MOST POLICY INITIATIVE

DATE January 5th, 2022

SUBJECT Long Term Care Insurance Plans (LTCIPs)

MEMO

Long Term Care Insurance Plans (LTCIPs) can cover the costs of long-term senior living needs.

- The LTCIP market has shrunk from roughly 100 insurers in 2004 to a dozen in 2020 (NAIC, 2022). Between 1990-2015, average premiums for LTCIPs tripled nationwide (NAIC, 2016).
  - The most likely users of these plans are those who are aware of LTCIPs and intend to leave an inheritance (Lin, 2016).
- *Employer-sponsored insurance*
  - Group insurance, such as employer-sponsored LTCIPs, can result in 5-10% savings on premiums (AALTCI, 2022).
  - The employer-funded LTCIP market shrank by 83% between 2002-2014 (Johnson, 2016; Cutler and Zeckhauser, 1998).
- *Publicly-subsidized LTCIPs* (NCSL, 2021)
  - WA law extends a public-option LTCIP to all workers (unless self-employed) with a lifetime maximum benefit of $36,500, and inflation protection for benefits based on the state consumer price index. Program costs are covered by a 0.6% payroll tax.
- *Hybrid Plans*: LTCIPs can be sold with life insurance in a single higher-premium plan, allowing the consumer flexibility to use funds that may go unused in either plan (NAIC, 2019).

Price caps or price setting: States can limit insurance costs by setting price caps (limit the maximum providers charge for services before reimbursement) or price setting (establish a fixed price for a service to receive reimbursement). While the effects of health insurance price caps, setting, and growth rates on medical insurance costs are well studied, similar studies of these factors on LTCIPs are lacking.

- Price caps that set the maximum charge for service between 160-250% of Medicare prices saved total system costs 5%, 10%, and 28% in OR, WA, and MT respectively (OR SOS, 2019; Sen, 2021; Schramm, 2021)
  - In some cases, caps or setting can cause providers to set higher prices for other services without caps or recommend higher price services to make up revenue (Chernew, 2021; Jacobson, 2010).
- Price setting of services at or slightly above a comparable insurance (such as Medicare) can reduce costs.
  - A 2021 study projected that if rates for service are set similar to Medicare, annual health spending would be $350 billion lower (Schwartz, 2021).

Pegged or capped growth rate: States can also limit the rate at which insurance premiums grow by pegging cost increases to the rate of inflation or by capping the growth in costs to a fixed percent. This can ensure that lifetime maximum benefits keep up with the rising cost of care.

- CA law requires LTCIPs to offer 5% inflation protection for a policy's lifetime maximum benefit to match increased costs, which can increase premiums.
- In RI, health insurance growth caps pegged near the inflation rate reduced average patient spending by 8.1%. (Baum, 2019)
- Growth rate caps do not have flexibility should sudden changes (like the COVID-19 pandemic) change the cost of supplies (Chen, 2021).

Related Science Note:

- Affordability in Senior Living Communities

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