Long-Term Care Insurance for Married Individuals: Insuring One Without the Other?

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LTC is the largest uninsured financial risk for the elderly

- Only 15% of Americans 65+ have LTCI
- Policy makers want to expand the private market, but efforts at a stand still
  - No public financing available unless poor (Medicaid)
  - LTCI provision repealed from the ACA
- Private LTCI market is not robust
  - Premiums increasing, underwriting tightening, insurers fleeing
- Unclear how to expand the LTCI market

LTCI Purchase Research

- Theory considers LTCI purchase in a family context
  - Parents do not buy LTCI to avoid intra-family moral hazard, prefer care from children
  - Parents promise bequests/transfers to invoke care from children
- There is mixed empirical support for the leading theories
  - But empirical models have focused on individual purchase
  - U.S. policies typically sold individually, but decision-making may not be

LTCI Purchase Research

- We know that most purchasing decisions are made among married couples
  - Average age of purchase: 61 in 2005

- And yet we know strikingly little about LTCI purchase patterns within a couple

Research Objectives

(1) Describe the LTCI purchase patterns within a couple

(2) Explore the potential reasons underlying these purchase patterns

(3) Examine whether differential purchase within a couple is potentially rational, in that it reflects an accurate assessment of subsequent need for LTC

Financial Constraints

- LTCI is not cheap.
  - 2012, Couple, Both Age 60
  - 3 year policy, $150/day benefit
  - Average Cost: **$3,381 per year** [$2,794 - $5,637]
- May not be able to afford 2 policies

Who do you insure?

- The one with higher probability of higher costs
  - On average, the woman
- The financial costs of disability upon onset:

  (1) the health state of the spouse
  - Healthy spouse could likely provide informal care at lower financial cost than would be possible on the market
  - May be difficult to know who will become disabled first

  (2) availability of other informal care providers
  - Child characteristics: gender, location, working status

Who do you insure?

- Idiosyncratic considerations
  - Differential decision making power within the couple
    - One member may only consider oneself in the decision
  - Differential propensity to plan

Data

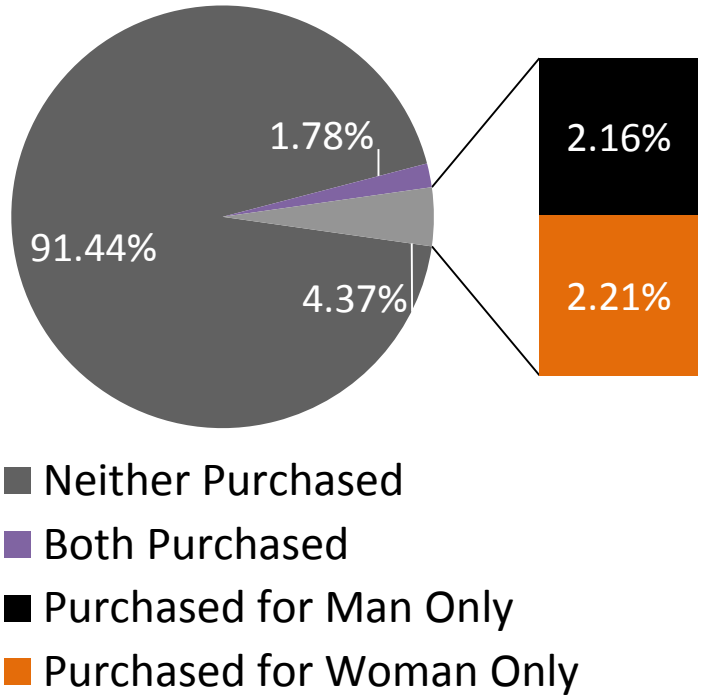
- Health and Retirement Survey (1996-2010)
  - Representative of the 50+ non-institutionalized population
  - LTCI purchase measure:
    - "Not including government programs, do you now have any LTCI which specifically covers nursing home care for a year or more or any part of personal or medical care in your home?"
    - Responding "no" in t-1 and "yes" in t
- Restricted HRS geographical data for states
- State tax incentive data (Goda, 2011)

Sample Restrictions

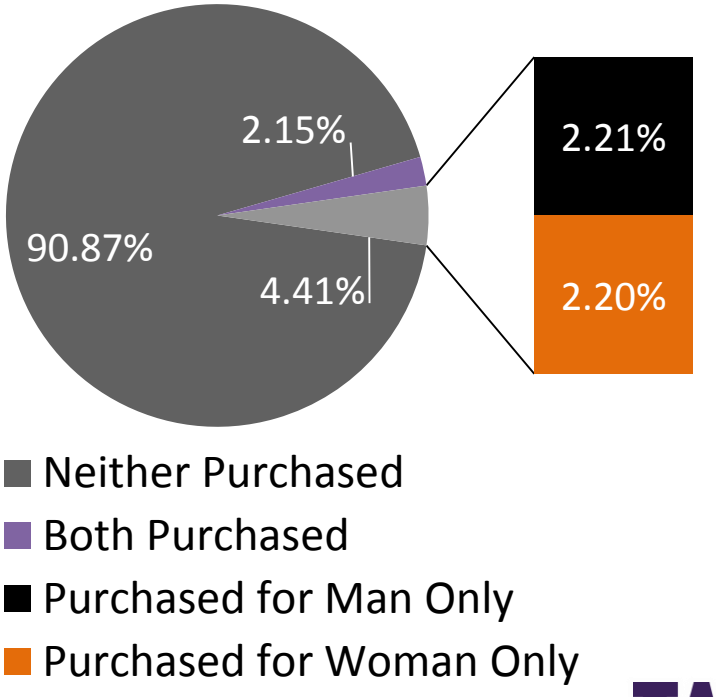
- Interviewed in at least 2 consecutive waves and
  - Married/Partnered and spouse is in the HRS
  - Both answer LTCI question
- In base year:
  - No LTCI for either person
  - Not disabled or cognitively impaired
  - Not currently in or had previous nursing home stay
  - Not eligible for LTCI through Medicaid or VA
- 4,787 unique couples/13,177 couple-wave obs

(1) Couple-level LTCI Purchase Patterns

At Least One Couple Member Eligible



Both Couple Members Eligible



(2) What Factors Influence Purchase

$$LTCI_{ct+1} = \beta_0 + \beta_1 W_t + \beta_2 M_t + \beta_3 F_t + \beta_4 C_t + \beta_5 Tax_t + \gamma_t + d_c + \varepsilon_{c,t}$$

- W&M (Woman and Man)
  - Age
  - Parent had health problem
  - Ever provided informal care to parent
  - Any work after age 50
  - College graduate
  - Eligibility status
  - Enjoy spending time with spouse
- Tax (LTCI incentive)
  - Lives in a state with tax subsidy for LTCI purchase
- F (Family)
  - Biological children - shared or only biological child of individual
  - Child demographics – income, residence, death, transfers
- C (Couple)
  - Economic resources – net worth, household income, own home, have will or trust
  - Difference in age, difference in self-reported health
  - Family decision maker: man, woman, or disagree
  - Race

(2) What Factors Influence Purchase

- $LTCI_{c,t+1}$
  - Zero; one; two members of the couple
  - No one; Man; Woman; Both
  - Multinomial Logit
- Samples
  - Both Eligible
  - At least 1 Eligible

What Factors Influence Purchase?

More likely to buy for anyone (vs. not)

- Planner (proxy by will/trust)

More likely to buy for both when:

- Wealthy
  - Financial constraints less binding
- The older the man is relative to the woman
- Women's parent(s) in poor health
- Have no co-residential children

Purchase for Man or Woman Only?

- Buy for the man:
  - Positive
    - He has middle-income child
    - He has a college degree
    - The wife's sons nearby
  - Negative
    - He does not enjoy spending time with his spouse
- Buy for the woman:
  - Positive
    - Has young, co-residential children
    - Wife provided informal care to parent
  - Negative
    - Husband provided informal care to parent
    - Husband works after age 50
    - A biological kid dies

Some factors point to the importance of informal care supply

- Buy for the man:
  - Positive
    - He has middle-income child
    - He has a college degree
    - **The wife's sons nearby**
  - Negative
    - He does not enjoy spending time with his spouse
- Buy for the woman:
  - Positive
    - **Has young, co-residential children**
    - She provided informal care to parent
  - Negative
    - **Husband provided informal care to parent**
    - **Husband works after age 50**
    - A biological kid dies

(3) Do they get it right?

$$D_{i,(t+1)-(t+6)} = \alpha_0 + \alpha_1 LTCI_{it} + \epsilon_{it}$$

- Sample: Both Eligible, purchased for 1
- $D_{i,(t+1)-(t+6)}$: Disabled; Died; Disabled after spouse died; Disabled after spouse disabled.

Not really.

VARIABLES	(1) 2 ADLs	(2) 1 ADL	(3) 2 ADLs|IADLs	(4) 1 IADL	(5) Deceased	(6) Deceased|ADL	(7) Sp dead 1 ADL	(8) Sp dead 1 ADL|IADL
LTCIpurchaser	-0.00344	-0.0103	-0.0155	-0.0189	-0.0189	-0.0189	-0.00870	-0.00865
	(0.0163)	(0.0226)	(0.0188)	(0.0200)	(0.0176)	(0.0256)	(0.00814)	(0.00941)
Observations	1,162	1,162	1,162	1,162	1,162	1,162	1,162	1,162

Standard errors in parentheses

- They appear to be “insuring at random”
  - LTCI purchaser not more likely to be disabled first,
  - LTCI purchaser not more likely to be disabled after the spouse/spouse’s death.

Conclusions

- Purchase patterns do not meet prior expectations
  - Regardless of eligibility status
    - Couples are nearly just as likely to buy for woman as man
    - Only slightly more likely to buy for both

Conclusions

- Spousal ineligibility does not drive differential purchase between spouses
- Factors that influence purchase:
  - Wealth
  - Availability of informal care

Conclusions

- Couples do not “get it right” when selecting only 1 member to insure
  - Insured member is not more likely to be disabled first
  - Insured member is to more likely to become disabled after the spouse dies.