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State Programs to Encourage Long Term Care Insurance

This policy brief summarizes a detailed report available on our website about the impacts of state incentive programs on an individual's decision to purchase long term care insurance.

State governments across the nation are becoming acutely aware of the increasing costs of medical care for the elderly and disabled. Many observers see a significant financial crisis looming. As the baby boom generation ages, and Medicaid costs grow, states will be spending more and more of their budgets to cover these costs. Hawaii's share of Medicaid expenditures will more than double between now and 2020. Encouraging individuals to purchase private long term care insurance has been seen as one solution to this crisis. If individuals purchase long term care insurance in the private market, the state's Medicaid expenditures may not grow as quickly.

Our report examines two efforts by state governments to encourage people to buy long term care insurance for themselves: (a) tax incentives for either individuals or employers who buy long term care insurance, and (b) an experimental program sponsored by state governments and the private sector insurers and implemented in four states, called the Long Term Care Insurance Partnership. The Partnership programs encourage long term care insurance sales by allowing people who buy long term care insurance for themselves to avoid the asset rules for Medicaid eligibility, if they exhaust their private insurance benefits. The insurance policies eligible for the Partnership provide extensive long term care benefits, so the program potentially encourages more long term care insurance sales without exposing the state Medicaid program to additional claimants. Recent federal legislation allows any state to establish a Partnership program patterned on the pilot programs through a Medicaid waiver request.

Key Findings

- State tax incentives for long term care insurance premiums of a magnitude offered in about a dozen U.S. states have **not** induced additional sales of insurance beyond what could be expected without the incentives.
- The Long Term Care Partnership program implemented in four states has similarly failed to induce additional sales of private insurance for long term care beyond what could have been predicted from demographic factors alone.

We examined the number of private sector long term care insurance policies sold in each state, as reported in 2004 by America's Health Insurance Plans (formerly the Health Insurance Association of America). There is significant variation across the states in the size of the local long term care insurance market. In Alabama, less than 2% of the over-50 population is insured for long term care with a private policy, while over 15% of the over-50 population in South Dakota is so insured.

Policy analysts and policy makers hope to move those market figures above 50%, in order to avoid the huge Medicaid claims that will impact governments in the coming decades.

Results of a statistical model to predict sales of long term care insurance policies demonstrates that income, expected health, and family support factors are significant determinants of the size of the long term care insurance market in each state. When a state's population has higher income, a greater expectation of experiencing old-age disabilities, and lower incidence of living with their children in old age, sales of long term care insurance are significantly higher.

Our findings demonstrate that the availability of one's children as potential long term care givers has a very strong influence on one's decision to purchase long term care insurance. Family support has a strong direct effect on aggregate long term care insurance sales. A more integrated family structure also reduces the degree to which older people incorporate health expectations into their long term care insurance purchase decisions.

For example, in state populations with limited availability of children as caregivers, such as midwestern rural states, expectations about one's health in old age are a significant factor in one's decision to purchase long term care insurance. But in states where the older population more frequently lives with its children, such as Hawaii, expectations about one's health in old age are not significantly related to long term care insurance sales.

We conclude by pointing out that the subsidies provided in the state incentive plans we examined are very limited, relative to the typical cost of premiums. Even though a 50 year old might expect to pay $2000 a year or more for long term care insurance, existing state subsidies would defray no more than $500 of that cost, and more typically about $200. It turns out incentives in this range are insufficient, by themselves, to prompt anyone to buy a long term care insurance policy. Several tax plans considered by the Hawaii legislature in recent years have been within this range of subsidy.

While state subsidies are meager for individuals, the sum total of such incentives are costly to the states. Because they are not prompting new purchases of insurance, those tax dollars are being wasted on people who would have purchased long term insurance anyway. Unless states enact substantially more generous subsidies *and* focus the subsidies on more price-conscious potential buyers of insurance, the programs are counterproductive. They draw resources away from state coffers that could be better spent preparing for the approaching long term care crisis.

About the Author

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A copy of this Policy Brief or the full Report on which it is based can be found at www.publicpolicycenter.hawaii.edu/reports.html