Transcript
FedTalk: The Cost of Longevity: Long-term Care Insurance in the US
Federal Reserve Bank of Cleveland
June 26, 2024

Presentation

Speakers:

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Karen Kopecky:

Good afternoon. Thank you for joining us, and welcome to today's *FedTalk*. I'm Karen Kopecky, economic and policy advisor in the research department at the Federal Reserve Bank of Cleveland. It's my pleasure to kick off today's *FedTalk* session titled The Cost of Longevity: Long-Term Care Insurance in the US *FedTalk* is the Cleveland Fed Speaker series in which we share research that is relevant to our community. Past events have covered such subjects as the racial wealth gap, access to the labor market, and financial literacy. All of our events can be found on our website, clevelandfed.org.

Insuring against long-term care risks is becoming increasingly more important as we live longer. In today's discussion, we will look at some of the issues surrounding long-term care insurance such as financing, what Americans are thinking about, and how public policy is addressing the issue. A few housekeeping items before we begin. During this event, your microphone and camera are disabled. Please type and submit your questions to our panelists in the chat box. In the case of Zoom meeting drops, please use the dial-in info provided in the invitation to join the call.

Today we have two panelists with us. The views they and I share are our own and not necessarily those of the Federal Reserve Bank of Cleveland or the Federal Reserve system. So let me introduce our two panelists. Our first panelist is Liz Hamel. Liz is vice president and director of Public Opinion and Survey Research at KFF. Our second panelist is our Anton Braun. Anton is a senior professor at the National Graduate Research Institute for Policy Studies in Japan and a research fellow of the Japanese Canon Institute for Global Studies.

Okay. So, I'm going to start off by giving an overview of long-term care needs in the US and how they are met. Long-term care, let me just first start by defining long-term care and explain how it differs from acute care. Acute care is medical or nursing care that's designed to treat a specific condition. Think for example of hospital care after a heart attack or a stroke. And the goal of acute care is cure recovery, and this care is usually provided temporarily.

Long-term care, on the other hand, is care provided to a person who has physical or mental limitations that affect their ability to function independently. This type of care is primarily nursing care as opposed to medical care, for example, assistance with dressing, feeding, and walking. And the goal of this type of care is to improve quality of life or in some cases increase functional dependence as opposed to achieve full recovery. So, this care is often long-term or even permanent. And the amount of long-term care an individual needs is usually determined by assessing the number of activities of daily living that person is unable to perform without assistance.

The risk of needing long-term care during retirement in the US is high. 53% of Americans aged 65 will meet the HIPAA definition of need for long-term care before they die. And more specifically, what that means is that they'll need assistance with at least two activities of daily living for 90 days or more or need substantial supervision due to severe cognitive impairment. Women are more likely to need care than men. The probability of meeting the HIPAA definition is 58% for women versus 47% for men.

And conditional on needing care, women are more likely to need more years of care. So, the average years of care needed for women is 4.4 years conditional on needing care versus 3.2 for men. And the fact that women are more likely to need this care and need it for longer duration than men is really for two reasons. One is that women tend to live longer than men. And the other is that conditional on aged women are actually more likely to be disabled than men. And so, I like to summarize these two reasons as men die and women fade away on the fact of life.

So sorry. How do current retirees get long-term care insurance? Well, most long-term care is actually provided informally in their homes. This care is usually provided by a relative. The rest receive formal care either at home or in a nursing home. And the typical long-term care provider is actually a fifty-year-old woman who's caring for her mother. Daughters are about twice as likely to provide care as compared to sons. And then after adult children, the second most common caregiver is the spouse. It's also much more common that it's the female spouse caring for her husband. So about 40% of caregivers are adult children, and 35% are spouses.

Now, even though informal care is common, the risk of needing expensive formal care is significant. 45% of 65-year-olds today are projected to use some type of formal long-term care before their death. Often, care starts out as informal and then as more care is needed, formal care is added on, or informal care is replaced with formal care. Now conditional on needing formal care, most formal care durations are short. So, about half of individuals who will need formal care will use less than one year of care. However, 37% will use two to four years of care, and 10% will use more than five years. And formal long-term care is expensive. The median cost of a year of in-home healthcare is about $62,000 currently in the US The median cost of a private stay, one-year stay in a nursing home is over $100,000.

In addition, unlike acute care, long-term care is not covered by Medicare. This is because Medicare does not consider itself a long-term care insurance program. Medicare only pays for rehabilitative long-term care. This is usually short-term stays in a nursing home following a qualifying hospital event. So, because Medicare does not ensure long-term care risk, most long-term care is paid for either by Medicaid or out of pocket. The private long-term care insurance market is small. Only about 10% of US retirees have private long-term care insurance, and it only covers about 4% of aggregate long-term care expenses.

The private market is small, even though Medicaid is a means-tested long-term care insurance program, which means that individuals only qualify for Medicaid if they meet an income and an asset test. They must have income below a certain threshold and assets below a certain threshold to qualify. So consequently, many Americans end up self-insuring for long-term care risk by decumulating wealth more slowly with age. In fact, research has found that late-life long-term care expenses is one of the primary reasons for slow asset accumulation during retirement in the US And so, what typically happens is if formal long-term care is needed, many individuals start paying for that care out of pocket because they're not yet eligible for Medicaid, and they run down their wealth until they meet the Medicaid asset test, and then they transition into Medicaid. And this process is referred to as spending down or spending down to Medicaid.

Okay. So, if long-term care is substantial, why are retirees paying for long-term care out of pocket? In other words, why is the private long-term care insurance market so small? I'm going to go through a bunch of different reasons that have been found for why despite significant risk of large long-term care expenses, people don't purchase private long-term care insurance. The first one is that it's been found that Medicaid significantly crowds out demand for private long-term care insurance. And an important reason for this is that unlike Medicare, Medicaid is a secondary payer, which means that it only pays after all other insurance sources have paid.

So, what this means is that for people who are eligible for Medicaid, purchasing private long-term care insurance, those payouts from that private long-term care insurance just reduce Medicaid benefits dollar for dollar. This lowers the value of private long-term care insurance for people with more moderate income and wealth who might be eligible to get some of their long-term care costs covered by Medicaid in the event of needing long-term care. And so essentially it reduces these individuals' willingness to pay for private insurance, even though it still leaves them exposed to large out-of-pocket costs.

Another reason that individuals don't purchase long-term care is that for many people it's either too expensive or too risky to purchase. Average premiums are large. They vary with gender and marital status, but they tend to be around $3,500 per year. And coverage is far from complete. A representative policy only covers about 66% of expected lifetime costs, and so you can end up paying these relatively high premiums for many years. And if you never have a qualifying claim, then you'll never actually see any payout from this insurance.

And contracts are very long-term. So, the average age that individuals purchase private long-term care insurance is around age 60. Average age of making an initial claim, it's about age 83. So, the average duration between time of purchase and time of initial claim is about 20 years or even longer. And over this period, well, over a 20-year period, lots of things can happen. One thing that we've seen happen with these policies is that they experience rate hikes.

Insurance companies are not allowed to take one particular person and say, "We're going to raise rates on this individual." But they are allowed to raise premiums on all policyholders in a rate class if they can demonstrate to regulators that without these rate hikes, they're going to lose money on the rate class. Thus far, policyholders have experienced at least two, sometimes more rate hikes over the life of their policy, and these rate hikes tend to be large. For example, in 2019, the average rate increase that was approved on Genworth Financial policies was about 45%. Genworth is one of the largest private long-term care insurers.

Another reason that the private market is small is that many Americans are not actually even able to purchase this insurance. They're denied coverage by the long-term care insurance providers. So basically, to obtain private long-term care insurance, you have to go through a rigorous medical underwriting process. And estimates suggest that 36% of 55 to 65-year-olds in the US would be denied private long-term care insurance by providers if they applied due to pre-existing conditions. So, a lot of individuals just are not even eligible for this insurance.

And then the last reason that I'm going to mention about why the private market is small is that many individuals potentially have misperceptions about long-term care costs and how they're paid. And I think that Liz, who's going to be our next presenter, is going to talk more about people's perceptions about long-term care. And so, I'm going to pass it over to Liz. Thank you.

Liz Hamel:

Great, thank you so much, Karen. And that's a really good setup for the data that I'm going to share with you all today. So let me just pull up my slides. Okay. So let me just start by telling you a little bit about who I am and where I work. I work at a place called KFF. We're a nonprofit, nonpartisan organization, and we do policy research, polling, and journalism focused on the big healthcare issues facing the nation. Some of you may know us by our prior name, Kaiser Family Foundation. But we are not a foundation, and we're not affiliated with Kaiser Permanente, so we now go by KFF.

The work of our Public Opinion and Survey Research team really aims to elevate the voices of the public and health policy debates. And so, in our surveys, we look not only at public opinion but also people's experiences and knowledge. And the survey data that I'm going to share with you today is from a survey where we asked about people's preparations for aging, their awareness of how long-term care is financed in the US in their experiences using and affording long-term care services for themselves or a family member.

So just to start with a little bit about the survey methodology for the data that I'm going to share, this survey was fielded in spring 2022. You can see some of the basic methodological information here. This was a probability-based sample, and it was designed to be representative of the full US adult population, including conducting interviews in English and Spanish so we could capture some of those different demographics. One caveat to keep in mind is that surveys like ours generally exclude their responses of people who are currently institutionalized. So, it wouldn't include many people who are currently living in long-term care facilities, but we did include responses from family members of those using long-term care to try to account for some of that. And we are very committed to transparency at KFF, so all of the details about the survey are available on our website.

So just starting with some of our general findings about people's preparation for aging, we find in the survey that many people, and particularly those approaching retirement age say they're not confident that they'll have the financial resources to pay for care they might need as they get older. This question used a five-point scale from extremely confident down to not at all confident, and we've combined some of those responses here. But you see the light blue part of the bars is the share who say they're not too or not at all confident that they'll have the financial resources to pay for care, and about 4 in 10 adults overall, but about half of those ages 30 to 64 say that they're not too or not at all confident about this.

We also find that combined with this lack of confidence is a lack of conversations that would allow people to make these preparations. So just 4 in 10 adults overall tell us they've had a serious conversation with a loved one about who will help take care of them if they need help caring for themselves or how they'll pay for care and other support if they need it. And we do see that these conversations increase a little bit with age, but even among people ages 65 and older who are closest to the potential of needing this kind of help, only about half tell us that they've had these serious conversations with their loved ones.

And in fact, when we ask people ages 50 and over whether they've taken any of these concrete actions to prepare for their own needs as they age, we find that fewer than half report taking them. So, among those ages 65 and older, just about half say that they've set aside money that could be used to pay for ongoing living assistance, including nursing home care. 4 in 10 say they've looked for information about their options, and 4 in 10 say they've modified their home in a way to make it easier for them as they grow older. These shares are even lower, about 3 in 10 among those ages 50 to 64. And very small shares of both groups, about 1 in 10 say they've actually moved or made plans to move to a community or facility that is designed to meet the needs of aging adults.

So, this lack of preparation may be one factor that's contributing to a general sense of anxiety among older adults about affording these services. So, this question was asked among people ages 50 and older, and we asked people if they feel mostly or somewhat secure or mostly or somewhat anxious about these aspects of retirement. And you can see that majority say they feel mostly or somewhat anxious rather than secure about being able to afford the cost of nursing home or assisted living if they needed it, being able to afford paid nurses or aides, or affording unexpected medical expenses in retirement. And in general, just over half of older adults say they feel anxious about in generally the amount of savings they have available for retirement.

So, this comes to Karen's point that she ended on about people's lack of understanding of the way that long-term care is financed in the US And we do find a good deal of confusion among the public in our survey. So, here's one example. We ask people if they know which government program is the primary source of health insurance for low-income people who need nursing home care or home care over a long period of time. And we find that just about half of people correctly identify Medicaid as the source of this funding, while 4 in 10 mistakenly think that Medicare is the main source of this kind of funding. On this particular question, awareness is higher among people ages 65 and older, most of whom are already covered by Medicare. And among this population, two-thirds correctly identify Medicaid, but still 3 in 10 incorrectly believe that Medicare is the source of this funding.

We also find confusion when we ask people how they think they would pay for nursing home care in the event that they or a family member had a long-term illness or disability. Here again, we find that many adults, about a quarter overall and rising to almost half of seniors, say they think Medicare would cover these services, while 12% think Medicaid would pay and 18% assume their private health insurance would cover the cost. Just 12% expect to pay out of pocket, and another 4% say that they think friends or family members would help out. But this is clearly out of step with the stats that Karen showed us.

And I think it's also notable that about 3 in 10 say they're just not sure how they would cover these types of costs. There's a little tiny sliver that you can barely see of the dark green in the chart, and that's 1% who say they have long-term care insurance that would cover the cost. This does increase to 3% among those ages 65 and over, and 2% among those with higher incomes. But as you can see, it's barely on the radar of how people think these costs would be covered.

And when we ask some hypothetical dollar figures that actually line up with the statistics that Karen showed us about how much nursing home care actually costs, we asked people if they or a family member needed to move into a nursing home, how difficult they think it would be to afford $100,000 for one year of care. Not surprisingly, more than half of people tell us they think it would be impossible to afford this. Again, this varies by income, but even among those in the highest income bracket, fewer than a quarter say they think they wouldn't have a problem affording such a price tag.

And finally, we did include some questions in this survey about the experiences of those who themselves or a family member have used long-term care services. We're a little bit limited in the ability to break these down very finely from a national survey, but we were able to combine responses for people who say that they or a loved one was a resident in a facility in the past two years. For loved ones, we only included respondents who said they were familiar enough to answer questions about their loved one's experiences here.

So, the base for this question is about one in five of all adults if we look at the top set of bars there. And among these individuals, about 6 in 10, so combining the green bars, say that it was difficult for them or their loved one to find a facility to meet their needs. And a similar share, about 6 in 10 said it was difficult to afford the cost of the facility, including 26% who said it was very difficult. On the bottom set of bars, you see similar results for those who say they themselves or a family member used paid nurses or aides, with about half saying it was difficult to both find and afford these services.

And it's one thing to say something is difficult to afford, but that can be an abstract concept. So often in our surveys we try to document what this means for other aspects of people's lives, and you can see some of those examples here. So, this question was asked among all adults who say that they either helped pay for residential or home care services for themselves or a loved one, but in this question, we also included people who personally provided such services. As we saw from Karen, that's a big share of how care is provided. And this group represents about a quarter of the US adult population.

And among them you can see how common some of the financial consequences are. So over half of these people said that they had to cut back spending on other things. 4 in 10 said they used up all or most of their savings, and about a third said they took on debt or had problems paying other bills. About 3 in 10 say they delayed retirement plans in order to afford the cost of either providing or paying for this long-term care. Not surprisingly, you can see here these consequences are more common among people in lower income households, but they're not uncommon even among those with moderate to higher incomes.

And just a final note, this poll was actually conducted as part of a reporting partnership between KFF Health News and the New York Times. And along with the poll results, my colleagues did some fantastic journalism documenting how these challenges are affecting individuals and families across the US The journalism also included some helpful explainers about assisted living, nursing homes, and long-term care insurance. So, for those who are interested in learning more, I encourage you to check out the journalism on our website, and I believe the link to that is being shared in the chat as well. So that is the end of my presentation. Thanks, and I think I will pass it off to Toni or back to Karen.

R. Anton Braun:

I think it's going to me next. Can you share my slides please? Thank you very much. So, I'm speaking to you from Tokyo, Japan. The connection sounds great from here, so I hope everything works well at your end too. I'm going to talk to you about the role of public policy and helping families to prepare for and cope with long-term care risk. Next slide.

So, one of the things we want to keep in mind is that aging is a global phenomenon, and what it means is that the experiences that Karen and Liz have discussed about families experiencing long-term care events are going to grow over time. And so, what we're going to need, as you can see, we will probably need more help on average from family members. And there are other questions too, as well as moving forward, what's going to be the role of public policy and the private long-term care insurance market. The slide I'm showing you right here illustrates... This is slide two still. The slide I'm showing you here illustrates just that in Japan, you can see that this temple here, it's old and not well maintained. And the reason for this, it's in Shikoku, is that this community now has three members, all three are women, and all of them are over the age of 80. Next slide.

So, the question is what can public policy do to help families prepare for and cope with long-term care? Long-term care risk is concentrated at the end of the life cycle. We have lots of time to prepare because it only occurs in many cases in our 70s, 80s, or longer if we live that long. So, we can save, we can purchase private long-term care insurance, and we can have discussions with our family. There are some obstacles though that individuals face, and that is that many people really don't want to think about long-term care risk, let alone take actions.

Why is that? Well, first, as we've seen from the previous presentations, long-term care insurance is quite expensive. The second thing to keep in mind is that public insurance benefits offered through Medicaid are only available to the destitute. That is people who meet very strict income tests as well as asset test thresholds. Finally, even though the family members are the biggest providers of long-term care services, it's difficult to ask family members to commit to helping out down the road. Next slide.

So, what I want to do next is illustrate using some results from a model that Karen and I have developed of the private and public insurance market to illustrate that public reforms are going to be challenging because there's a lot of disagreement among different groups in American society about what good policies are. To illustrate this general point that there's disagreement, we use a model that we've developed in previous research to analyze three different policy reforms. The first is to dramatically scale back public insurance. As Karen pointed out, one reason why the private long-term care insurance market is perceived to be low is because Medicaid crowds out private insurance. So, by scaling back the scale of Medicaid benefits, we can investigate what happens if we take measures that stimulate private demand for long-term care insurance.

The second policy we'll consider is to offer public universal long-term care insurance, basically kill off the private market is very small in the United States. And so, let's consider what happens if we just include long-term care insurance benefits and Medicare instead of Medicaid. The final policy we're going to consider is offering subsidies, and the subsidies are very simple. The idea is that if I buy one dollar's worth of private long-term care insurance coverage, that that exempts me from $1 of the asset test for Medicaid. Next slide.

So, let's look at each one informed starting with scaling back Medicaid. What we find in our model is that if you scale back Medicaid, you make it a much smaller program, that in fact you do stimulate the private insurance market. We find that there's a large and healthy and profitable private long-term care insurance market. Who are the beneficiaries? Well, affluent individuals are better off from this policy reform. On the one hand, their tax bills decline because Medicaid is a smaller program, and so taxes fall for them. The second thing is because they're affluent, they have the ability to self-insure against long-term care risk of their own resources, and this creates an outside opportunity for them that makes it difficult for private insurers to push through premium increases on them.

Middle and low-income households, however, are considerably worse off under this arrangement. The reason why is, well, first the coverage ratios of the private insurance they get are high, but the premia per unit of coverage is also much higher than it is under current arrangements in the United States. The reason for this latter finding is that without Medicaid benefits available as a backup for them, they're highly incentivized to buy insurance that covers potentially a catastrophic loss for them. Next slide.

Let's turn next to the opposite scenario. Instead of scaling back public insurance, let's offer public insurance to everyone, universal public long-term care insurance. You could think of that as basically offering public insurance long-term care benefits to all Medicare recipients. That, not surprisingly, kills off the private insurance market. Affluent households are worse off. The primarily difference for them is that they see higher tax bills, and some of those tax receipts are used to finance benefits for lower and middle-income individuals. It's very simple. Larger public insurance requires higher aggregate public expenditures, and that means higher taxes, and the affluent don't benefit from that. The middle and low-income individuals are in fact better off under this arrangement because they're getting coverage that for them is a good deal, and $1 of insured benefits for them is worth the higher tax bills that they're paying.

The final policy that we consider is this arrangement where we exempt the asset test for Medicaid benefits on a dollar-for-dollar basis with private long-term care insurance coverage. This policy actually strikes a consensus. There's less disagreement among different income groups and exposure groups to long-term care insurance than the previous two policies. We see a vibrant private insurance market. We see most low-income people not being impacted much, either positively or negatively. And middle and high-income individuals though are much better off. They end up purchasing skinny private long-term care insurance policies. That is long-term care policies that basically cover the tail event that they experience a very large and persistent long-term care event. Next slide.

So those are the results from our model. What I want to do now to finish off my discussion is think more generally about a range of actions that we can take to stimulate the provision of long-term care services in an aging society. The first thing I want to do is point out that our view is increasing the size of the private market is probably part of the answer, and that's going to require the development of new private long-term care insurance products. One that's come up in our research is this idea that skinny private long-term care policies may be an attractive option. Now these skinny long-term care policies, they don't qualify for IRS tax benefits. So, they're referred to as non-conforming long-term care insurance policies, and there are a number of restrictions on them that could be relaxed regulatory restrictions to encourage that type of market.

A second product that is being developed by a range of private long-term care insurance companies are hybrid long-term care insurance products. These products provide benefits against a long lifetime. That is, they provide annuity benefits as well as coverage, enhanced coverage for households or individuals who experience a long-term care event. Let me turn to the second issue, which was really emphasized in Liz's talk is that there are a range of cognitive biases that individuals face, and this can be seen in a more broad question, is are Americans saving for retirement more generally? And research that's been conducted by a range of people on financial literacy. And an example of this is Finra Financial Literacy Quiz finds that less than half of Americans actually have the financial literacy skills to do sound retirement planning period. So that saving for retirement and not even talking about saving for a long-term care insurance, a long-term care event.

So, what can we do? Well, conversations with family members are crucial. Financial planning is a life skill that's in principle could be provided already in high schools and colleges if we get high schools and colleges involved. Finally, the final element is many employers offer 401k plans to their employees, and we could imagine policy reforms that tax favor distributions from 401k policies that are used to cover long-term care expenses. That covers everything I have to say. Thank you.

Karen Kopecky:

Thanks. Thanks, Liz and Toni. We're going to move now to the question-and-answer portion of this *FedTalk*. And so, I just want to kick off this portion by saying that we received a lot of interesting questions during registration. Many of the questions were asking for financial advice about specific private long-term care insurance products, and we can't give financial advice. But a good starting point for this type of information is the National Association of Insurance Commissioners Consumer Guide. It explains how different long-term care insurance products work, and it also has a list of state insurance departments and agencies that can be contacted to obtain additional information on long-term care insurance. So, if you're trying to navigate this complicated world of private long-term care insurance products and options, I highly recommend taking a look at that guide and maybe even reaching out to some of these departments and agencies with your questions.

Now I'm going to turn to some of the questions. The first one is that we got asked actually more than once was, what's the appropriate age to purchase long-term care insurance? And so, I'm going to answer that one. And as I mentioned in my presentation, most people purchase this insurance around age 60, generally in the range age 55 to 70. The optimal age to purchase really depends on things like your health, what you think the likelihood are that your health is going to deteriorate and at what rate, and how much you can afford to pay each month in premiums.

Monthly premiums are lower if you buy earlier, but the trade-off of that is that if you can afford to pay very high monthly premiums, you actually will pay less overall in expectation if you buy later. So, there's that trade-off, but then the other trade-off is that if you wait too long to purchase, assuming that you can afford very high monthly premiums, you're saving money in expectation by delaying purchase to later ages. But by waiting too long, you may actually... By the time you're ready to purchase, you may no longer be able to because as you wait, the risk that you get hit with some bad health shocks goes up. And so, the risk that you get denied due to pre-existing condition rises.

Ideally, you want to purchase this insurance either at the point where the monthly premiums that you would have to pay are too high going past that point, and/or you're about to get hit with a really bad health shock, which is hard to predict, and that's why you potentially need to purchase well before that actually happens. Denial rates are about 12% for people in their 40s. They're about 47% for people in their 70s. So, if you wait until your 70s to purchase, there's a 47% probability that conditional on applying that you will not be able to get the insurance. Okay. Let me move on to another question. This one I think is best for Toni, and the question is, can irrevocable trusts be used legally to shield assets, thereby allowing the use of Medicaid?

R. Anton Braun:

Thanks, Karen. As you explained in your presentation, Medicaid is means tested, and there are two different means tests. First, there's an asset test threshold. If your assets exceed that threshold, you don't qualify for Medicaid benefits. And secondly, there's an income test as well, and you can use trusts. There are different types of trusts, but you can use a Miller trust to help you satisfy the income test to basically set aside income so that income isn't subject to the income test. And you can also create a Medicaid Asset Protection Trust that exempts assets from the Medicaid asset test. Now these two trusts are different vehicles if the question was asking about protecting assets, so let me focus on that one instead of the Miller trust, which it'd probably allow you to protect or exempt income.

In terms of exempting the asset test, the crucial consideration for Medicaid Asset Protection Trusts is that they have to be set up about five years before the event. And so, these assets have to be moved into the trust five years before you experience. There's a five-year lookback period, and they're irrevocable, which means that you can't change the rules of the trust. Those assets can't be tapped. Now the benefit is that these assets cannot be touched by Medicaid since they're no longer your assets. They belong to the trust. They cannot be seized by Medicaid after death to cover medical expenses that Medicaid covers. So, this is a vehicle that allows you to protect assets that you intend, for instance, to pass on to children or other relatives. Thank you, Karen.

Karen Kopecky:

Thanks, Toni. I'm going to move on to the next question, which is for Liz. And the question is, what is the financial impact on family and informal caregivers who are stepping in to provide long-term care? And I know you said a little bit about this in your talk, so do you think you could say a bit more?

Liz Hamel:

Sure. Yeah. And I will caveat this by saying I'm a public opinion researcher and not an economist. So, I approach this from that perspective. I think we can measure some of the direct costs that people might experience from actually paying for care. But when we think about the financial impact on caregivers, there are some measurable costs like lost wages or people who are taking early retirement to help take care of a family member. But then there's a lot of other costs that can add up and are more difficult to measure, like the mental health and the stress toll that is taken on caregivers. And caregivers can experience their own declines in health as a result of their caregiving experiences. That can lead to future healthcare costs for the caregiver.

We also heard how many caregivers are the adult children of aging parents, and many of those people, we're part of what we call the sandwich generation. They have their own children as well. And so, by either losing wages or investing money to help take care of their parents, they may not be saving for their own kids' education or for their own future long-term care needs. They may not purchase their own long-term care insurance because they don't have that money because they're helping support their parents. So, I think it's important to look at the big picture of how these impacts are affecting families.

Karen Kopecky:

Yeah. Thanks, Liz. So, I'm going to move on to the next question, which is, does the government plan to introduce a more comprehensive public long-term care insurance program? And I can answer this question and let me just say that under the Obama administration, there was a plan to do this. So, an attempt was made under Obama to introduce a voluntary self-financing public long-term care insurance program in the US It was initially part of the Affordable Care Act. Unfortunately, this program was canceled because of concerns about its financial viability. I think perhaps making it voluntary did not really resolve the adverse selection problem that is pretty severe in this market.

And so that program didn't end up happening, but more recently there's been some efforts made on the part of states to provide public long-term care insurance. In particular, the state of Washington recently launched a public long-term care insurance program called WA Cares Fund. Participation in the program is mandatory unless you have private long-term care insurance, in which case you can apply for an exemption. And workers started paying into the program in July of 2023, so but just very recently about a year ago. Benefits are going to start being available in 2026.

And the way the program works is that workers pay a wage tax, kind of like social security tax. They pay 0.58% of their wages in taxes each year, so less than 1% of their wages in taxes. And this tax revenue goes into a fund that then can be used to pay for long-term care services. And so, after you've paid for either a certain number of years, or if you're currently paying and you experience a sudden need for long-term care, you can get a benefit up to $36,500. And what I think is nice about this program is that these benefits can be used to pay for formal long-term care, but they can also be used to pay for informal care. You can use them to pay your spouse or your child. You can also use them to purchase equipment for your home, like home modifications if you need to put a ramp in, or you can use them to pay for food or medical delivery services. So, they're quite flexible, and so it'll be interesting to see how that program evolves.

Now, a few other states have also been thinking about public long-term care insurance programs. So, there are some other states that have either legislated them or thinking about enacting legislation. So, I think public long-term care is growing. It's not coming from the federal government. So far, it's coming from the states. Anyways, so let me move on to the next question. So, we have one question from the chat, which I think, Toni, you could say something about, which is, would we see more hybrid long-term care insurance sales happening if federal regulations change to allow for those policies to qualify for state long-term care partnership programs?

R. Anton Braun:

Yeah. First, I anticipate that if hybrid long-term care insurance policies were treated as IRS conforming that they're an attractive vehicle, and those like other conforming long-term care insurance products under PP, PP is partnership programs between states and Medicaid. And what these hybrid products under PP, you can exempt the benefits from a private long-term care insurance product from the asset test, and allowing skinny as well as hybrid long-term care insurance products to qualify would be great. Currently, only the range of private long-term care insurance products that qualify for the partnership program is very limited. So, expanding that would be great.

Karen Kopecky:

Thanks, Toni. And I have another question in the chat for Liz, which is, what are some of the reasons for the lack of awareness and confusion about how long-term care is paid for?

Liz Hamel:

Yeah. First off, let me say that we do a lot of polling on different healthcare issues, and it is not uncommon for the public to be confused about some of the details of how our healthcare system works. We all know healthcare is very complicated, and so I'm very careful to say that I don't think that these findings disparage the intelligence or the attention of the American public. A lot of people, especially people who are affected by these issues are busy trying to put food on their family's tables, and they don't really have time to go and read the details of how these different policies work.

And often things like long-term care costs can come up suddenly, and people just don't think about it before they need it. I think another thing that came up in some of the presentations too is the fact that it's not really part of our culture to talk about these things within families, as it may be in some other cultures where there is more family support in terms of people's aging needs. And so, I think that's another reason that they're not in tune to paying attention and planning for these issues in advance.

Karen Kopecky:

Yeah. I agree with you. Yeah. I mean, long-term care, it's also incredibly complicated. Just I think it's daunting even just to start to try to think about these issues. As a researcher, I'm always learning more about exactly how all of these insurance products work and what the options are. And I mean, it's complicated for me, and I've spent a lot of time just studying this. I can't imagine for people who are just trying to quickly get a sense of what product should I buy, and how worried should I be, and who do I talk to, and how overwhelming it must be. So let me move on to another question from the chat. Toni, I think you could handle this one, which is what should be the role of employers in offering group long-term care insurance plans, and how can we provide incentives to businesses to include them in their benefits packages?

R. Anton Braun:

Thanks, Karen. As we've been discussing, on the one hand, Americans are not really saving enough for retirement, period. And then thinking about long-term care insurance is an even more complicated decision. And so, one thing that companies can do is companies offer 401k benefits, and there's some changes going on. There's some subtle changes going on in the way they manage these programs. It seems to be working in the sense encouraging people to save earlier and save more for retirement. And so, these changes are rather than the default option for a contribution to a 401k plan being zero, the default might be 3%. And it might scale up automatically each year to, say, 6% unless the individual says, "No, I don't want that."

Now these schemes have been effective in inducing individuals to save more for retirement. A previous question we had was about hybrid products. Well, what a hybrid product does, it covers a longevity risk as well as long-term care insurance risk. And the policy reform that we could consider for employers is the one I mentioned during my talk. And that is when you have a payout, a distribution from your 401k, why not offer some tax benefits? Those distributions are currently taxed, subject to income taxes, but you could imagine policy reforms that offer tax benefits to distributions that are used to finance long-term care expenses.

And so that'd be one example. Another thing that firms can do as well is they could try to make it easier for employees to either provide informal care themselves, an employee who has a parent who needs care and not intense, but light care needs by making it easier, flexible time. Or providing services. Some companies are already providing four or five days of services from a company to a family member who needs assistance. So, these are an example of several different things that employers could do to help out.

Karen Kopecky:

Thanks, Toni. So, another question in the chat is, has any thought been given to how having more folks on long-term care insurance would affect demand for long-term care and affect capacity? I think that's a really interesting question. I think it's very unclear how increasing the amount of private long-term care insurance people have would impact long-term care capacity. Because I think it depends on a lot of factors. One is we saw with this WA Cares program that this is a program where you can use your benefits to pay for informal care. And we've also heard from Liz that people might have a preference for informal care potentially or at least care in their home. So, depending how these insurance programs pay out, that could definitely, I think, impact demand for beds in nursing homes versus formal caregivers versus just more informal care provision from family members.

I think the other thing that probably matters a lot is how increasing private, for example, increasing the size of the private market would impact the amount that nursing homes and formal care providers are paid, which I think is a complicated thing to think about. But Medicaid doesn't pay as well as private long-term care insurance for the same services. So, it's a large demander of Karen. It sets the price that it pays. If nursing homes were able to receive higher rates of reimbursement for care and providers were paid more, that could increase supply. So, we could see an increase in demand and an increase in supply to offset that, and we could also see changes perhaps also in quality.

I'm just speculating here, but I think that that's a really interesting thing to think about. Liz, Toni, if you want to add anything on, feel free. If not, that's fine. We're basically out of time anyways, so I'm just going to wrap up by saying thanks, Liz and Toni, and thanks everyone for joining us for the informative discussion. Information about today's program will be sent in a follow-up email. A recording of the event will also be posted on clevelandfed.org. Please join us July 17th at 3:00 p.m. for our next *FedTalk*, which is going to be on childcare and the workforce. And thanks everyone for joining us today. It was a pleasure. Have a great rest of your day.