source: Favreault, Melissa M., Howard Gleckman, and Richard W. Johnson. 2015. "Financing Long-Term Services and Supports: Options Reflect Trade- Offs for Older Americans and Federal Spending." *Health Affairs* 34(12):2181–91.

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Feder & Cohen Model

- Eligibility timeline triggered upon functional qualification, not receipt of services
- Cap applies after a period of time, rather than on hitting an expenditure cap
- Eligibility is income-related, based on income decile:
  - **Lowest deciles continue to be eligible for Medicaid**
  - **3-4th decile, 1 yr waiting period**
  - **5-7th decile, 2 yr waiting period**
  - **8-10th decile, 3 yr waiting period**
- Financed via Medicare surcharge (exact amount to be decided)
- Cash benefit
- Benefit will be pegged to cost of home care -- $110 per diem
- Host of difficult transition issues

Source: Cohen, personal communication Aug 15, 2016

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Australian Model: Context

- Operates a means-tested universal LTSS program funded out of general revenue
- High levels of government support: government pays for 76% of total LTSS spending in 2011-12
- High home ownership: 76% of 75+ own their homes outright
- A primary goal of the reforms was to address access issues created by over-regulation of the service sector
  - **Price controls have limited private sector investment into the service infrastructure as well as innovation in service delivery**
  - **Big imbalance in supply and demand**

Source: Hugo, The Demographic Facts of Ageing in Australia

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Australian Model

Table 2 Post-reform fee structure summary

Fee	Residential care (no high-low distinction as before)	Residential respite	Home care packages
Basic daily fee	Up to a maximum, set just below full Age Pension	Up to a maximum, set just below full Age Pension	Up to a maximum, set well below full Age Pension
Care fee	Based on new means test (asset & income) with a disregarded amount then tapers up to caps	n/a	New income test with a disregarded amount then taper up to caps
Accommodation fee	Based on means test and choice of facility, payable by new Daily Accommodation Payment (DAP), or Refundable Accommodation Deposit (RAD)	n/a	n/a
Extra service charge	Paid if entering place with above standard quality (regulated maximum)	Paid if entering place with above standard quality (regulated maximum)	n/a
Additional amenity fee	Pre-agreed between provider and resident. Per amenity (e.g., newspaper / hairdressing)	Pre-agreed between provider and resident. Per amenity (e.g., newspaper / hairdressing)	n/a

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Stated Principles of Reform

- Accommodation and everyday living expenses should be the responsibility of individuals, with a safety net for those of limited means
- Health-related services should attract a universal subsidy, consistent with Australia's public health care funding policies
- Individuals should contribute to the cost of their personal care according to their capacity to pay, but should not be exposed to catastrophic costs of care
  - **Discussions routinely mention the need to develop a private LTCI market**
  - **They note that insurance is more viable with stop-loss provisions such as the cap**

- **Rationale:** Accommodation needs are predictable, while care needs are not

Source: Caring for Older Australians: Productivity Commission Draft Report, 2011

How the Cap Fits into Overall Fees

- Everyone must pay the basic daily fee – set at 85% of the state Pension, currently $47.86 (€32) per day
- Any service use triggers eligibility for cap
- Lifetime cap is **$62,256** (€42,200) – amount is indexed
- Cap is calculated on care fee only – which is means-tested up a to max of $211.40 (€140) per day
- An annual cap applies –
  - **$5,187.97 (€3500) per year for part pensioners (low-income individuals – $25-50K)**
  - **$10,375.96 (€7000) per year for self-funded retirees (those receiving no public income support – $50K+)**
- Cap does not apply to the cost of services over the minimum/higher quality facilities

Source: http://www.myagedcare.gov.au/financial-and-legal/home-care-package-income-tested-care-fee

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The Cap Does Not Apply to Accommodation Costs in Residential Care

- Government policies encourage people to draw on the value of their homes for both the costs of care and accommodation
- Thus, protections other than the cap apply to assets, esp homes:
  - **Residents must be left with at least $46,500 (€31,500) in assets**
  - **Protections for spouses, carers, and qualifying individuals also apply**

Bottom line: because the financing strategy focuses on assets, and because care expenses are only one part of the overall cost of care, the cap on care expenses is a minor part of the picture

Government did extract a trade-off: abolished daily cap on OOP contribution to home care in exchange for annual cap

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English Model: Context

- Operates an increasingly stingy means-tested program funded out of general revenue but falling largely on local authority budgets
  - **Some universal benefits: attendance allowance**
- High home ownership: 71% of 65+ owned their homes outright (2013)
- Moderate government support: government covers about half of all social care spending
- Care Act, 2014
  - **Part I has been implemented. Imposes stricter requirements on local authority responsibilities**
    - Defining a minimum level of support that local authories must provide
    - Carer supports
    - Independent advocacy for consumers
  - **Part II contains the cap, and has been delayed until 2020. Consensus is that implementation is unlikely due to overall pressures on government finances**

Source: Family Resources Survey, 2014 and Forder, 2007

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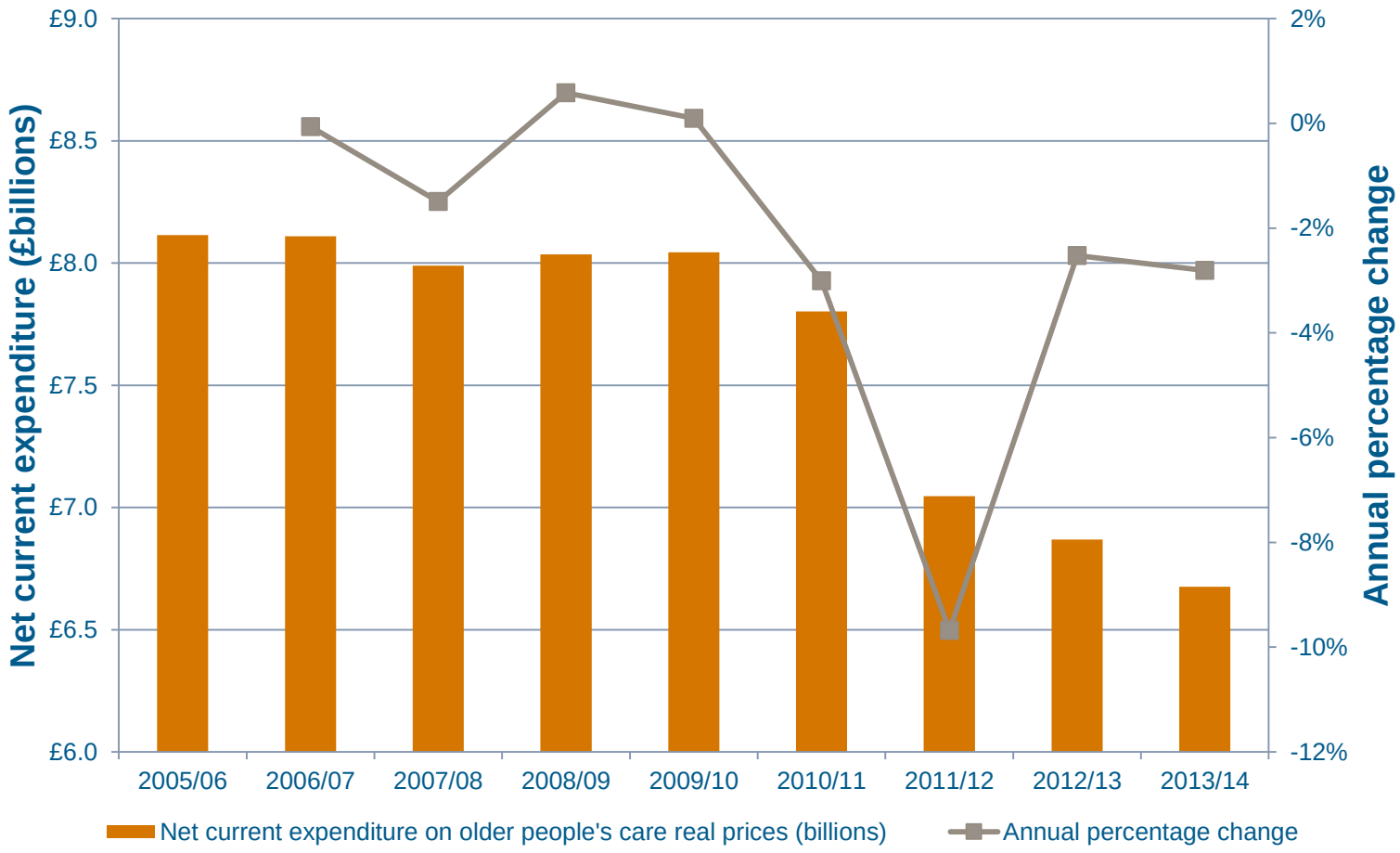
Net Current Expenditure on Older People's Social Care in England (2005/06 - 2013/14)



Source: Age UK, using data from the Health and Social Care Information Centre

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Key Components

- National deferred payment scheme
  - **Allows homeowners to charge costs to their home, to be repaid on death/sale**
- £72,000 cap on eligible care costs at home and in a care home
- £12,000 annual cap on general living costs in a care home
- Rise in the upper threshold of asset means test to £27,000 (home care) and £118,000 for residential care
- Indexed in line with inflation

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Only Certain Costs Count Toward the Cap

- Pays toward eligible care expenses only
- Excludes ‘living costs’, set at £12,000
- Excludes ‘top ups’ for care above what local authority thinks necessary
  - **May be paid by third party**
- Triggered by needs assessment
  - **Even those paying privately must have an assessment to start the official “care account” tally**
- Applies to people of state pension age only
- Applies only to costs accrued from implementation date

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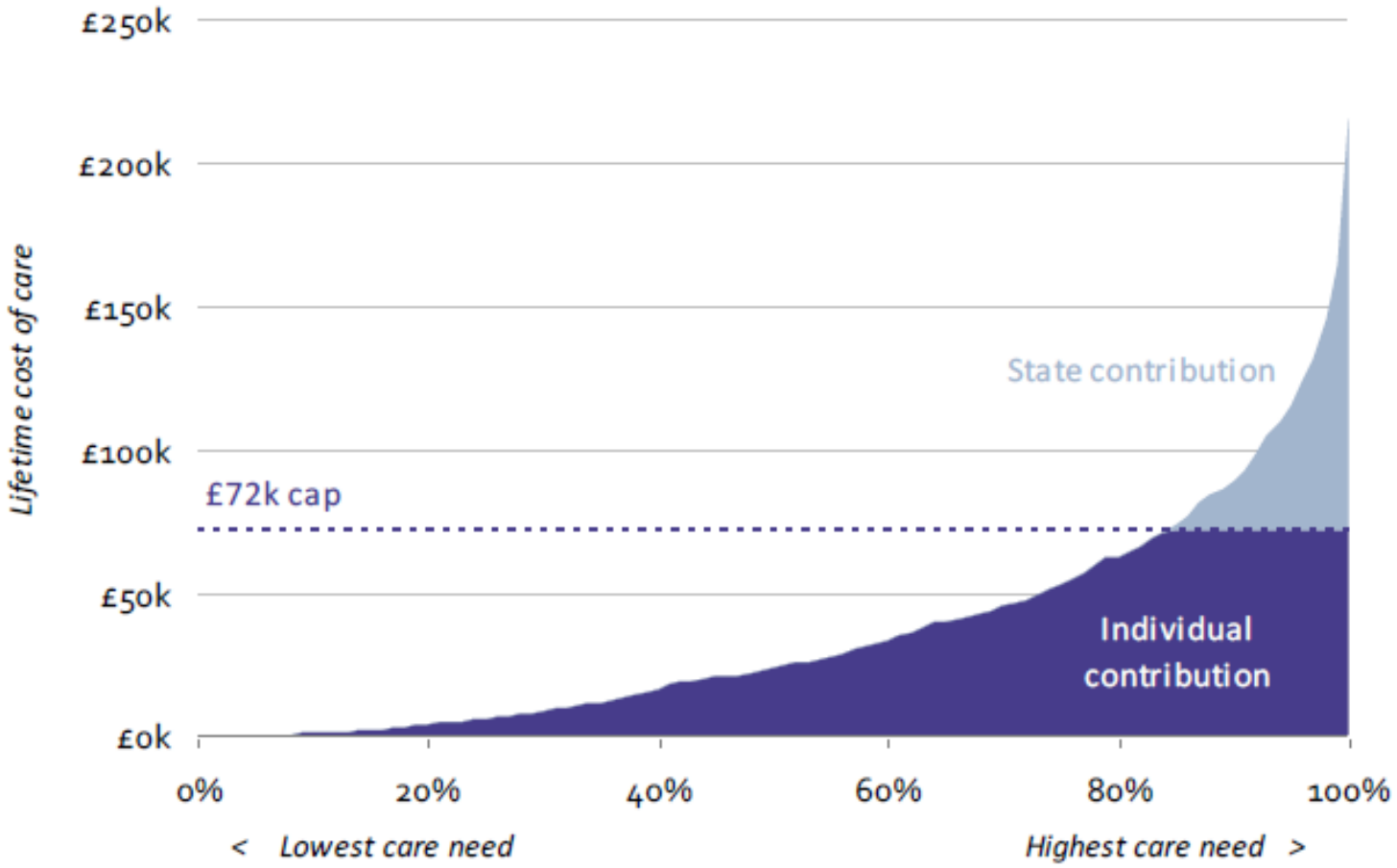
Who Will Benefit From the Cap?



Source: Age UK, based on data from Department of Health Impact Assessment Social Care Funding Reform IA 08/04/13

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Lessons

- The US proposals use a qualifying period, rather than a fixed monetary amount
  - **This avoids the technical/equity problem of how to calculate eligibility**
  - **It also means that housing vs care is not an issue**
  - **Also explicitly recognizes family caregiving effort and does not require that money be spent dollars before qualifying for benefit**
- Transitioning to new systems is difficult
- Equity (ie, distributional impacts) are a concern across all systems
- Extracting value from housing is a key focus in Australia and England; both have established government-run mechanisms for doing so

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