Insuring long-term care needs

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Introduction

- Low public coverage and increasing budgetary constraints prompt a move towards developing insurance solutions to cover LTC.

- Market evolution strongly depends on institutional settings, and the United States and France are currently the most developed markets.

- Small markets in comparison to the LTC risk and the risk aversion of individuals

- Various solutions exist that allow easier access to LTC insurance.:

  - LTC insurance can be combined with life insurance, individual savings or reverse mortgages
  - Promotion of LTC insurance and LTC risk awareness by the public sector
  - Development of group insurance
  - Involvement of children in the decision to purchase
  - Public/private partnership and severity of dependency

Financing LTC

- LTC financing is in general a function of the health systems already in place and vary from one country to the other.

- LTC is often provided by both health and social services, which are not necessarily disconnected (typology of coverage is not easy).

- The OECD provided a typology of public LTC coverage focusing on
  - The scope of entitlement to LTC benefits (whether universal or means-tested)
  - Whether LTC coverage is through single or multiple programmes.

- Three broad categories are identified:
  - Universal coverage within a single programme (North Europe, Japan)
  - Means-tested programmes (U.S., U.K.)
  - Mix of universal and means-tested entitlements (South and East Europe).

Financing LTC

- Private financing also plays an important role in LTC.
- Most countries recognise the importance of finding an appropriate balance between public and private sources of funding (European Commission, 2008).
- The role of private insurance with respect to public insurance is not unique and depends on the institutional setting and historical development.
- It depends on whether the public system is a primary or secondary payer:
  - If primary payer, it does not take into account private insurance benefits when means-testing benefits (private insurance tops-up the public entitlement)
  - If secondary payer, insurance benefits are paid first (people who buy insurance may be “pushed” over the means test, even if eligible otherwise)

The insurability of LTC risks

- *Is dependency a risk?*

Dependency is a risk and not a stage of life as an important proportion of people die without being dependent and long period of dependency are rare.

- *Is LTC risk sufficiently well defined?*

Heavy dependency is actually easier to define than partial dependency and the criteria used by private insurers to characterise total dependency are generally closely related

- *Assessing the risk of dependency*

The main difficulty in assessing the dependency risk is that it is an intertemporal risk deferred in time (occurrence, duration, cost).

The markets for LTC insurance

- The U.S. is the largest market worldwide
  - Over 7 million policyholders
  - About 10 % of the population aged 60 and over (Brown and Finkelstein, 2009)
  - Nearly 30 years of operating experience.

- France is the second largest market
  - About 3 million policyholders
  - 24 % of the population aged 60 and over (FFSA, 2009)
  - 20 years of experience.

- These two markets are based on two different models, as they differ in the insurance benefit they offer.

The markets for LTC insurance

In the U.S.

- LTC insurance policies can be individual, group association and employer-sponsored.
- Provide for the reimbursement of care and services costs up to a certain limit
- Products are directly derived from health insurance products
- Mainly distributed by agent networks and are tax approved.

In France

- LTC insurance products can be individual or collective
- Provide for cash benefit usually proportional to the degree of dependency.
- Benefit does not depend on care services, nor on the place where the insured is receiving care (home or specific nursing facility).
- Insureds are free to use the cash benefit as they wish.
- Products are derived from disability annuity products.
- Mainly distributed by direct selling networks and are not tax approved.

The markets for LTC insurance

U.S. model highly complex

- U.S. reimbursement products generally offer many options to purchaser’s choice:
    - 3 types of benefit: home health care, nursing home expense, assisted living facilities.
    - benefit frequency (daily, weekly or monthly).
- Whole underwriting process is quite complex and generates significant costs (detailed questionnaire and sometimes additional investigations made by nurses).
- This complexity may explain why they are mostly sold by agents and brokers.

The cash model developed in France seems to be much simpler

- Benefit is the same whatever the LTC expenses.
- Applicant has far less choice to make when buying the policy.
- French underwriting practice is quite simple
    - Short questionnaire of five or six questions is usually enough for most applications.
    - Only a limited number of applications deserve additional investigation through a detailed questionnaire, to be filled in with the support of a general practitioner.

Obstacles to the development of private LTC insurance

- Inadequately informed about the products available and short term horizons

- Low risk awareness and experience with LTC (Courbage and Roudaut, 2008).

- Adverse selection (over-representation of high risks in the insured population) and moral hazard (over-consumption of LTC)

- Interaction of public insurance programmes arguably crowds out private insurance.

- Issues of affordability of LTC insurance products due to high uncertainty of the future cost of LTC as well as the probability distribution (Brown and Finkelstein, 2007)

- Intra-family moral hazard: parents who prefer to receive care from their children may decline the offer to purchase insurance (Courbage and Zweifel, 2011)

How to increase access to LTC insurance?

- Linking LTC insurance to life insurance or annuity products
  - Pooling of two complementary risks («long-life» offsets «short-life with disability»)
  - Mitigation of anti-selection since impaired insured persons may not live long enough to benefit from a long-term life annuity
  - Underwriting reduced to filtering out applicants who may be eligible immediately for LTC cover

- Linking LTC insurance to home-equity conversion (e.g. reverse mortgage)
  - Reverse-mortgage converts home equity into cash
  - Most elderly are home owner (without mortgage debt)
  - Allow seniors to tap in the value of their home while protecting their retirement income from the potential catastrophic costs of LTC

- Linking LTC insurance to individual retirement account or medical saving account
  - Allow and/or force individuals to save during their work time period in order to pay for either their LTC expenses later in life or their LTC insurance premium (spread cost over time)
  - Example of the Swiss second pillar (mandatory occupational pension) currently used to expand home ownership could be used to expand access to insurance
  - No risk sharing and segment the pool of insureds further

How to increase access to LTC insurance?

- Promotion of LTC insurance by the public sector
  - Can offer tax relief (or subsidies) on both LTC expenditure and LTC insurance premiums (depend on the level of price elasticity).
  - Can act also indirectly by raising awareness about the risk of needing LTC in the future (e.g. national debates in France)
  - Provide incentives to individual to contract insurance early (Eldershield-Singapore)

- Encouraging group insurance
  - Increase the knowledge of LTC insurance and make it accessible at younger ages
  - Does not face underwriting and anti-selection issues
  - Contracts are substantially cheaper to administer
  - However, governments need to ensure that group insurance policies are portable and people are not dropped from their policies when their employment ends.

- Involve children in the decision to purchase LTC insurance
  - LTC risk can be an important financial risk for children
  - Make them aware of their financial obligations with respect to their parents
  - Insurance for two generations

How to increase access to LTC insurance?

- Public-private partnership based on the severity of dependency
  - Light dependency deals with a majority of individuals and can be considered more like a stage of life and regular expenses
  - Only the state of heavy dependency would be considered as a risk and would only be covered by private insurance.
  - Heavy dependency is a risk that can be easier to insure than light dependency (moral hazard is less possible in case of heavy dependency, while it may happen more easily in case of light dependency).
  - Light dependency could then be taken over either by a social assistance scheme for the poorest or by individual savings accumulated over the working life for others and subject to higher levels of cost-sharing.
  - Clear distinction between heavy dependency and light dependency to be made explicit