

Wye River Group on Healthcare

The Implications of an Aging America

The Potential Role of Targeted Education Efforts

Payers and Financial Planners' Perspectives

Overview

Payers and financial planners say that long-term care insurance is a difficult product to market for several reasons. There is a lack of interest from consumers, who don't generally understand or want to think about their future income and health care needs. There are regulatory barriers that prevent insurers from offering better products. Also, a lot of people lack the income to purchase long-term care insurance and continue paying the premiums into retirement.

Despite these current drawbacks, payers and financial planners believe that it is vitally important that long-term care insurance become a viable product. Looking at the demographics of aging, many Americans are going to need the coverage. They cannot simply rely on Medicaid to be their long-term care insurer. Baby boomers, and a longer life expectancy, are going to overwhelm the ability of public programs to pay for long-term care. There are going to have to be private dollars going into the system.

Federal and state governments have a direct stake in encouraging people to buy LTC insurance because it will decrease the financial burden on public programs over the long term. Furthermore, the burden will grow given demographics and the expansion of alternative financing mechanisms is critical. In fact, there are a number of steps the federal government can take to encourage LTC planning. One should be a public education campaign to raise consumers' awareness and spur their interest in coverage. But there should also be action to remove the regulatory barriers that prevent insurers from designing better products and employers from offering them.

Key Themes and Areas for Action: Public Education, Product Definition, and Alternative Financing Mechanisms

Lack of Awareness

Current Situation:

Financial planners say long-term care is gaining interest but still has not captured the attention of their clients. It's a declining market because employers can't afford to subsidize it as much as they could before and workers are not stepping in to assume responsibility. Financial planners see a lot of denial among consumers about the need to plan for retirement, including long-term care coverage.

“I meet a lot of rational people who are completely irrational about their retirement,” said a financial planner for Cassaday & Company. “It could easily be dealt with if there were some publicity by the government and others.”

People are generally interested in LTC insurance only if they know someone who has had to use it. Otherwise, there is a lot of ignorance. Financial planners say that employers are generally not telling their workers about LTC insurance and don’t understand that their employees will need it.

“Most employers are afraid to tell employees the bad news on LTC in the context of rising health care costs,” said a LTC insurance broker. “Employers worry about passing on more bad news without being able to share any of the cost.”

Financial planners say they, too, worry about bringing up LTC with their clients.

“I do sense that it’s a turn-off if I bring up LTC insurance during financial planning,” said a financial planner with Smith Barney. “It becomes a different relationship. To some degree, people think ‘who cares? Someone else will pay for it.’”

But there is some information out there. One financial planning company recently sent an educational mailing to clients about long-term care. But the company predicts that they won’t get many follow-up calls. Some magazines are covering the issue. But information on LTC is largely spread through word-of mouth communication.

What is needed?

Consumers need to understand how long-term care insurance fits into their financial health in retirement. The issue profoundly affects income security, and Americans need to be made aware of that. There are a lot of entities trying to get the word out, but there is a need to start a coordinated, systematic campaign. The message needs to be kept simple, understandable and relevant.

Who should do it?

Payers and financial planners say that employers need to bring up LTC with their workers, and financial planners need to discuss it with their clients. But the federal government also needs to play a major role in getting the word out.

“I think people need to hear it from the government.” – a Cigna representative

Financing Issues

Current Situation:

Public programs are already overwhelmed by cost pressures, which will only intensify as the aging population expands. Currently, the Medicaid program is the LTC insurer for

many Americans but is not really meeting their needs in an optimal way, from either a health or a financial standpoint.

Insurers are not yet aggressively marketing alternatives because they have found the product difficult to sell. They would like to be able to offer better products, but there is confusion in the market about what that might be.

“We’re not selling our own product because we’re worried about the long-term risk and how to price it,” said a Humana representative.

Also, a lot of people don’t have the income or assets to purchase LTC insurance in addition to covering their health care costs. There is a question of where the money is going to come from for people to purchase LTC coverage.

“Many seniors don’t have adequate resources to get basic health care, much less LTC insurance.” – an American Association of Health Plans representative

But there are also many Americans who can afford to buy LTC insurance and have not yet done so.

“There need to be solutions at all income levels.” – a Humana Senior Products representative

Federal and state governments have an interest in encouraging people to buy LTC insurance because it would have a positive impact on Medicaid financing over the long term.

What is needed?

There are steps the federal government can take to encourage consumers to buy long-term care insurance and motivate the private market to offer better products.

“People have to be rewarded for doing the right thing,” said a Cigna representative. “We’ve set barriers so you’re really penalized for doing it if you’re poor or lower middle class. Let them shelter assets up to the value of the policy.”

Another step would be to change the tax code so that employers can offer LTC insurance as part of a cafeteria plan. An additional incentive would be to allow 401(k) plans to be used for LTC.

“One thing that would really help is if there was something similar to a (401)k account so that people could understand this is something I should fund while I’m working, with the idea that it would be fully funded by retirement.” – Long-Term Care Planning Services representative

Care Delivery/Service Issues

Current Situation:

In addition to the financing problems, payers and financial planners say the health care system has not adequately developed its infrastructure and delivery of care.

“There aren’t any good delivery systems today,” said a Blue Cross/Blue Shield representative. “Nursing homes are unattractive. They’re warehouses. There’s very little out there that I would want to allocate my money toward.”

There is also a confusing array of long-term care insurance products – all of them with their own benefit structure. For example, some are perceived as a health insurance policy, others viewed as asset protection.

What is needed?

“You need a delivery model people want to use,” said a Blue Cross/Blue Shield representative. “We need to think about, where would the money go? There are no good options.”

Part of that requires expanding the standards that have been developed for nursing homes and extending them to other LTC services, such as home health.

Leverage Points

Payers and financial planners are interested in offering long-term care insurance, but only if there is enough interest to make it a viable product. Adjusting the regulatory environment would motivate them to get into the market more aggressively, with better products. But underpinning all of this is the need to educate consumers about how difficult the future could be without LTC coverage. Financial planners would like to see government step up to the plate with a public education campaign.