Medi(long-term)care for All: A Look Into the Future of Long-Term Care Insurance—Part One

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With the introduction of the Patient Protection and Affordable Care Act (ACA) in 2010, the health care industry, in particular major medical insurance, was thrust into the spotlight of national media and political campaigns. The key issue—how to make health insurance coverage available to the people who need it most. Recently, the long-term care (LTC) insurance industry has been gaining similar attention. Several recent political candidates have mentioned affordable LTC services, along with social LTC programs like Medicare for All, in their campaigns. At least one state-level government, Washington, has developed and adopted a social program that targets the need for LTC insurance.[1] Additionally, several other states have taken developmental steps to address LTC needs through similar programs or by other means (e.g., Medicaid expansion). As the topic of affordable LTC insurance comes into focus in political conversations, we often find ourselves thinking, "What is going to happen to the private LTC insurance industry going forward?"

The need for LTC services has been fairly well documented since the inception of the private LTC insurance industry in the 1980s. The U.S. Department of Health and Human Services launched an LTC-focused social marketing campaign in 2005 known as Own Your Future.[2] This campaign was aimed at encouraging people to actively plan for their LTC needs. In 2010, the national nonprofit campaign 3in4 Need More was started with a similar goal of raising awareness around the importance of planning for future LTC needs. These programs highlighted the fact that around 70 percent of people age 65 or older will require LTC services at some point in their lives. However, many Americans still rely solely on the coverage from existing social programs (i.e., Medicare and Medicaid) and/or self-funding to cover LTC services. Based on estimates from 2014, only 11 percent of adults ages 65 and older living in non-facility care settings were covered by private LTC insurance.[3] It is estimated that 50 million people will be 65 or older by 2020, and almost 50 percent of them are expected to use formal, paid LTC support and services during their lifetime.[4]

Beyond awareness, another potential complication in addressing the LTC need in the United States is that the number of insurance companies offering traditional (stand-alone) LTC coverage has decreased since the product was first introduced. A survey conducted in 2000 by America's Health Insurance Plans (AHIP) showed that there were 125 insurers selling stand-alone LTC policies.[5] While the AHIP survey has not been repeated since 2002, Broker World estimates that there are fewer than 15 companies selling stand-alone LTC policies as of July 2019.[6]

In an effort to tackle some of the concerns regarding the growing need for LTC services, the ACA originally included coverage for LTC benefits in the form of the Community Living Assistance Services and Supports (CLASS) Act. This component of the ACA would have created a federally administered insurance program to help individuals pay for home care services. However, after the ACA was introduced, the CLASS Act was eliminated due to difficulties in finding a financially viable solution to its implementation.[7]

The need for LTC is not going away, especially as the population continues to age. With this in mind, this article explores three possible future paths for LTC insurance funding and the associated implications for the private LTC industry. The scenarios outlined below are not intended to be a political stance but merely provide considerations for the future of LTC given the recent spotlight (political and otherwise) on the industry. All considerations regarding the future evolution of the LTC industry are speculative, and actual events may unfold materially differently under any given future path.

SCENARIO 1: STATUS QUO

One possible future path for the LTC industry is that there are no substantial changes in how LTC services are funded. That is, LTC benefits for those not eligible for Medicaid or Medicare continue to be primarily self-funded or covered via private insurance. While we assume that no federal social insurance programs are introduced to cover LTC services in this scenario, additional jurisdictions may implement their own social LTC programs, similar to what was enacted by Washington state in May 2019.[8]

Assuming no unforeseen or material changes in the environment, the "status quo" may still mean considerable evolution for the LTC industry, as has been the case in recent years. It is possible that in this future scenario, the number of carriers selling private LTC insurance will continue to shrink or new sales of stand-alone LTC may cease completely. There may also be additional reserve strengthening as companies continue to work to stabilize their in-force business. LTC carriers have generally taken steps to reduce the riskiness of their LTC business, and this is likely to be the case going forward. With this in mind, we anticipate the following trends under this scenario:

- The market for combination and hybrid LTC products (i.e., LTC insurance combined with an annuity or life insurance) will continue to expand as an alternative to stand-alone LTC insurance.
- New LTC product designs may be introduced as a more affordable alternative to stand-alone or combination LTC products. For example, more LTC carriers may explore the use of copays and deductibles as a potential cost-sharing option to make LTC insurance more affordable by having consumers share more in the risk.
- The number of policy features available may be further reduced to eliminate those features that present additional risk to insurers due to policyholder behavior (e.g., long benefit periods, short elimination periods and limited payment terms).
- Carriers will likely continue to pursue premium rate increases on closed blocks of LTC business as a risk mitigation strategy. However, the premium rate increases pursued on more recently priced LTC products will likely be limited as original pricing assumptions generally reflect more conservatism compared to earlier LTC products.
- Predictive analytics may also be used to facilitate preventive care and more efficient care management as a risk mitigation strategy in lieu of, or in addition to, premium rate increases. Additionally, carriers may pursue landing spots, buyouts, or mergers and acquisitions as a means of offsetting LTC losses and mitigating future risk.
- New LTC services may be introduced to accommodate growing demand and capitalize on technological advances, such as the introduction of a mobile application to schedule home health care services. We note that this evolution of the industry is likely for each scenario outlined in this paper; however, services and products offered may depend on the specific future path.

As the LTC industry continues to mature, the amount of credible LTC-specific experience (company and industry) will also grow. As a result, the assumptions used in pricing stand-alone LTC insurance and LTC combination products should become more reliable. As insurers recognize the reduction in uncertainty, it is possible that the number of companies offering new LTC products may increase.

SCENARIO 2: MEDICARE FOR ALL/ SINGLE-PAYER SYSTEM

A second possible future path for the LTC industry could involve the adoption of a federal social insurance program that provides materially complete LTC coverage, similar to the programs introduced in countries like Denmark and France.[9] This potential future represents the alternative "endpoint" to the status quo scenario. In this scenario, it is assumed that the United States implements a social LTC program under which all citizens are automatically eligible for some sort of LTC coverage. Similar to the programs implemented in countries like Denmark, this system would not publicly fund all LTC services. Rather, it would attempt to completely cover a material subset of services (e.g., home and community care), though certain services would likely require a copay or even remain completely privatized.

A key hurdle to this future path coming to fruition is the level of funding that would be needed for the social program. As noted above, the CLASS Act was removed from the ACA after it was determined to not be financially viable. It is unclear whether a reasonable and sustainable funding methodology could be developed to make this endpoint possible. If such a program were implemented, it is likely that funding would need to come from a variety of sources, such as a mix of taxes (e.g., increased sales and income taxes) and/or the redirection of government funds. Beyond funding, a plethora of other considerations and questions would need to be addressed before such a program could be implemented in the United States. They include, but are not limited to:

- Program features
- Treatment of in-force LTC insurance business and reserves
- Transition approach for policyholders currently receiving private LTC benefits
- Reimbursement for policyholders with private LTC insurance

These issues are challenging but interesting; however, addressing them is not the focus of this article. Rather, this article considers how insurance companies with large amounts of in-force LTC business might be impacted by the implementation of an involuntary, comprehensive social program that covers a material portion of individuals' LTC benefits. For example, the following provides possible considerations for the LTC industry if the government enacts a social program with comprehensive LTC coverage:

- LTC insurers could be expected to assist in the transition of current insureds to the social program, to the extent logical. This may involve transferring on-claim policyholders to publicly funded care settings, which could be a significant administrative task. Alternatively, the social program may not accept insureds currently receiving privatized benefits, such that insurers would continue to be liable for LTC services incurred by existing claimants.

- Requiring private insurers to release existing LTC reserves (even if the release was staggered over time) could be a substantial effort and a potential financial (and economic) burden, depending on the particular investment portfolio of the company. Instead, the government might have companies cede a portion of their current LTC reserves into a trust that could be used to fund the social program. In the event that a company's existing reserves are anticipated to be too low relative to future experience, this approach may actually let companies "off the hook" for a large portion of anticipated future benefits.

- As the majority of existing insureds may deem private LTC insurance no longer necessary, another possibility, likely preferred by policyholders, is that existing reserves would be used to "pay back" insureds for their private insurance premiums (less any benefits paid, of course). This approach would be similar to a return of premium provision.

- The LTC insurance market would likely evolve to meet any needs not covered by the social program (e.g., "bells and whistles" coverages) and to address any copay or "private" care stipulations associated with the social LTC program. This would create small niche markets for (1) supplemental LTC benefits and (2) richer, private care policies. Because supplemental benefits would likely be low risk (but also low demand), only a small handful of existing LTC insurers may capitalize on this emerging market. This is the case in Denmark and France, where costs and services not fully covered by the government can be insured via supplemental products sold in the private sector.[10] Similarly, private care policies, which would likely have a design similar to stand-alone LTC insurance, may be offered by only select carriers (e.g., those currently marketing to the most affluent insureds).

While this scenario presents a very different approach to addressing the LTC need from the status quo, it may not be out of the realm of possibility. The magnitude of LTC services that are anticipated to be needed by the baby boomer generation alone presents a unique challenge, which may require a creative solution beyond that currently offered by private insurance.

SCENARIO 3: SOMEWHERE IN BETWEEN

A third possible future path would fall somewhere between scenarios 1 and 2. The United States may not be prepared to transition to a "complete" social LTC program; however, the rising LTC needs of the baby boomers could be the catalyst for a change in how LTC services are funded. It is possible that an involuntary, partial social program could be established to provide LTC coverage. The intent of this program would be to materially fund LTC benefits for a large percentage of people who need services, but these social benefits would not be enough for all people.

It is worth noting there are existing federal programs that cover LTC services. For example, Medicaid provides coverage for a large portion of the LTC services in the United States; however, to qualify for this program, an individual must spend down his or her excess assets to a specified limit, which may vary by state. A key distinction between the existing federal programs and the program envisioned in this "somewhere in between" scenario is that the social program described in this scenario would be available to all citizens regardless of financial need.

Because the LTC benefits covered by the social program in this future path would not be "complete" (unlike the program described in scenario 2), there may be considerable market opportunities for LTC insurers, such as:

- The LTC market could evolve to offer supplemental policies that provide additional LTC benefits after those covered by the social LTC program are exhausted. The product design may generally be similar to that of existing stand-alone LTC insurance, except that the benefit options marketed would be more limited (i.e., emphasis on sales of one-year to three-year benefit periods). It is possible that insurers would also offer these supplemental plans to existing LTC policyholders as a new "reduced benefit" option not available at original issue. These products may also offer longer elimination periods (e.g., two years) as well as limited or single premium payment terms to recognize that policyholders may utilize their social benefits first. These products would be lower risk than stand-alone LTC insurance due to the lower benefit level and there would likely be a high demand. As such, it is possible that several companies would enter the market to capitalize on this opportunity.

- New LTC products intended to provide "wraparound" coverage could also be introduced. These products may look materially different from the LTC products sold today in terms of both the amount of benefits covered and risk profile. For example, companies may develop a "dementia risk" product similar in concept to certain critical illness products currently available in the market. This product would only cover costs for dementia-related claims that would otherwise quickly exhaust an individuals' social insurance benefits.

- Given the lower anticipated risk, both the supplemental and wraparound policies may be designed as "guaranteed" premium (non-cancellable) products to attract more insureds to this market.

- Combination products would likely continue to be sold as a cost-effective option with life and annuity policies. However, the LTC benefits on combination products would likely be offered in smaller increments in light of the social LTC coverage. Awareness regarding LTC needs would likely be heightened following the implementation of the social LTC program, and it is possible that new varieties of LTC combination products may emerge (e.g., LTC riders sold with health insurance or property and casualty insurance).

We expect that in-force LTC insurance blocks would be materially impacted by the introduction of a partial social LTC program, as envisioned in this scenario, due to existing policyholders changing their coverage in light of the involuntary social benefit. Generally, a company's aggregate risk is reduced when LTC insureds elect to lapse their policies or reduce benefits beyond what would have been anticipated in original pricing, but would this still be the case if a social program was the catalyst for the policyholder behavior? This question, along with several others, will be explored in a follow-up article. Part Two will provide a case study that examines the potential financial impact on private LTC insurers if a partial social LTC program were to be established.

CONCLUSION

This article explored three possible future paths for the LTC industry, but there are undoubtedly numerous possibilities. While a number of unknowns, including funding, would need to be addressed by regulators and actuaries before any social LTC program could be established, it is clear that the need for LTC is not going away any time soon. Regardless of the future scenario that unfolds, the LTC industry will continue to evolve to meet this need.

Please stay tuned for Part Two of "Medi(long-term)care for All: A Look Into the Future of Long-Term Care Insurance." ■

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ENDNOTES

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