

# Long-Term Services & Supports Feasibility Policy Note

## Assessing Social Insurance to Fund Hawai'i's Long-Term Services and Supports Needs

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### 1. A Social Insurance Approach

The expressions Long-Term Care (LTC) and Long-Term Services and Supports (LTSS) refer to the kind of help that we provide to people who have difficulties conducting their daily lives. The aspects of life that capture the essence of LTC or LTSS are the Activities of Daily Living (ADLs). These include (1) transferring from a bed to standing or to a chair; (2) eating; (3) bathing; (4) dressing; (5) using the toilet<sup>1</sup>. Helping people with these tasks is neither medical nor nursing care. It is simply assistance provided by another person so that the recipient can get on with his or her daily life. It is provided by family members, by paid helpers, or when needs are particularly complex in an institution such as a nursing home or assisted living unit. Outside the family, this is typically paid assistance. Paying for non-family assistance is the concern of this policy note.

Over the past decade or so, experts in financing LTSS have expressed concern over the very small inroads that Long-Term Care Insurance (LTCI) has made in covering care costs for American elders. Johnson and Park note that among adults 55 and older, only 3.3% of persons with incomes under \$20,000 have private LTCI, and only 8.8% with incomes between \$20,000 and \$50,000 are covered. The enrollment rate reaches 19.3% for those with incomes over \$100,000<sup>2</sup>.

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<sup>1</sup> Noelker, Linda; Browdie, Richard (August 22, 2013). "[Sidney Katz, MD: A New Paradigm for Chronic Illness and Long - Term Care](#)". - *The Gerontologist*. doi:10. 1093/geront/gnt086, accessed May 9, 2015.

<sup>2</sup> Richard W. - Johnson and Janice S. - Park. Who Purchases Long - Term Care Insurance. Older Americans' Economic Security, Number 29, March, 2011. The Urban Institute, Program on Retirement Policy.

## 1.1. The Word on the Street

Judith Feder, in reviewing the adequacy of current mechanisms for financing LTSS, concludes<sup>3</sup>:

The absence of effective insurance against the risk of needing long-term care is a market and policy failure. The need for extensive, expensive long-term care is precisely the kind of catastrophic, unpredictable risk for which we typically rely on insurance to spread costs. If, as is often claimed, people should “prepare” to manage this risk, they must have a reliable insurance mechanism to which they can contribute. Experience indicates that public social insurance must be the core of that mechanism; private insurance can play a complementary role, but even its proponents estimate that building future policy around a private market will, at best, leave eight in ten Americans uninsured.

Avalere Health, in reviewing proposals to foster additional voluntary purchases of private LTCI concludes that:

...mandatory LTSS insurance is likely the only option that will cover a substantial number of people with disabilities and replace future Medicaid spending in a meaningful way. The price and underwriting considerations necessary to create a sustainable voluntary LTSS insurance system or program (whether private or public) erect barriers that prevent a large enough enrolled population to affect Medicaid spending on LTSS. Also, the people most likely to need Medicaid in the future are less likely to enroll in a voluntary insurance program. Public policy may succeed eventually in establishing voluntary private or public LTSS insurance options that provide good coverage to some people but the research suggests that they will not result in insuring enough people to reach the population most likely to need Medicaid for LTSS<sup>4</sup>.

Nicholas Barr examined the underlying insurance structure of LTCI. The ideal rational insurance policy covers individual risk, not a common event that affects many or most people; it must cover risk, not certainty; and the individual must not know whether he or she will suffer the loss that insurance is intended to protect. The event insured must also be a real *risk* for which it is possible to predict the number of times it will occur — the event cannot be uncertain, where the probability cannot be predicted. When these basic rules don't hold up, the insurer may have an impossible task in trying to find a fair price for the insurance coverage.

Barr quotes the Royal Commission on Long-Term Care<sup>5</sup>:

Left to grow without intervention there seems little reason to think that private insurance will become more important in the UK than it has become in America. At present only 4%-5% of

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<sup>3</sup> Judith Feder. The Challenge of Financing Long - Term Care. *Saint Louis University Journal of Health Law and Policy* Vol 8:47, June 3, 2015 P. - 48. - [http://www.slu.edu/colleges/law/new/sites/default/files/Journals/feder\\_article.pdf](http://www.slu.edu/colleges/law/new/sites/default/files/Journals/feder_article.pdf)

<sup>4</sup> Ann Tumlinson, Eric Hammelman, Elana Stair of Avalere Health and Joshua M. Wiener, RTI International. *Insuring Americans for Long –Term Care: Challenges and Limitations of Voluntary Insurance*. March 2013. [http://avalere.com/research/docs/20130320\\_Avalere\\_RTI\\_Scan\\_LTI.pdf](http://avalere.com/research/docs/20130320_Avalere_RTI_Scan_LTI.pdf).

<sup>5</sup> Nicholas Barr. Long - Term Care: A Suitable Case for Social Insurance. *Social Policy and Administration*, 44 (4) pp. 359 - 374.

Americans have taken out long-term care insurance, while 10%-20% could afford to do so and 80%-90% could not afford the cost in any event<sup>6</sup>.

Barr, like Feder, sees LTCI as a task for social insurance, as the only way likely to insure an entire population for the risks it faces.

## **2. A Proposed Social Insurance Program**

### **2.1. Program Outline**

The LTSS package spelled out in SB727 of 2015 offers 365 days of program services at a first-year value of \$70 per day, adjusted for inflation in subsequent years. The bill specifies that funding shall be by way of a one-half-percent surcharge on the 4% Hawai'i Gross Excise Tax. Beneficiaries qualify by filing and continuing to file Hawai'i resident income tax returns each year<sup>7</sup>. Initial benefit levels begin at one-tenth of the benefit face value in a resident's first year in the program and are augmented by an additional 10% of the face value each succeeding year. In the tenth year, the resident qualifies for the full benefit. Should a resident be out of the state and not file a resident income tax return for three years, for example, after a one-year grace period, the benefit available will be reduced by one-tenth the value of the face benefit for each year not filed. This slow vesting and de-vesting procedure provides protection for the Trust Fund from predatory migration — moving to Hawai'i just to get a benefit. To secure a stable Trust Fund and to allow time for development of payment mechanisms, benefit payments shall begin in the fifth year of the program.

#### **2.1.1. LTSS Financing Picture with a Social Insurance Social Insurance Program in Place**

The most distinguishing feature of the social insurance program is that it dramatically increases the number of Hawai'i residents receiving assistance to pay for care services. Most of these benefits are likely to go to people who are receiving care in their own homes or in other community facilities. Because most people prefer care at home, and because facility beds are limited (and usually occupied by patients with disabilities more severe than the 2+ ADLs in the program trigger), care will likely start at home. Figure 1 illustrates the time path of benefit payments<sup>8</sup>. Because the program has a delay in benefit payments, there will be some built up demand in the first year or two.

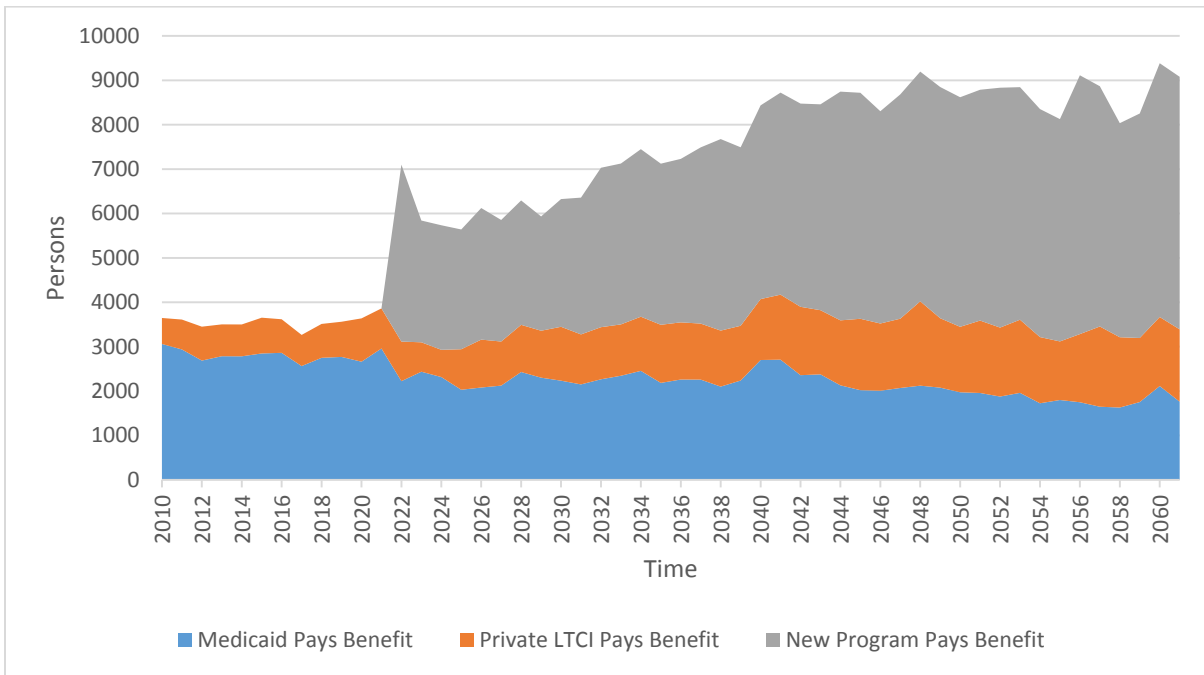
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<sup>6</sup> U.K. Royal Commission on Long Term Care (1999), *With Respect to Old Age: A Report by the Royal Commission on Long Term Care*, Cm 4192-1 (London: TSO)

<sup>7</sup> Many people in the state earn so little that they are not expected to file income tax returns. At these income levels, the residents are eligible for Medicaid provision of LTSS in both facilities and the community. It is important to note that retirees with defined benefit pensions which are exempt from Hawai'i income tax must still file an income tax return in order to declare that exemption. These filings would qualify under the program.

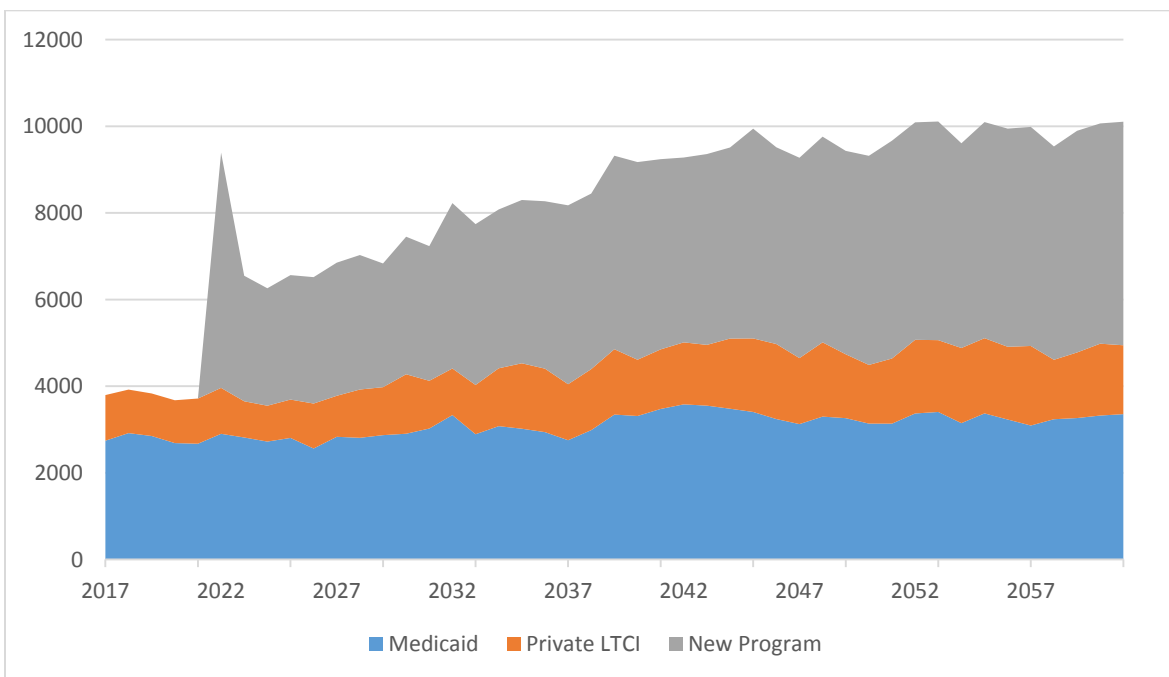
<sup>8</sup> All of the projections in this Note are taken from the Urban Institute's Dynasim microsimulation model, as implemented for the Hawai'i population. The model is based on a large sample, which is exposed to random life events over a 30 or more year period of time. The life events are randomly applied at the ration in which they occur in the current population and are tallied periodically to show the distribution of disabilities, health conditions income and retirement benefits, and receipt of private LTCI, Medicaid, Medicare and the proposed social insurance program payments. Model development for Hawai'i was executed by Dr. Melissa Faverault during 2014 and 2015. Projections reported were tabulated by Dr. Lawrence H. Nitz during July, 2015.

**Figure 1. Social Insurance Program Benefit Payments for Home Care**



Similarly, benefits paid by the program for nursing facility and residential services will grow upon initiation of benefits, as shown in Figure 2. The benefit counts in the figure are cumulative, each stream of services adding its beneficiaries to the total.

**Figure 2. Social Insurance Program Benefit Payments for Facility Care**



As expected, there is likely to be a “bump” when the program benefit starts due to care claims held back, and then a gradual growth with the aging population.

### 2.1.2. LTSS Care Costs Paid by Source

The largest share of LTSS care costs have been paid by the family, and will continue to be. Medicaid will be a substantial payment source for low-income residents. The pattern of payments, however, begins to shift as the benefits of the program come on line. Figure 3 illustrates the payment stream for home care from all major sources from 2017 through 2060. The picture for home care payments shows a significant role for the program benefits. Families are still the largest source of funding. Medicaid funding is relatively limited for home care, although Medicaid waiver programs appear to be expanding. Private LTCI still covers a thin slice of benefits.

**Figure 3. Projected Home Care Payments by Source, 2017-2060**

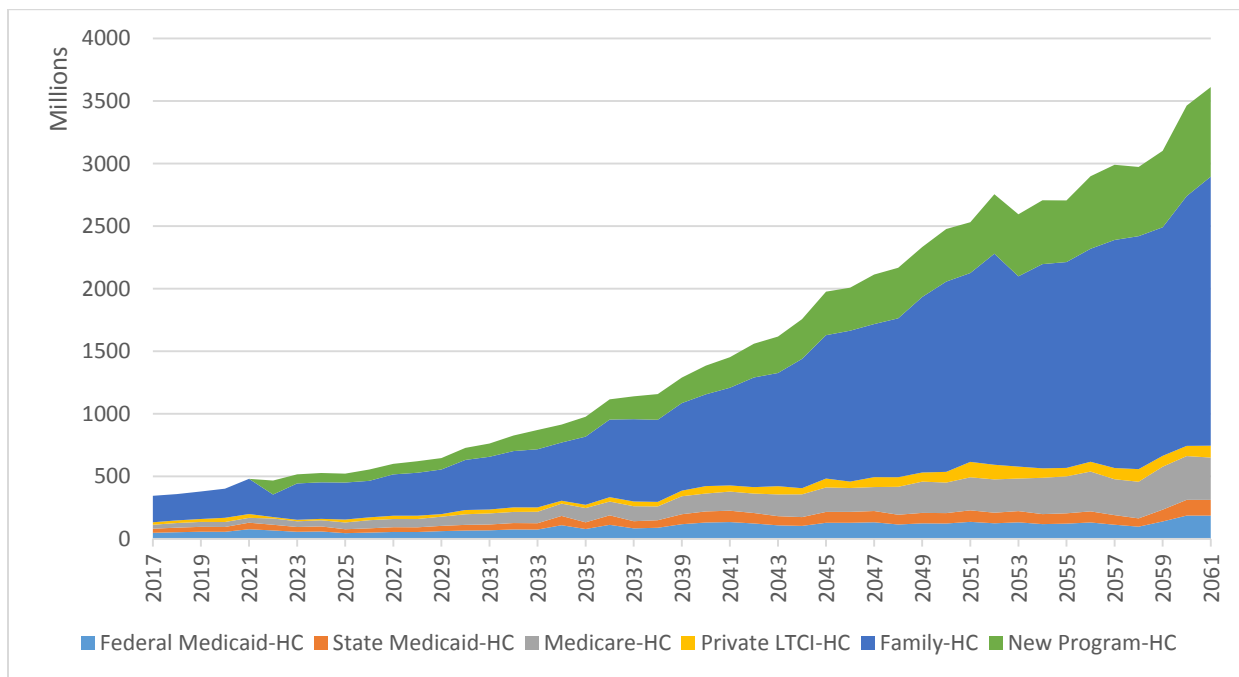
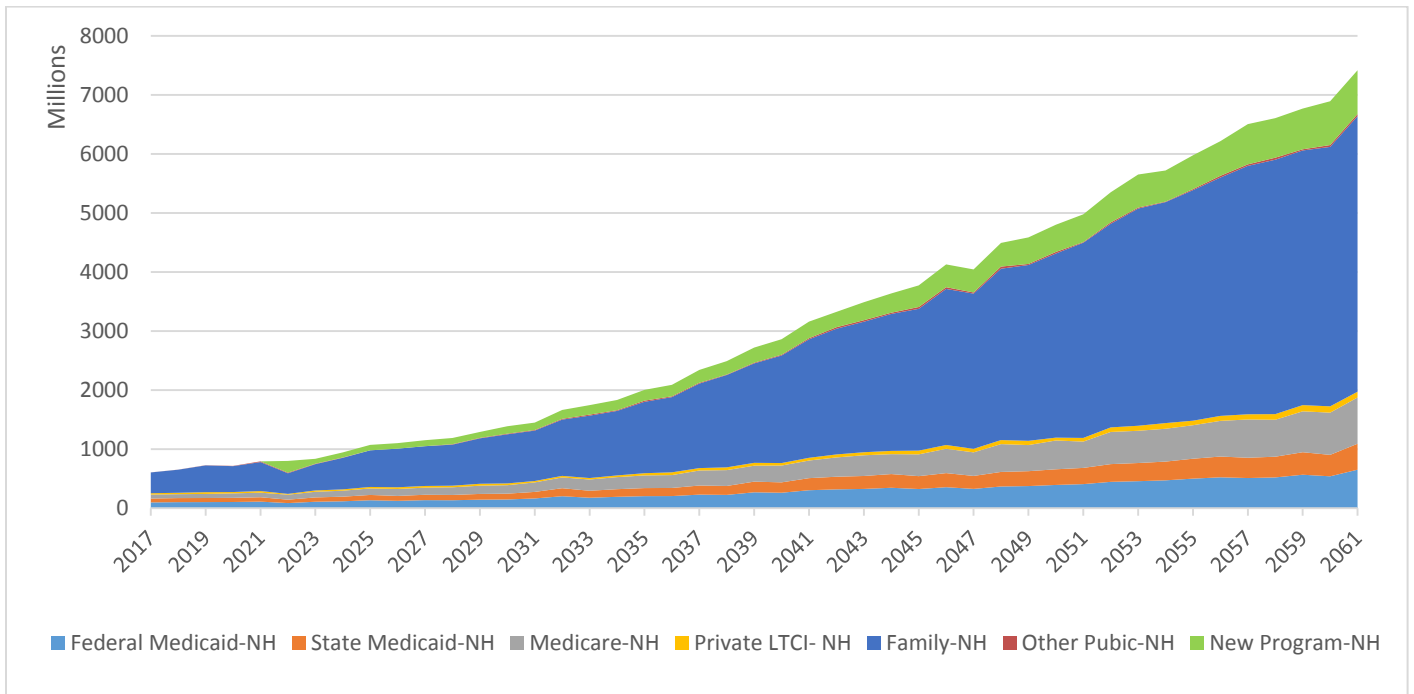


Figure 4 illustrates the payment stream for nursing home care. State and Federal Medicaid cover a segment of care, but the overwhelming share of the cost is covered by families themselves. Private LTCI covers just a narrow sliver of nursing home costs. The contributions of the new program grow steadily over time, but nevertheless cover a small portion of the total costs, particularly compared to home care costs under the new program<sup>10</sup>.

<sup>10</sup> The benefit amount is limited, targeted at covering the cost of four or five hours of home care, less a cost share paid by the family. The nominal benefit is substantially less than the cost of nursing home care.

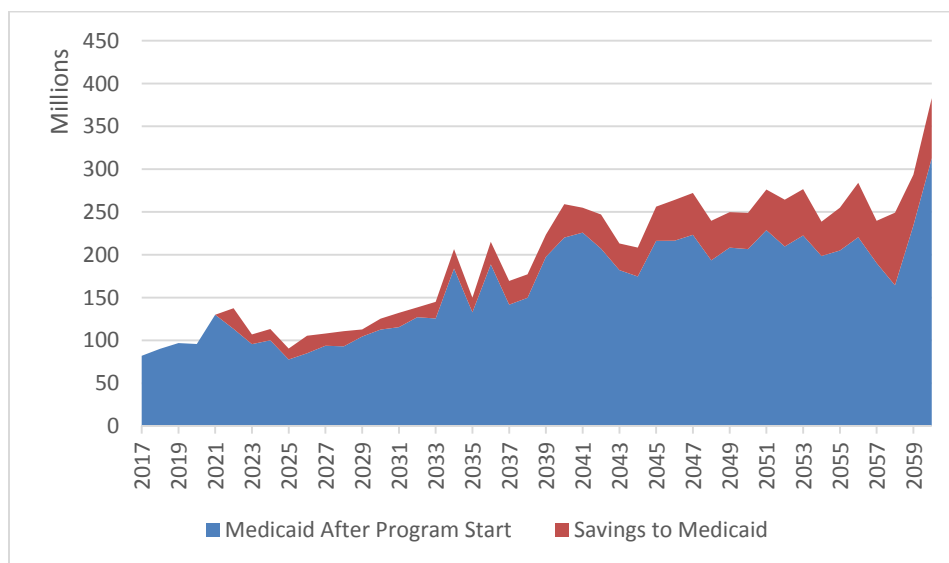
**Figure 4. Projected Nursing Home Payments by Source 2017-2060**



**2.1.3. Medicaid Savings**

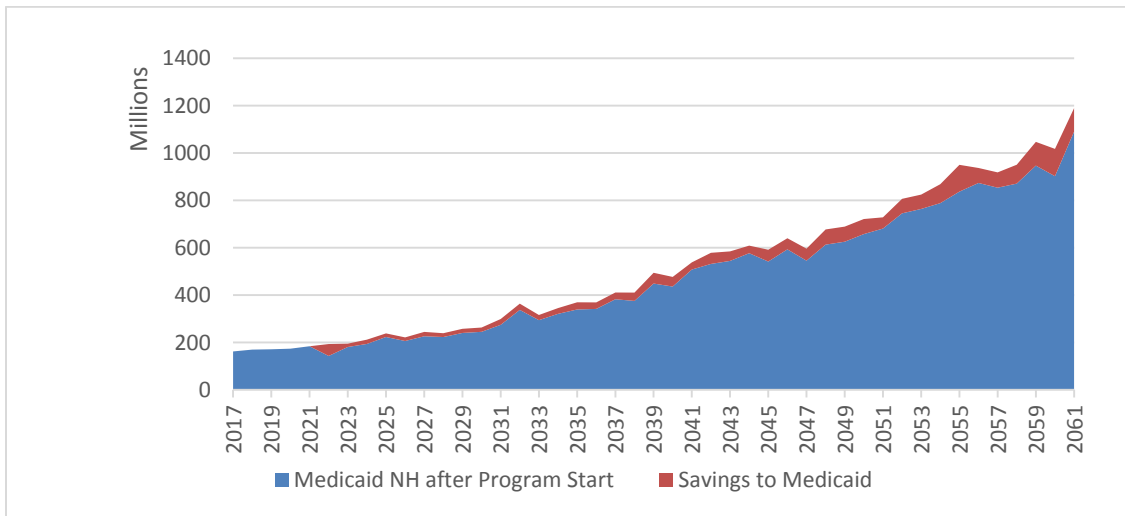
A question always asked of LTSS programs is whether the program will save the state money in its contributions to Medicaid. Note that there is a saving, but not so much. The purpose of the program is to provide relief for the bulk of Hawai'i's residents, the middle class. The savings is moving in the correct direction, however. This effect is illustrated in Figure 5.

**Figure 5. Home Care Savings for Medicaid under Social Insurance Program**



How are the benefit savings found in Nursing Home costs? The fraction of nursing home expenses paid is small, as would be expected: (1) the planned benefit payment is small, and (2) the 2+ ADL trigger value is substantially less than what is typically required for admission to a Hawai'i nursing home. Figure 6 illustrates this pattern.

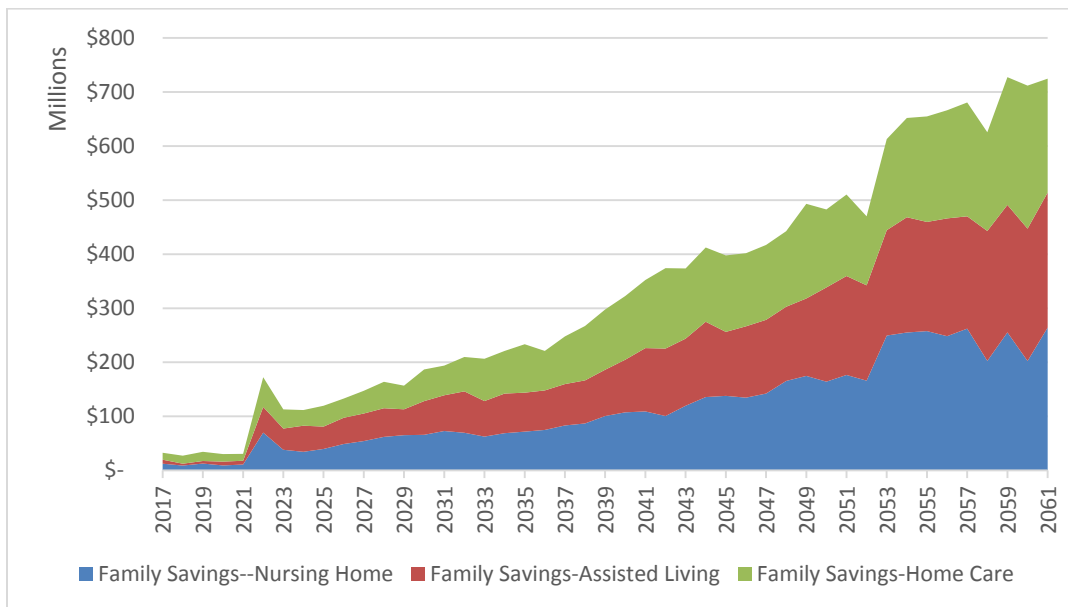
**Figure 6. Nursing Home Savings for Medicaid under Social Insurance Program**



**2.1.4. Family Savings**

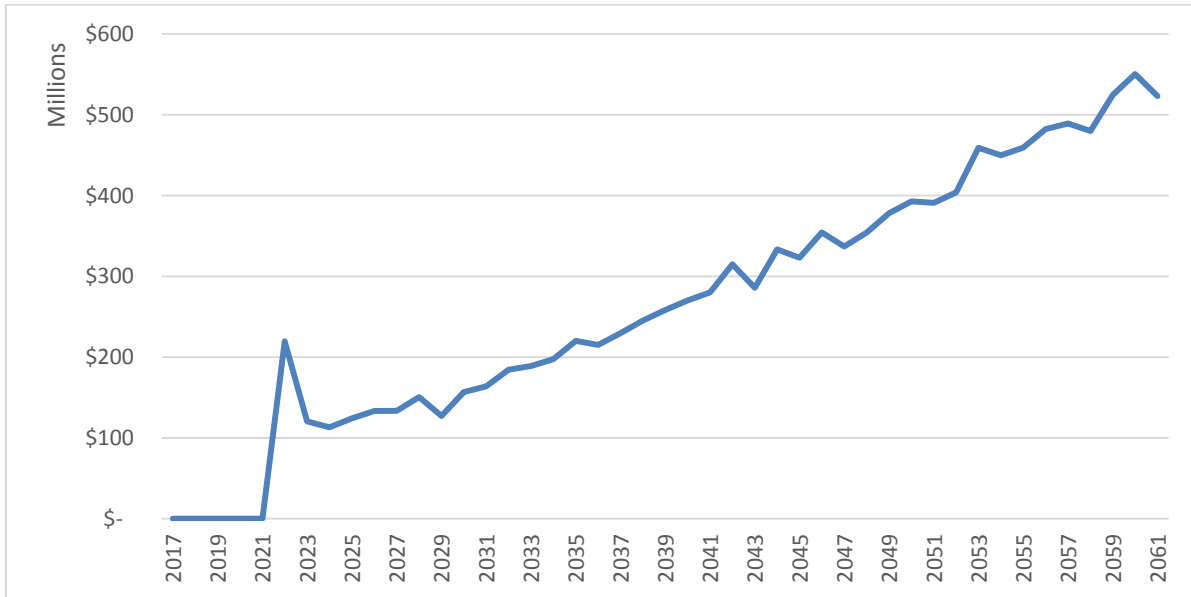
Families will save funds that they would otherwise have spent on nursing homes, assisted living and home care services. These savings begin in the early years of program payouts, as shown in Figure 7.

**Figure 7. Family Savings from Nursing Home, Assisted Living and Home Care Charges**



We can illustrate the simple payments to families for all LTSS costs as a sum of payments over time, as in Figure 8.

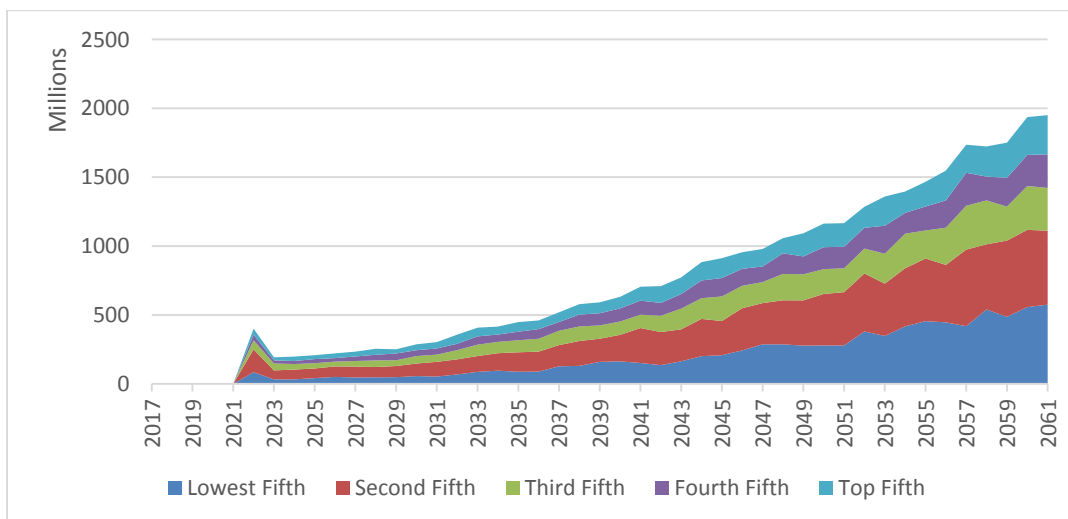
**Figure 8. Payment Stream to Families over Time**



## 2.2. Program Benefits and the Income Distribution

Breaking down the stream of benefits by income quintiles, from the lowest fifth to the highest fifth, we get the distribution in Figure 9. The benefits graph details the breakdown of the entire expected pay out. If we look at the graph, the lowest quintile receives approximately double the benefits of the third quintile. That is, the benefits accrue to the lower middle class and middle class populations, precisely those neglected by private LTCI benefits.

**Figure 9. Total Social Insurance Program Benefits Received by Income Quintile**





Unlike the case of the benefits received from LTCI, which went largely to the upper two fifths of the income distribution<sup>11</sup>, the social insurance program delivered benefits to the middle class — the bulk of Hawai'i's population.

### **3. Concluding Notes**

Covering a need for a whole population is always difficult. It is especially difficult when the need — for example, assistance with frailty when older — is randomly distributed across the population. Each of us fears on the one hand, that we will become disabled and need assistance, and denies on the other hand that the effects of frailty will ever touch us. We do not like to think about making payments for 30 years. We want to trust our insurance companies — they are partners in covering risk. But when insurers cover risks that few if any actuaries understand, or plan on earnings in the stock and bond markets that must extend thirty years, we are neither happy nor in a position to accept the fact that the insurers must reprice our policies to make up for errors in estimation.

Social insurance provides coverage for a society. It provides a base upon which private LTCI can be used as an intelligent supplement. It reaches folks who will normally not be able to maintain private LTCI long enough to eventually draw benefits.

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<sup>11</sup> See Policy Note 2 in this series.