News Flash: Retirement Takes Over Long-Term Care

John Cutler

Protecting oneself in older age from risks is the sine qua non of retirement planning. But far too many people don't approach retirement (or retirement planning) well. From a policy perspective, we know about half the senior population will have some sort of long-term care event or need that meets the government's Health Insurance Portability and Accountability Act (HIPAA) definition of severity. And one in six (14 percent) will see serious use of long-term care services (like over five years).

The way to protect against the financial burden for this varies. The main way is for people to self-insure, drawing down what they have saved and invested. Others see their house as their best tool for converting wealth to long-term care financing. Both have limitations we won't dwell on here. Some others go into continuing care retirement communities (CCRCs). But too few think of this as a real solution (though it is nice to see the housing component included and not just the medical side). Still others use life insurance … if they have enough and it is structured to be tapped for long-term care. Another not so good solution.

What an actuary or policymaker would say is that what's really needed is protection designed solely for the long-term care risk. And there it is. Along came long-term care (LTC) insurance.

Unfortunately, LTC insurance as a stand-alone product is not working. In addition to near systemic pricing uncertainty, there is resistance from buyers. The *best* scenario, in fact, is that only one-third of the public will buy the product. So yet another solution that wasn't, as it turned out.

And it is not as if the long-term care insurance carriers have not tried to alter the glide path of these products. My take is that carriers have responded to the perceived lack of value by going in two different directions. One is to create shorter/cheaper insurance in the hopes more people will buy it. That probably is not going to work if people think it is *too* cheap a solution. Why bother to buy what amounts to a piece of paper saying you are protected when you really aren't for a substantial long-term care event?

The other direction carriers have taken is to *enhance* the product. Here the idea is to meet the value needs of the buying public by tying the LTC insurance to annuity and life products. While the cost is higher, the perceived value is greater—at least in theory. These are not truly new products and the merger of the two product lines just for the appearance of adding value for consumers does not represent new or creative thinking about how to really increase the market. My guess is that after an initial flurry of sales, this market will be just as small as stand-alone products.

As an aside, there aren't many successful ideas coming out of the advocacy/policymaking universe either. The Community Living Assistance Services and Support (CLASS) Act was essentially employer-based disability/long-term care insurance. The Federal Long Term Care Insurance Program (FLTCIP) experience is that employer-based insurance without a premium subsidy has a take-up rate of about 6 percent. Since I was the architect of this program, I'm quite happy to say it is a long-term care insurance success, with over 270,000 enrollees. However, as a policymaker myself, this is NOT a policy success.

Shift to Retirement Products

We need to recognize that long-term care risk is a component not just of aging but of retirement. Placing the solutions in the retirement space is critical to reaching the bulk of the population. I believe a retirement focus is the next likely arena for long-term care (aka, long-term services and supports or LTSS) reform. In the retirement policy world, the concept of annuitization of retirement is the current "big" idea. Combined with the additional element—recognition of risk—this would be both a powerful protection but also a natural one for individuals to understand.

One particularly exciting idea is to tap into IRAs and 401(k) products for long-term care. For IRAs, tapping into these funds is currently allowed as a penalty-free event only in case of a permanent disability. It makes sense for this to be extended to LTC as well. What is interesting is that the cost to the federal government should be essentially neutral since these products are already tax-protected. Going further, one can see changing the regulatory structure around 401(k) products so the funds can be treated as a retirement risk protection account (an idea proposed by, among others, Anna Rappaport of the Society of Actuaries). The funds could be used to purchase a variety of options including lifetime income, supplemental health insurance and/or long-term care protection. It should be noted the Treasury Department issued regulations on longevity annuities last year, yet another indication of this interest in melding retirement and long-term planning.

A related idea here would be to standardize annuities as was done with Medicare supplement insurance. Jeffrey Brown et al.[1] recently wrote that many policymakers would consider the optimal choice in retirement to be a decumulation strategy based on annuitizing large sums of assets. Yet people do not know or trust annuities: They would rather keep what they have. (In social science parlance, they have a strong bias in favor of the pre-existing default.) Having a few core standard annuity products offered via a regulated private market at a distinct age (like Medigap is at 65) might better focus consumer interest.

Social Security

With all the concern over Social Security solvency it might be odd to suggest changes here to add long-term care protection. But if you look at work by Nancy Altman and others, this concern about Social Security is somewhat misplaced.[2] One idea that might help long-term care coverage within the Social Security context is what Bing Chen (then at Boston University) proposed in 2007.[3]

Chen's idea was to create a Social Security/long-term care plan by trading off a small portion of Social Security benefits that would provide a basic level of long-term care protection via social insurance as a base. Supplemental private long-term care insurance would be added on top. (Of note, he exempted low earners from the trade-off, relying on Medicaid as the safety net for them.) The importance of this approach is that it augments social insurance with private insurance by combining several sources of funds that currently exist in both the private and public realms.

It is probably obvious to many in this field that most policymakers undervalue private insurance. But, at its core, private long-term care insurance is not just an insurance mechanism (like Social Security); it also has the strength of holding/moving money over time and gaining the power of compound investment. Social Security for all its strengths does not do this. Social Security is a pay-as-you-go program and does not rely on the time value of money. Instead it relies on the power of taxing everyone. By combining the two concepts, you get the strength of each.

Role of Medicare

Another approach that merits interest lies in enhancing Medicare, though one does not normally think of this as a retirement product. But given Medicare's role, along with Social Security, in protecting against the financial risk or ruin for seniors, it has to be on the table. It is an artificial divide to say Medicare is health insurance and not recognize its financial importance. When Medicare was passed, more than one in four seniors were in poverty. That has been cut dramatically. Along with Social Security increases, Medicare has reduced that number to more like only one in 10 seniors.

That means a part of any retirement calculation is reliance on one's health care by Medicare. (And for poorer people, the dual eligibility for Medicaid as well.) Technically, Medicare really only covers short spells (up to 100 days) for post-acute care. Yet one surprising development over the last couple decades is how much is going to skilled nursing facilities (SNF) and home health, what most people would think of as long-term

1 Jeffrey Brown et al., "Are Cognitive Constraints a Barrier to Annuitization?" Boston College's Center for Retirement Research Issue Brief no. 15-6 (March 2015).

2 See Nancy Altman and Eric Kingson, *Social Security Works!: Why Social Security Isn't Going Broke and How Expanding It Will Help Us All* (New York: New Press, 2015).

3 Yung-Ping "Bing" Chen, "A Trade-Off Proposal for Funding Long-Term Care," Georgetown University Long-Term Care Financing Project (June 2007).

care. Coverage has risen from just 3 percent in 1988 to more like 18 percent of the total Medicare budget in 2011. This does not count drug coverage, which is more important to an SNF or home health user than to a healthy 65-year-old. It does not take much to imagine we are seeing Medicare becoming that "short and fat" program which many advocates had sought as a long-term care reform proposal.

Next Steps

For those of us toiling away in the long-term care universe, this potential shift to retirement thinking is something for the researcher in all of us to watch. But the policymaker and advocate would be more active: Discrete ideas always attract attention. The CLASS Act is an example; love it or hate it, you had to pay attention to it. Product designs could (should) be created around the idea of better accessing 401(k) and IRAs for long-term care. Also, a standardized annuity suite of products could be structured (including longevity annuities).

Further design work on Chen's idea of adding LTC to Social Security is also an obvious idea, particularly in how private insurance can enhance Social Security with the addition of private financing and the power of investments. Design work on how one could alter Medicare's structure is also called for. Augmenting skilled nursing facility and home health care makes more sense than continuing to restrict the program to its origins as post-acute coverage.

This is the time to broach those topics and put new ideas on the table.

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