Long-Term Care Financing

Where Common Sense Finds Common Ground

Stephen D. Forman, CLTC

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Position: What Does LTCA Support, and Why?

Not every family needs long-term care insurance, but every family needs a plan for long-term care.

For this reason, LTCA supports those initiatives which are **most inclusive and will serve to protect the greatest number** of both Washingtonians and Americans from the unplanned consequences of extended care.

Our country's **thought leaders do not always agree** when it comes to LTC planning: the most frequent fault line occurs when it comes to the role insurance should play. Some believe it should be rarely used, paying only for low-frequency but catastrophic events. Others rely on insurance for high-frequency but everyday expenses. Inside the insurance community, a great deal of energy has been spent innovating in an attempt to **reach the middle class**.

In our roles as consumer advocates and as students of LTC, we've found the most effective means of addressing the LTC financing crisis facing America's hardworking middle class must involve a **partnership between public and private solutions**—neither can fully succeed on its own.

LTCA supports legislation which advances the following ideals:

- ## Vigorous Consumer Education

    - We support reviving the model of the highly successful **"*Own Your Future*" campaign**, which included endorsed, targeted communications to state residents
    - We support outreach which broadens **awareness of the Partnership Program**; it allows consumers to purchase more judicious, affordable plans while sparing state Medicaid budgets
    - We support **public education** which corrects the persistent and pernicious myths regarding LTC financing in the US; such misunderstandings are a direct impediment to advance planning

- ## Improved Tax Incentives for the Purchase of LTC Insurance

    - We support an **"above-the-line" tax deduction** as both simpler and more valuable; currently, individual policyholders include an indexed, limited portion of their premiums among other itemized medical expenses, deductible only to the extent they exceed 10% of AGI in a calendar year
    - We support the ability to **withdraw funds from qualified retirement accounts** (401(k), 403(b) and IRA) on a penalty-free and surrender charge-free basis for the purpose of paying one's LTC insurance premiums.[1]

[1] See the Society of Actuaries Monograph on the feasability of 401(k) and IRA contributions to pay for LTC insurance

- ## The Restoration of Medicaid as a Safety Net for the Needy

    - We support the closing of **Medicaid loopholes**[2] which discourage planning and allow America's middle class and affluent to stretch the program beyond its means; by paying too little for too many, Medicaid's shortcomings are well-known: a struggle to maintain quality, a lack of access, below-market reimbursement rates, and cost-shifting
    - We support a **reduction in the home equity exemption**; states cannot currently lower it below $560,000, an amount roughly 2 ½ times the national median home value; *no single policy would have a larger national impact than this*: unlocking home equity as a "countable" asset would encourage the middle class and wealthy to **save, invest or insure**, and allow Medicaid **to devote its scarce resources to those in need**

[2] For a Washington state perspective on such loopholes, see "What We Don't Know about Medicaid and Long-Term Care is Hurting Washington State" (2004); for a national take, view this Congressional testimony, "Examining Abuses of Medicaid Eligibility Rules" (2011). More recent research from the same author (Steve Moses, Center for Long-Term Care Reform) can be found here.

Appendix: Summary of Major Initiatives

The last decade has witnessed an explosion of research into the provision and funding of long-term care ("LTC") in the United States[3]. Public interest accelerated over the summer of 2013 as a result of the 15-member **Federal Commission on Long-Term Care[4]**, a project mostly remembered for being given too little time and budget to succeed. With the Commission unable to agree—and issuing two rival reports—it did leave us with recommendations which have stood the test of time (e.g. treating the needs of the young and disabled differently than the senior disabled), as well as a strong endorsement of insurance:

- *"Given the upredictable, catastrophic nature of extensive LTSS costs,* ***insurance—not savings****—is the most efficient and effective means of preparing for their possible occurrence."* [emphasis added]

For the purposes of this high-level overview, we will omit older research pertaining to the now-defunct **CLASS** provisions of the Patient Protection and Affordable Care Act (aka "ACA") as well as routine annual surveys into consumer knowledge and attitudes conducted by such researchers as **SCAN** and **AP-NORC[5]**. Nor will we extend our net to the peripheral **National Plan[6]** (which recommends consumers obtain "more information about private LTC insurance options") or review work which is primarily statistical / analytical in nature, whether high quality (e.g. **LIMRA** and **LifePlans**) or scrutinized (e.g. **Center for Retirement Research**).

Instead, we will confine ourselves to those initiatives which inform our present recommendations; namely, those where common sense emerges and common ground can be found. The following movements stand out as having garnered the most momentum within the last few years.

[3] The Affordable Care Act popularized the term Long-Term Services & Supports ("LTSS"), an acronym which today serves primarily to signify the speaker as hailing from either academia or government. In common parlance, LTC is used and will be used here.

[4] Established by Congress as part of its January 2, 2013 "fiscal cliff" deal which simultaneously shuttered CLASS.

[5] Associated Press-NORC Center for Public Affairs Research at the University of Chicago

[6] The National Plan to Address Alzheimer's Disease, aka the "National Plan"

- **National Assocation of Health Underwriters (NAHU)** *"Long Term Care White Paper" (2016)*[7]

    - Supports **Medicaid reforms**, e.g. extending the lookback period from 5-yrs to 10; reducing the amount of the home equity exemption; expanding the Deficit Reduction Act (DRA) partnership program to the remaining states[8]
    - Supports the **withdrawal of funds from qualified retirements accounts** (IRA, 401(k), 403(b) and 457) prior to age 59 ½ to pay for LTC insurance without incurring 10% penalty tax or any surrender charges
    - Supports the ability to **pay for LTC insurance through Cafeteria Plans** at work (accomplished by removing the explicit exclusion against this in IRC Section 125) [9]

- **National Association of Insurance Commissioners (NAIC***) "Long-Term Care Innovation (B) Subgroup" (Dec 2016)* [10]

    - Spent nearly one year reaching consensus from eighteen stakeholders, **finalized ten proposals** designed to reform LTC financing in the US
    - In general, guided by belief that consumers must transition to a "**savings mentality**" and commit to "**skin in the game**" (called a lesson learned from failure of the Defined Benefit model)
    - Advocates policy options which could yield both short-term and long-term results, including changes to NAIC Model Regulations, changes to federal tax code (e.g. to **allow build-up of cash value in LTC insurance**) and reformation of sales practices and consumer education
    - Supports **retirement plan participants** (401(k), 403(b) or IRA) to **purchase LTC insurance** with no early withdrawal penalty
    - Supports creation of LTC savings accounts (similar to HAS savings accounts)
    - Would **remove the HIPAA-required offer** of 5% compound inflation, and the **requirement that DRA partnership policies include inflation protection**
    - Supports life-transition products (e.g. life, disability or chronic illness which morphs into LTC insurance once a consumer reaches a certain age)
    - Supports improved federal tax incentives for the purchase of LTC insurance, e.g. **full "above-the-line" deduction**, and allowing purchase through **Cafeteria Plans** and FSA's
    - Supports research into a Medicare or Medigap HHC benefit

- **Long-Term Care Financing Collaborative (LTCFC)** *"A Consensus Framework for Long-Term Care Financing Reform" (February 2016)*[11]

[7] https://nahu.org/advocacy/policy-documents/position-papers/long-term-care-position-paper
[8] Currently active in all states but AK, DC, HI, MA, MS, NM, UT and VT
[9] Title 26, Subtitle A, Chapter 1, Subchapter B, Part III: "Such term shall not include any product which is advertised, marketed, or offered as long-term care insurance."
[10] http://www.naic.org/documents/government_relations_ltc_fed_policy_opt.pdf

- Supports better **integration of LTC and medical care**
- Recommends greater **support for paid caregivers,** as well as enhanced **support for informal caregivers** and the communities, families and employers who surround them
- Favors a **universal, catastrophic insurance** program
- Would re-purpose private LTC insurance **to address non-catastrophic risk**, and incentivize retirement savings and home equity (ie **reverse mortgages**)
- Seeks to **modernize Medicaid** as it pertains to LTC

- **Minnesota Dept of Human Services** *"Efforts to Reform Long-Term Care Financing" (May 2017)*

    - Brainstormed fifteen concepts, which were narrowed down to two finalists: a **combination life insurance & LTC product**, and a **new HHC benefit** to be embedded in all Medigap and Medicare Advantage ("MA") plans
    - Received a $450,000 federal grant; using it to evaluate these top two ideas, i.e. actuarial analysis and consumer testing
    - Customized its **Own Your Future** ("OYF") campaign and conducted outreach during the state's highly-popular state fairs; researched potential changes to Medicaid to **incentivize purchase of private LTC insurance**

- **Society of Actuaries (SOA)** *"Long Term Care Think Tank: Exploring the Possibilities for Helping the American Public Manage the Financial Burden of Long-Term Care" (February 2016)*[12]

    - Began as a two-day collaborative workshop with invited guests from inside and adjacent to the LTC insurance community; 85 concepts were evaluated for further study, brainstorming how to pay for LTC, how to make care more accessible, how to reduce costs, and how to mitigate the need for care; report compiled by Maddock Douglas
    - Supports increased use of data and high-tech, e.g. a "**healthy longevity app**" and "**care portal**"
    - Recommends modernization of service delivery to reduce costs, e.g. "**uberfication**" of HHC
    - Would devlop an LTC insurance policy that "**looks like health insurance**"
    - Supports multi-purpose savings, called "**Flex 401(k),**" and the increased **ability to pre-fund with tax-favored dollars**; targeted at planners
    - Supports concept of a "**Family LTC Account**," which combines insurance and savings elements; example given of an FPDA[13] funded by payroll deduction
    - Would create a national "**Caregiving Corps**" to reduce the coming shortage
    - Would create a "**Care Exchange**" to solve the need for IADL[14] care

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[11] http://www.convergencepolicy.org/ltcfc-final-report/
[12] https://www.soa.org/Files/Sections/2016-03-long-term-care-think-tank.pdf
[13] Flexible premium deferred annuity

- Would create a "**Care Watch**" program to simplify care coordination, improve quality control and reduce mistakes
- Would create an "**LTC Sherpa**" to help individuals navigate what is today a complex system, matching needs with services; designed to improve planning, transparency and aging-in-place
- Supports the addition of a **short-term care ("STC") benefit to Medigap and MA plans**; would facilitate sign-ups by timing it to open enrollment periods
- Supports a **payroll-tax-funded LTC benefit to Medicare**

- **Mercatus Center, George Mason University** *"Improving the System of Financing Long-Term Care Services & Supports for Older Americans" (February 2017)*[15]

    - Recommends **tightening Medicaid's asset eligibility rules**, including counting qualified funds
    - Supports **lowering the home equity exemption**
    - Supports **improved estate recovery**, i.e. the enforcement of existing requirements
    - Would require applicants to produce financial statements, and states to e-verify

- **Center for Long-Term Care Reform (CLTCR, with Foundation for Government Accountability)** *"How to Fix Long-Term Care Financing" (July 2017)*[16]

    - Primary recommendation that "Medicaid must **stop exempting seniors' largest asset—home equity**"; said to boost national economy, incentivize planning, encourage the use of reverse mortgages, and substantially reduce Medicaid's administrative costs
    - Would **close eligibility loopholes**, e.g. Medicaid-friendly annuities, "spousal refusal"
    - Would revise current research methodology, i.e. there is a large body of literature, but it is suspect

- **Bipartisan Policy Center (BPC)** *"Financing Long-Term Services and Supports: Seeking Bipartisan Solutions in Politically Challenging Times" (July 2017)*[17]

    - Over the course of several years the BPC has issued a number of reports, generally framed around three planks: a "**heightened focus on the role of the private market**," **the improvement of Medicaid**, and the creation of a **catastrophic backstop**
    - As a principle, BPC asserts that "middle-income Americans should have a **functional, sustainable private LTCI marketplace** to help them pay for LTSS should they need it,"

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[14] Instrumental activities of daily living
[15] https://www.mercatus.org/system/files/mercatus-warshawsky-marchand-ltss-v2.pdf
[16] http://www.centerltc.com/pubs/How-To-Fix-Long-Term-Care-Financing.pdf
[17] https://bipartisanpolicy.org/library/financing-long-term-services-and-supports/

but in practice that means the **standardization and simplification of private LTCI**, i.e. a new product they've dubbed "Retirement LTCI" consisting of three plan designs

- Would **incentivize employers to offer Retirement LTCI** and to auto-enroll certain employees (ages 45+ with minimum savings); would also allow RLTCI to be sold on the state and federal health exchanges
- Supports the **penalty-free—but not income tax free—withdrawal from retirement accounts** (IRA, 401(k), 403(b)) to pay for Retirement LTCI for individuals and spouse
- Supports the **penalty-free—but not income tax free—withdrawal from from retirement accounts** to pay for employer-provided private LTC insurance
- Recommends simplifying the Medicaid waiver program to allow **more HHC flexibility**, and allowing working individuals with disabilities to **"buy-in" to Medicaid LTC**
- **Strongly favors a public catastrophic LTC plan** financed through an additional Medicare payroll tax, but stops short of officially endorsing the idea
- Would permit MA plans to offer a **respite care benefit** to high-need, high-cost individuals
- Would permit Medigap and MA plans to **market a limited LTC benefit supplementally**, voluntarily, financed by those who enroll

- **Leading Age** *"Pathways Report: Perspectives on the Challenges of Financing LTSS" (February 2016)*[18]

    - Based its recommendations on research conducted by the Urban Institute and Milliman in a cooperative effort between LeadingAge, The SCAN Foundation and AARP
    - Conclusions were summarized in Health Affairs; researchers acknowledge limitations of the model (e.g. only looking at over age 65), and potential co-existence of more than one solution
    - Evaluated a variety of "pathways" (options) to financing LTC via new modeling: looked specifically at a **front-end only** benefit, a **back-end benefit** (unlimited), and a combined **comprehensive benefit**
    - Recognizes "an urgent need for **an LTSS financing system that is insurance-based** and guided by principles of rationality, equity and affordability"
    - Calls for a **mandatory, universal catastrophic option** as the "best choice to minimize costs and optimize coverage"

[18] http://www.leadingage.org/sites/default/files/Pathways_Report_February_2016.pdf

Contact

Stephen D. Forman, CLTC

Senior Vice President

Long Term Care Associates, Inc. 800.742.9444 ext. 205 (P)

11900 NE 1st St., Suite 115 steve@ltc-associates.com (E)

Bellevue, Washington 98005-3030 @ltcassociates (T)

Who is LTCA?

Long Term Care Associates, Inc. ("LTCA") is…

- An original founder of the LTC insurance industry since **1972**
- The nation's first and only firm to validate policyholder claims exceeding **$20,000,000**
- The exclusive provider of LTC solutions to over **5M members** of sponsoring organizations
- Co-author of "**The Advisor's Guide to Long-Term Care**" (2nd. Ed., National Underwriter)
- Contributor to "**2018 Tax Facts: On Insurance & Employee Benefits**" (Vol 1, Nat'l Underwriter)
- A four-time presenter to the **Society of Actuaries** (inc. "LTC and the Middle Market")
- A primary reviewer of the landmark study, "**LTCI Pricing Project**" (SOA, 11/16)
- Author of "**Spring Comes to Long-Term Care: The Blooming of a Soft Market**" (4/16)
- Member, **WA Insurance Dept** Committee to Redesign LTC educational standards (*completed*)
- Member, **NY Insurance Dept** Committee to Redesign LTC partnership requirements (*disbanded*)
- CLASS Act expert, independently ID'd error in **Congressional Research Service** analysis
- Member Firm, National LTC Network, over **600,000** policies and **$960M** placed (since 1994)