Collective Action Lab

America's Newest Challenge: Meeting the Needs of an Aging Population**

April 2016

**This document is intended to serve as a source document for states considering long term services and supports (LTSS) reforms. The material underlying the report is in the public domain and has been developed as a result of economic simulations conducted in 2015 that provided updated information on current U.S. demographics that are projected into 2070, including information on LTSS needs, use and costs. The studies also modeled potential approaches to paying for LTSS needs differently that we do today. This report summarizes the results of the economic simulations in ways that are intended to assist states in understanding current and future trends and implications of pursuing different reform approaches to financing LTSS needs.

EXECUTIVE SUMMARY

Long Term Services and Supports: Meeting the Challenge through a Uniquely American Response

The Challenge. America's population is aging and with that comes unprecedented rates of chronic conditions such as Alzheimer's disease, Parkinson's, ALS and Multiple Sclerosis. Despite this, the United States stands out as one of the few remaining industrialized countries that does not have a planned and systemic approach for financing the care needed by its growing numbers of older adults. That fact is stunning given the increased need for costly and on-going services that come with an aging population with chronic care needs and it has profound implications for families, unpaid caregivers, employers, the middle class, providers of care, federal and state budgets, and taxpayers.

Much of the needed care of an aging population includes assistance with everyday activities like bathing, eating and dressing (known as "long term services and supports" or "LTSS") and is not paid for by traditional health insurance or the Medicare program. The high costs for these services and supports are principally borne by individuals and families as out of pocket expenses and/or are provided by unpaid family caregivers who compromise their own employment and health to provide needed care and support. One potential source of financial protection, long term care insurance, has become out of reach for middle income consumers due to recent market shifts and pricing increases. When the financial burden becomes so onerous that people become impoverished, the government-financed Medicaid program has to step in. This governmental financing of LTSS as a last resort is consuming one third of the Medicaid budget and has shifted the Medicaid program into the de facto public source of LTSS financing; a proposition it was not designed for nor can sustain over time without great costs. This emerging reality has profound implications for people who need LTSS and their families and for the overall financial health of our nation.

The Response. As a nation we face a window of opportunity to find a uniquely American solution that will help people plan for and meet their LTSS needs, honor the critical role of families without financially crippling them, and safeguard governmental resources by curbing reliance on Medicaid. If we do not take action now, we will be faced with crisis-driven, top down and reactive policy around how we finance LTSS rather than fostering a unified, intentional and strategic approach to this problem.

To this end, four organizations that are invested in this mission, LeadingAge, The SCAN Foundation, AARP and the Assistant Secretary of Planning and Evaluation (ASPE), supported an economic and actuarial modeling project conducted by Urban Institute, a renowned, non-partisan health policy research organization and Milliman, Inc. an established and highly-regarded actuarial firm. The goal was to project what is likely to occur if we continue on our current path with no new approaches to this issue; and to model what could emerge if we adopted new approaches proposed in the pathways.

As a result of the project to date, it has become increasingly evident that addressing the LTSS problem will require a systemic approach for financing LTSS that accomplishes two paramount goals:

1. Help individuals and families prepare and pay for unexpected, out of pocket expenditures caused by LTSS needs, with a special emphasis on options that help those in middle income brackets pay for their care needs; and

2. Better address expenses associated with long duration LTSS care that impoverish families and significantly impact state and federal Medicaid budgets.

A Multi-Faceted Approach for Moving Forward. Although a subsequent phase of analysis is needed, results from the modeling suggest that to achieve our goals, we will need a combination approach that:

- Encourages and generates **new, affordable private market options** to help people pay for the LTSS expenses incurred in the first two-three years of experiencing high need LTSS; and
- Addresses the **catastrophic financial risks** that will severely impact older adults who experience long duration LTSS need that results in costs of $250,000 or more. If unchecked, this issue poses the most severe threat to state and federal budgets.

Such an approach should encompass the following elements:

Fund initial needs through new insurance and savings options. An essential element of the systemic reform needed to help individuals and families protect against LTSS out of pocket costs is a reformed and robust private long-term care insurance market. New, time-limited insurance products will help consumers offset initial out of pocket expenses incurred in the first two years of LTSS need and protect the majority of people experiencing such need. A number of principles should be applied to assure more affordable LTSS protection and higher rates of participation, including distribution through employer groups and health exchanges to reduce high sales commission costs, auto enrollment techniques with opt-out options to optimize voluntary participation, and product concepts that enable easier use of retirement savings to purchase LTSS insurance protections.

Fund long duration, catastrophic needs through a catastrophic insurance approach. The second essential component of a program to address the nation's LTSS financing problem is to provide a funding approach for those who experience long duration LTSS. The economic modeling provides good directional insight into potential approaches including a public or private catastrophic program with a two year waiting period and required participation. This approach provides the best combination of meaningful long duration LTSS protection, affordable costs for those with middle incomes, and significant impact in offsetting future Medicaid expenditures.

Raise awareness of LTSS need through education campaigns paired with a call to action and meaningful options for response. There is a need to shift existing mental models around protecting against LTSS costs by raising awareness of impending need and moving LTSS insurance and savings decisions to familiar decision points for making other life planning decisions. This includes implementing national and state awareness and education campaigns that are jointly funded by carriers, states and marketed through employers to promote feasible and affordable tools, options and enrollment opportunities for families to protect against LTSS out of pocket and catastrophic costs. Campaigns should be targeted to a younger audience than has typically been the case for LTSS and combined with education and information about other life planning tools and resources regarding disability, retirement savings and life insurance.

Foster innovation in LTSS service delivery. People will be more likely to protect against their LTSS risks through insurance if they have new models for service integration and delivery that reflect services they would want if they had high need LTSS and may result in greater efficiencies and lower costs. Innovations might include personal care coordinators to develop and implement a plan to meet client needs throughout their life, homecare on demand that leverages technology and service delivery innovations, and in-home technology that provides individuals with the ability to access health care information and communicate with trained staff on LTSS issues.

The challenge is before us: America must use the current LTSS financing challenge as an opportunity to foster intentional reform that will lead us to a systemic and national approach for addressing LTSS needs that threaten families and the financial health of our nation.

ANNE'S STORY[i]

Today: Anne is a 66 year old who lives alone in an apartment near her adult daughter in Virginia. She has had annual earnings of approximately $60,000 for much of her working life, and has approximately $150,000 in her employer-sponsored retirement plan. Anne has not purchased long term care insurance due to its high cost of about $2,500 per year. Anne lives conservatively, but spends most of her income on day-to-day living expenses, so she has not accumulated much savings beyond her employer sponsored retirement plan. Like most Americans, she has not done much planning to prepare for her retirement. By default, she will have to rely on social security and her savings to support her in retirement. Social security will pay her about $2,100 a month. Like most people, Anne will have to make withdrawals from her employer sponsored retirement plan to fill the gap between her monthly expenses and her monthly social security payment. What Anne does not know is that, like many Americans, she is at risk for needing expensive and prolonged help in retirement to accomplish basic daily activities like bathing, dressing and eating. Medicare does not cover expenses for that type of care. As a woman Anne faces a 23% higher likelihood than a man of needing this type of care after age 65. She also has a nearly 20% chance of needing such care for five years or more; being unmarried also heightens her risk.

Looking ahead: When Anne reaches age 80 in 13 years, she gets the news that seniors dread – a diagnosis of Alzheimer's disease. As with most people with Alzheimer's, Anne needs help with multiple activities, including dressing, bathing, and managing her daily affairs. Her continual loss of memory and cognitive function makes living alone increasingly impossible. The financial costs that Anne and her daughter face to support her care is and will continue to be enormous. By then, a home care aide is projected to cost about $5,600 per month. If Anne needs assisted living or nursing home care her monthly costs will average $6,100 and $10,500 per month respectively in her state.

Anne's situation is typical of many middle-income Americans today and one that an increasing number of people will face in the future based on demographic and cost trends outlined in this report. Anne's fate could be different if she had new options to help her pay for both her initial LTSS needs and for her long duration, catastrophic care.

Options available to Anne under today's programs and options:

In managing her situation under current conditions in the U.S., Anne must rely on social security and her retirement savings to support her needs. Because she has had to use her savings to supplement social security during retirement, Anne has almost completely depleted her savings. Even with her daughter's help, who has cut back her own work to provide unpaid care to stretch the savings, Anne will be impoverished as a result of her LTSS need and be required to enroll in the Medicaid program to pay for her care and support.

Options available to Anne under potential, new options:

Under the approaches referenced in this report, Anne would have access to additional tools to pay for her care and support. For example, when employed Anne would have had an opportunity through her workplace to learn about and purchase a private long term care insurance policy which would cover many of her costs during her first two years of need. Anne could also have access to a catastrophic coverage plan for care and support expenses that she incurs **after** her first two years of LTSS need, which she would have paid for via a payroll deduction during her working years.

With these two new options alone, Anne can combine her 2-year policy and the catastrophic policy to support many of her needs, remain at home for a longer period of time, and thereby delay or even prevent enrollment in her state's Medicaid program. Thus, Anne, her family and the Medicaid program benefit as a result of these new LTSS financing options.

This report summarizes learnings to date that influence Anne's Story and sets direction for next steps in moving our country toward a uniquely American approach for addressing the LTSS financing challenge.

REPORT OUTLINE

1. **The Challenge: The Aging of America Makes the Status Quo Unsustainable**
   a) Our aging society will make the need for LTSS pervasive
   b) The increasing need for LTSS has enormous financial implications
   c) Payers of LTSS play critically different roles in financing LTSS
   d) People are not aware of or addressing the LTSS risk

2. **Responding to the Challenge: Goals, Approaches and Potential Implications**
   a) A two-fold goal to meet the challenge
   b) Exploring potential implications of new approaches
   c) Forging Ahead: A Systemic Package Approach

3. **Recommended Approaches**

4. **Conclusion: Our Opportunity for a Unified Approach to LTSS Financing for America is Now**

1. THE CHALLENGE: The Aging of America Makes the Status Quo Unsustainable

The evidence is incontrovertible: the growing need for and costs of LTSS threatens the fiber of our family structures and places enormous stress on the future fiscal health of our nation. As such, LTSS can no longer be seen as solely an "individual matter." The impacts are broad and include impoverished families, significant lost productivity in workplaces, impaired physical, mental and financial health of family caregivers, and a growing federal deficit and state budgets in which essential services such as K-12 education are squeezed ever tighter. The economic modeling project conducted by the Urban Institute suggests that doing nothing is no longer an option given that:

- Long Term Services and Supports (LTSS) spending in the US is projected to grow from approximately $200 Billion to over $3 Trillion by 2070, more than a ten-fold increase, if we do nothing. (see below)

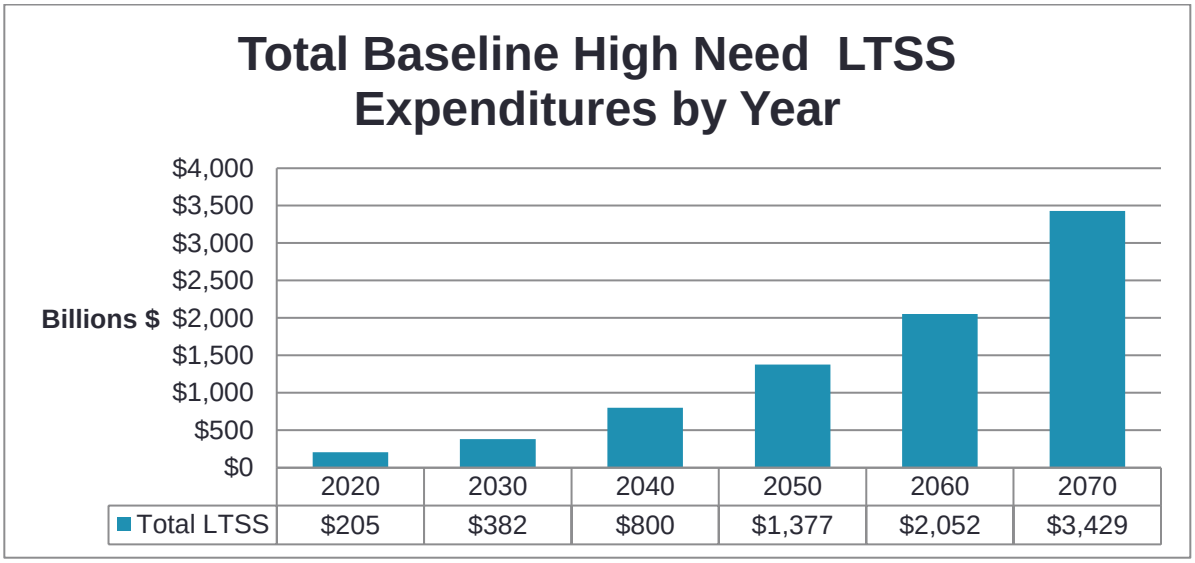


Illustration 1: Total Baseline High Need LTSS Expenditures by Year[ii] includes Medicaid, Out of Pocket and New Insurance baseline Expenditures-for more detail see table 2 in appendix

- Medicaid expenditures LTSS will increase similarly, and exceed $1 Trillion by 2070, a number that will be difficult, if not impossible to sustain on federal or state levels

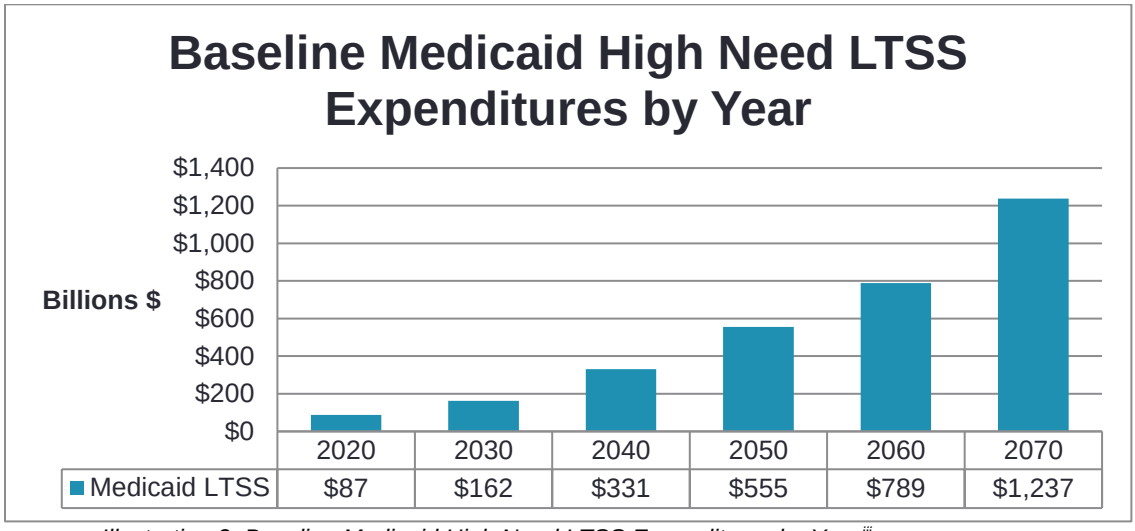


Illustration 2: Baseline Medicaid High Need LTSS Expenditures by Year[iii]

- Family out of pocket expenses on LTSS costs will rise to exceed $1 Trillion dollars by 2060 and $2 Trillion dollars by 2070.

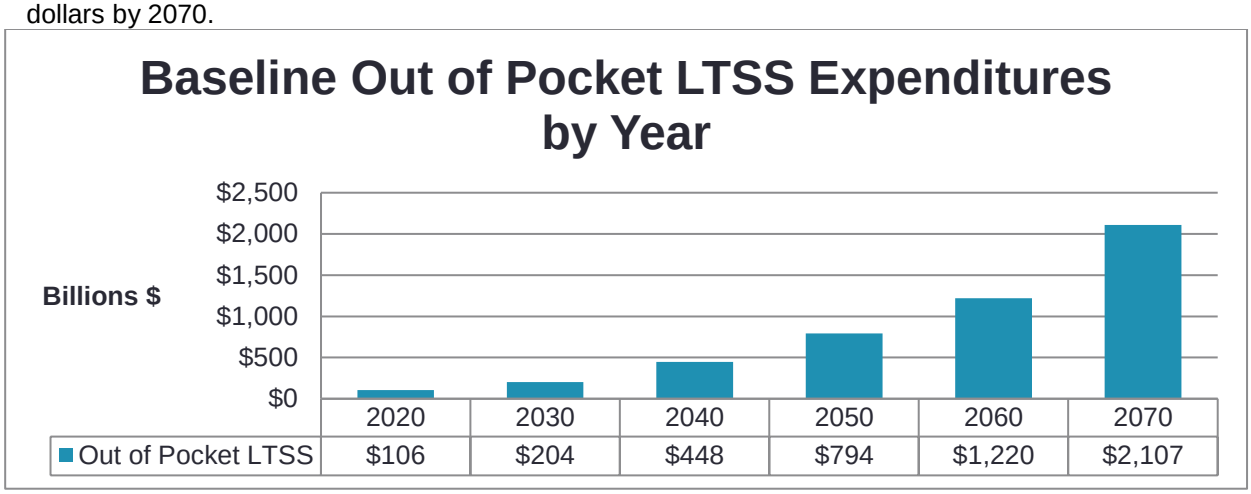


Illustration 3: Baseline Out of Pocket High Need LTSS Expenditures by Year[iv]

a) Our Aging Society Will Make the Need for LTSS Pervasive

By 2055, there will be almost 90 million people aged 65 and over, half of whom will be over 75. The number of people age 85 and older will more than double.[v] The risk of needing LTSS grows with age. The over-75 population represents the heaviest users of LTSS and individuals over age 85 have the highest levels of LTSS need[vi], are most likely to live alone, and at least one in three have dementia.[vii] People over age 90 represent over 50% of all people who need LTSS.[viii]

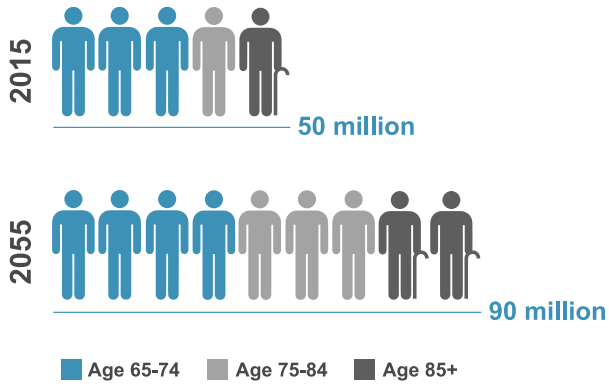


Illustration 4: Projected Number of People Age 65 or Older by Year[ix]

- **Nearly three quarters[x] of Americans age 65 and older will need LTSS before they die.** Importantly, more than half of Americans who reach age 65 will experience ***high need*** LTSS[xi]. **High need LTSS** means substantial assistance with at least two routine/everyday activities, like bathing or eating; it could also mean a need for support due to severe cognitive impairment like Alzheimer's.[xii] High need LTSS typically triggers coverage for paid care under long term care insurance plans. Because Pathways is focused on systemic approaches for insuring against financial risk associated with LTSS, this report focuses on high need LTSS.[1] Additionally, this report focuses on the over-65 population. Fifty three percent of Americans needing LTSS are 65 years and older while 40% are under age 65 adults, with the remaining children.[xiii] LeadingAge recognizes the critical importance of shaping financing approaches that encompass all ages, however, the recent modeling analysis from the Urban Institute on which this report is based is only available for the over-65 population and therefore limits the scope of this report. LeadingAge is committed to seeking further information on the under-65 population in order to shape broader and more inclusive financing approaches going forward.

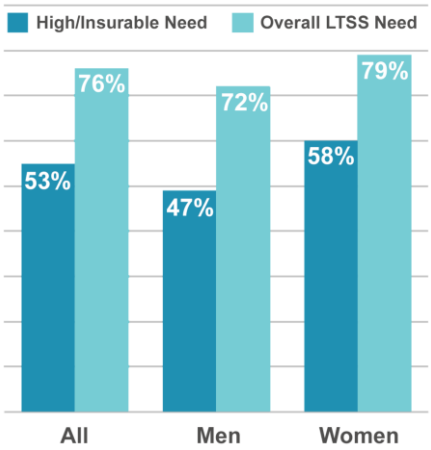


Illustration 5: Probability of needing general and high-level of need for LTSS at or after age 65[xiv]

- **The duration of high need LTSS varies widely.** The risk and severity of high need LTSS is highly unpredictable and variable. About half of Americans who reach age 65 in the next 5 years will ultimately experience a high level of need. Of those who need LTSS, over half will have two years or less need while one in four will have five years or more need.[xv]

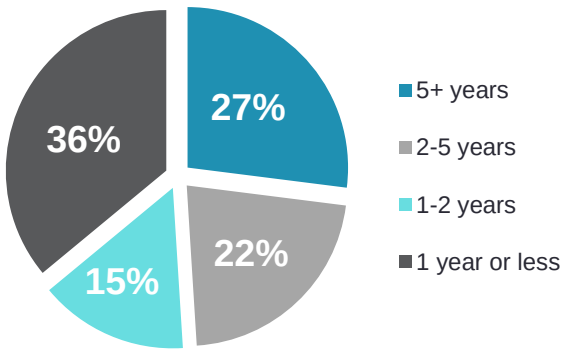


Illustration 6: Percentage of people 65+ with high-need level of LTSS

[1] The difference between general LTSS need versus high-need LTSS can be expressed through an auto-insurance analogy. While all cars have some levels of wear and tear for which we must compensate, at a certain level of need, ranging from the fender bender to the catastrophic collision, the damage becomes insurable and we can seek help in financing repairs.

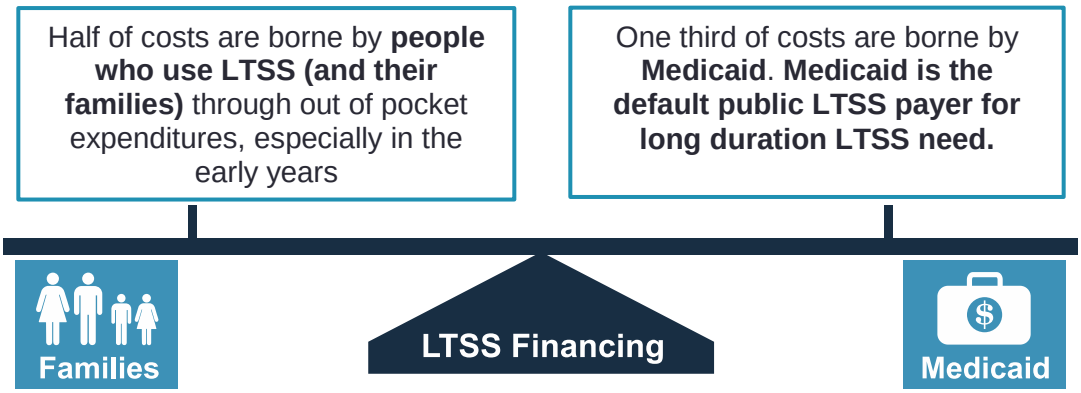
- **Nearly 6 in 10 women will experience high need LTSS.** Sixty percent of women who reach age 65 in the next 5 years will experience a high need LTSS compared with 47% of men. Thus, women have a 23% greater risk of needing LTSS than men. In addition to having a higher risk of need, women will need LTSS for longer durations. In addition to women, those who are at greatest risk of experiencing LTSS for five or more years, include unmarried individuals, those in lowest income brackets and those who rate themselves in poor or fair health.[xvi]

Illustration 7: Those at greatest risk of experiencing Long-Duration (5+years) High Level of Need LTSS [xvii]

b) The Increasing Need for LTSS has Enormous Financial Implications

The growing number of people with high need LTSS poses a significant financial burden on people and government. Across public and private funding, we expend approximately $200 billion annually on high need LTSS.[xviii] This number excludes unpaid caregiving, which is care provided by family and friends without pay, and in 2015 was valued at another $470 billion annually.[xix] As the population ages, the number of people with high need LTSS will more than double from 6.3 million today to 15.7 million in 2065.[xx] Expenses associated with high need LTSS will more than double as a share of the economy over the next 30 years.[xxi]

- **The financial burden of LTSS falls on two principal sources.** About 85% of high need LTSS costs are borne by two principal sources. About 85% of high need LTSS costs are borne by two sources:
  1) Approximately half of costs are borne by **people who use LTSS (and their families)** through out of pocket expenditures; and
  2) Over one third of the costs are borne by the **Medicaid program**.



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- The remaining costs are paid by other public programs and long term care insurance.[xxii]

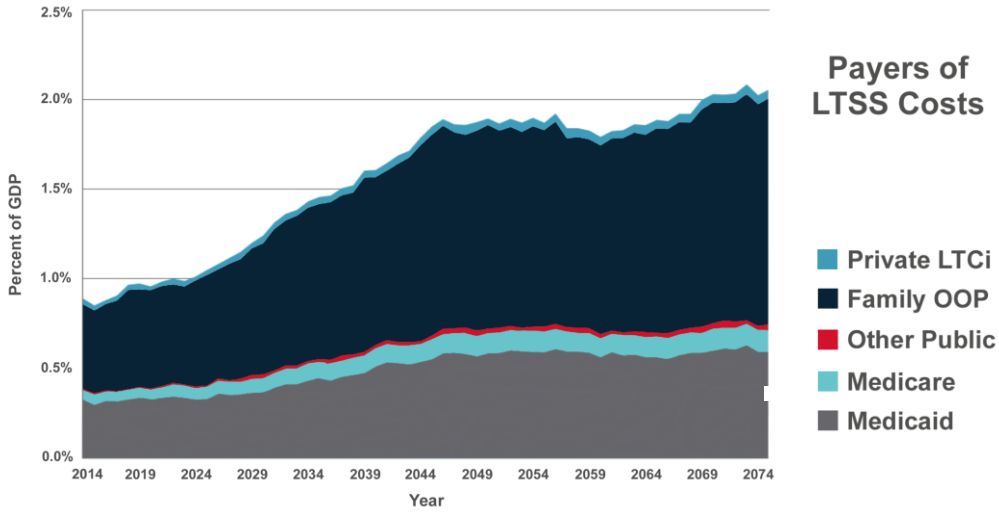


Illustration 8: Payment sources of LTSS expenditures[xxiii]

- **LTSS users, and particularly women, will incur high lifetime expenditures**. The modeling indicates that, on average, people turning age 65 over the next five years who ultimately experience a high level of need for LTSS can anticipate incurring LTSS costs over their lifetimes of approximately $138,000. Because their needs are greater and will last longer, the cost for women's care will be significantly higher ($180,000) than that for men ($90,000).

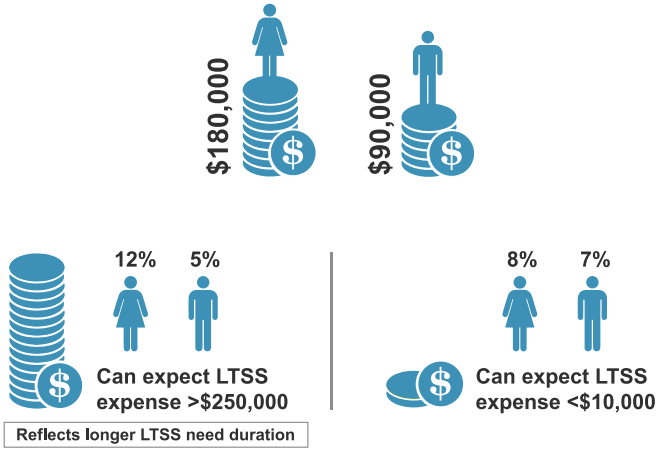


Illustration 9: Lifetime average expenses for all women and men turning age 65 in the next 5 years. If only users of high-level of need for LTSS were reflected in this chart rather than all people over 65, the expenditures would double. [xxiv]

- **Older adults, especially middle income, are not prepared for these costs.** In 2014, those 65 and older had median financial assets of $76,000 and median home equity of $80,000 or less, woefully deficient amounts for meeting average lifetime LTSS costs.[xxv] Thus, as people continue to pay out of pocket for over half of all LTSS costs, which continue to climb, impoverishment becomes increasingly likely, resulting in Medicaid eligibility and, thereby shifting costs from private to public sources. Moreover, there are few ways for middle income families to protect themselves financially given that private market insurance products are not affordable for them, these families are not eligible for Medicaid initially, and their financial assets are too limited to satisfy LTSS needs.

  Additionally, the greatest source of care—unpaid care from family and friends—will become less available in the coming decades due to a dwindling supply of potential caregivers. In 2010 there were 7.2 potential caregivers available for every person in need. In 2050, that number will drop to 2.9. [xxvi]

- **Medicaid bears a heavy burden and budgets are soaring.** Medicaid, a program jointly funded by the federal and state governments, was designed primarily as a "safety net" program for the poor. Yet currently, Medicaid pays for over one third of all paid LTSS expenditures.[xxvii] At the state level, where deficit spending is not allowed, Medicaid spending is already competing with and beginning to dominate other state spending priorities. This trend will only get worse for states as the population needing LTSS grows dramatically. With no other viable funding option for middle-income individuals and families the fiscal burden will fall directly on the Medicaid program. For the past three years, Medicaid spending was the single largest component of state spending nationwide, representing 25.8% of state budgets, up from 24.4% in 2013, while spending for K- 12 education declined.[xxviii]

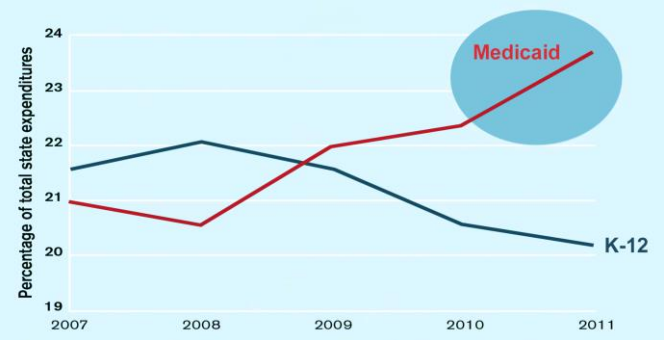


Illustration 10: State Spending on Medicaid versus k-12 spending.[xxix]

c) Primary Payers Play Distinctly Different Roles Financing LTSS

To fashion an approach to LTSS financing that will be effective, it is important to understand the interplay between payers today and how their capacity might be enhanced or compromised under different LTSS financing policies in the future.

- **Family financing (out of pocket) and Medicaid come into play at different points in the LTSS need spectrum.**[xxx] Out of pocket family expenditures are often used to finance LTSS in the first two years of need, while a more significant portion of Medicaid expenditures occur in the later years of LTSS need, particularly after five years.[xxxi] This is due to the fact that in situations with longer durations of high need LTSS, families often exhaust their out of pocket resources and must turn to Medicaid for support. As illustrated later in this report, these spending patterns have important implications for approaches we might take to finance LTSS given our two-pronged goal of relieving families of out of pocket costs and reducing reliance on Medicaid as an LTSS payer.[xxxii]
- **Without significant changes long-term care insurance will play a limited future role in LTSS financing.** Although long term care insurance is focused on financing long term services and supports, the current long term care insurance market covers only 3-4% of all LTSS expenditures and without significant change, will cover even less in the future.[xxxiii] Difficult market conditions have prompted carriers to exit the market. Those that remain have done so with significant price increases, further distancing middle-income families from the potential protections offered by long-term care insurance. As the market has matured, well-meaning regulation that sought to protect consumers may have limited options for simpler, less costly offerings that would be affordable for middle-income people. For these and other reasons, long term care insurance sales have declined from 750,000 in 2002 to about 170,000 in 2013 and what sales have occurred have been limited to upper income individuals.[xxxiv]

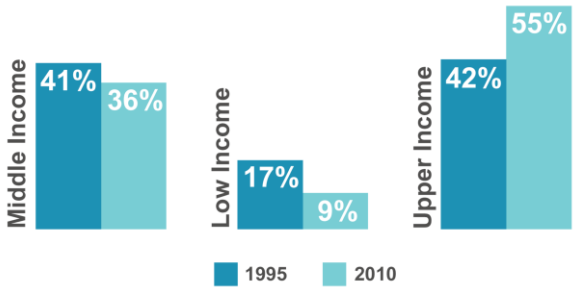


Illustration 12: Share of LTC Sales to the Middle Market Age 40-69 [xxxv]

- **Unmet need and unpaid caregivers serve as the invisible payer**. Care needs that cannot be paid for results in unmet need, a gap often filled by unpaid caregivers. Thus, not all LTSS financing is direct. Today, an estimated 17% of employed part-time or full-time adults care for a family member or friend and provide unpaid care valued at $470 billion annually.[xxxvi] Families continue to do all they can, but often find that that their own finances, health and employment security are stretched to the breaking point.[xxxvii] This negatively impacts their health and financial well-being, as well as their productivity at work as evidenced by annual lost productivity estimated at $34 billion nationally.[xxxviii] Unmet need that cannot be supported by unpaid caregivers is detrimental to people's health and well-being and can also increase costs for Medicare due to increased hospitalizations and other acute care needs.[xxxix]

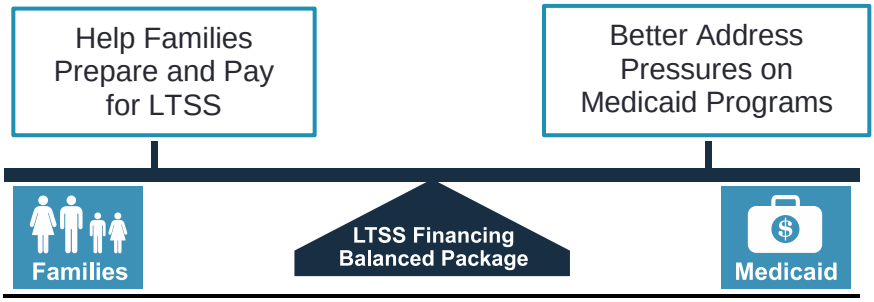
d) People are not Aware of or Addressing the LTSS Risk

Exacerbating the fact that people do not have access to financial options to prepare for their LTSS needs, is the reality that most are not aware of or planning for such needs. Recent national research reflects that while 71% of people agreed that they should plan now for LTSS, few are taking any steps to do so.[xl] People generally do not know about their risk of needing LTSS, who will pay for it or how much it costs. More than half think that Medicare will pay for their LTSS needs. [xli] Misplaced reliance on Medicare provides a clue to financing reform. It appears that people are not only comfortable with the idea of building LTSS into Medicare as a required program benefit for which we all pay, and over half believe that to be the case now. Lastly, even if people are aware of current LTSS financing realities and want to do something to protect against this risk, most people lack sufficient personal wealth to address the need given available options in today's market. Thus our current environment leaves many consigned to public support through Medicaid, which requires impoverishment as the entry fee.

2. RESPONDING TO THE CHALLENGE: Goals, Approaches and Potential Implications

a) A two-fold goal to meet the challenge

To have a meaningful impact on the challenges we face as a country, we must craft approaches to LTSS financing that helps people prepare and pay for LTSS needs, especially in the first two years of need; while also better addressing pressures on state and federal Medicaid budgets. This two-fold goal provides the foundation on which we will need to respond to the LTSS financing challenge.



Two-fold goals to meet the LTSS financing challenge

b) Exploring potential implications of new approaches

In the face of this daunting challenge, three organizations, LeadingAge, The SCAN Foundation, and AARP, jointly funded an economic and actuarial analysis to better understand the implications of different approaches to financing LTSS. The modeling included three new insurance options, all with the same benefit structure.[xlii]

- Initial (front-end) coverage: Insurance that helps cover the first two years of a person's services and supports expenditures once they have high need LTSS; this will address many people's needs;
- Catastrophic (back-end) coverage: For those with a long duration need, coverage that will begin after experiencing more than two years of high need LTSS;
- Full duration coverage: Insurance coverage that will help pay LTSS costs from the beginning of a high-need LTSS situation through the duration of that need.

The modeling analyzed these options, from the perspectives of:

- Voluntary coverage in the private market
- Voluntary coverage through a public program
- Mandatory coverage through a public or private program

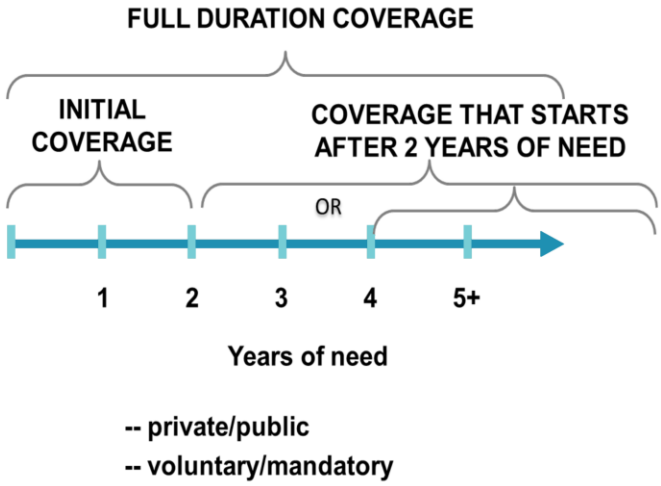


Illustration 14: New Insurance Programs that were Modeled

A more detailed description of the modeling results is available in a Health Affairs article published on November 17, 2015.[xliii]

The modeling provides important information that helps identify which approaches are better positioned to achieve the two-fold goals. In the illustrations below, the first shows when high LTSS usage typically occurs while the second indicates the relative effectiveness of different approaches in offsetting LTSS expenditures.

- **LTSS usage and implications.** Most LTSS expenses occur in the first two years of need. This is reflective of the fact that there are a large number of shorter duration LTSS spells, often paid for by families using out of pocket dollars. However there is also a significant share of expenditures that occur later in LTSS situations as a result of a smaller number of very expensive long duration situations that tend to be funded by Medicaid. [xliv] This is the case because at this point of need, most people have exhausted their own resources and need to enroll in Medicaid.

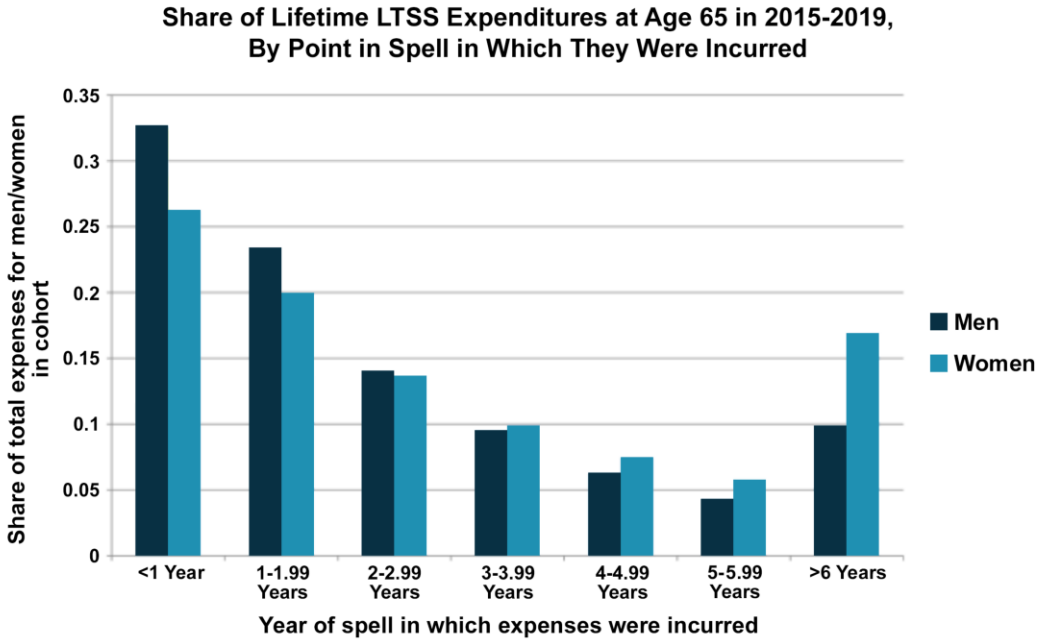


Illustration 15: LTSS Expenditures by year of spell that they occurred [xlv]

- **Financing Approach Implications**. The modeling shows that back-end coverage that begins after a person has 2 years of high need LTSS, will have a significant impact in offsetting Medicaid expenditures from 2050 on. (Illustration 16).[xliii] In fact, the savings impact of the two-year back end option on Medicaid is almost equal to the savings of the comprehensive plan, at about half the cost. While a 4 year waiting period would be even more affordable, few people would have the resources to pay for their LTSS needs during that extended waiting period and as a result would likely end up spending down their assets and qualifying for Medicaid). Two-year back-end coverage can also reduce out of pocket costs for families after their first two years of need. Front-end coverage will help to offset out of pocket costs during the first two years of need (illustration 17) [xliv] and provide an additional funding source to help finance unmet LTSS needs that up to now have placed an increasingly unsustainable burden on unpaid family caregivers.

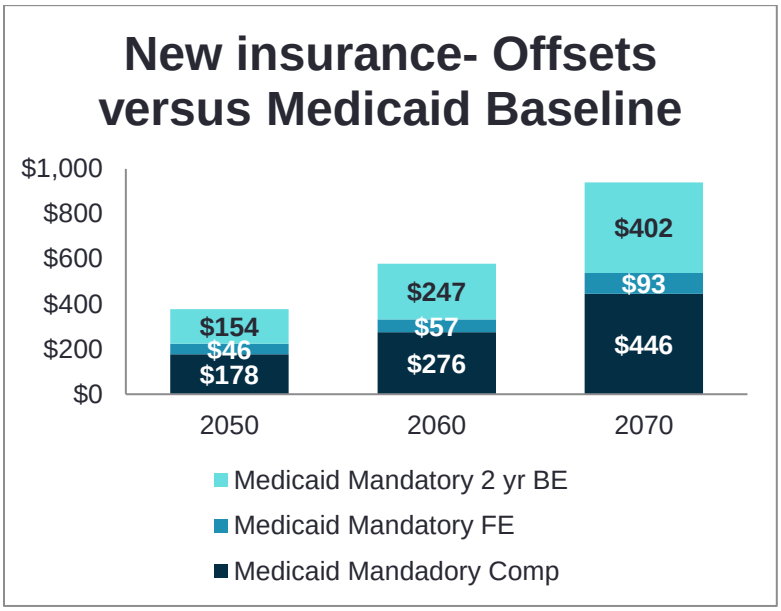


Illustration 16: Offsets of new insurance options to Medicaid Spending[xlvi]

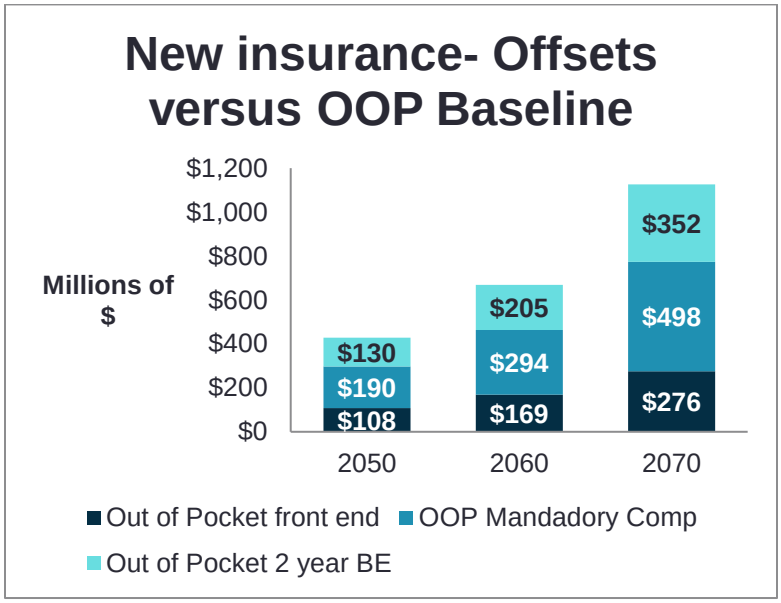


Illustration 17: Offsets of new insurance options to Out of Pocket Spending[xlvii]

c) Forging Ahead: A Systemic Package Approach

While additional modeling and analysis is warranted to assure accuracy of the simulations, the information above suggests that if the goal is to help large numbers of individuals and families offset initial out of pocket expenses, private front-end coverage is a viable option given its ability to protect against early costs while concurrently creating new capacity to pay; if the goal is to provide a viable funding approach for long-duration catastrophic needs while offsetting Medicaid expenditures in a manner that is economical, then back-end (catastrophic) coverage is preferable. Since our goal is to do both, an approach that combines the two in an affordable manner, in conjunction with a reformed private market is important in moving forward and should be the basis of national LTSS policy reform for our country.

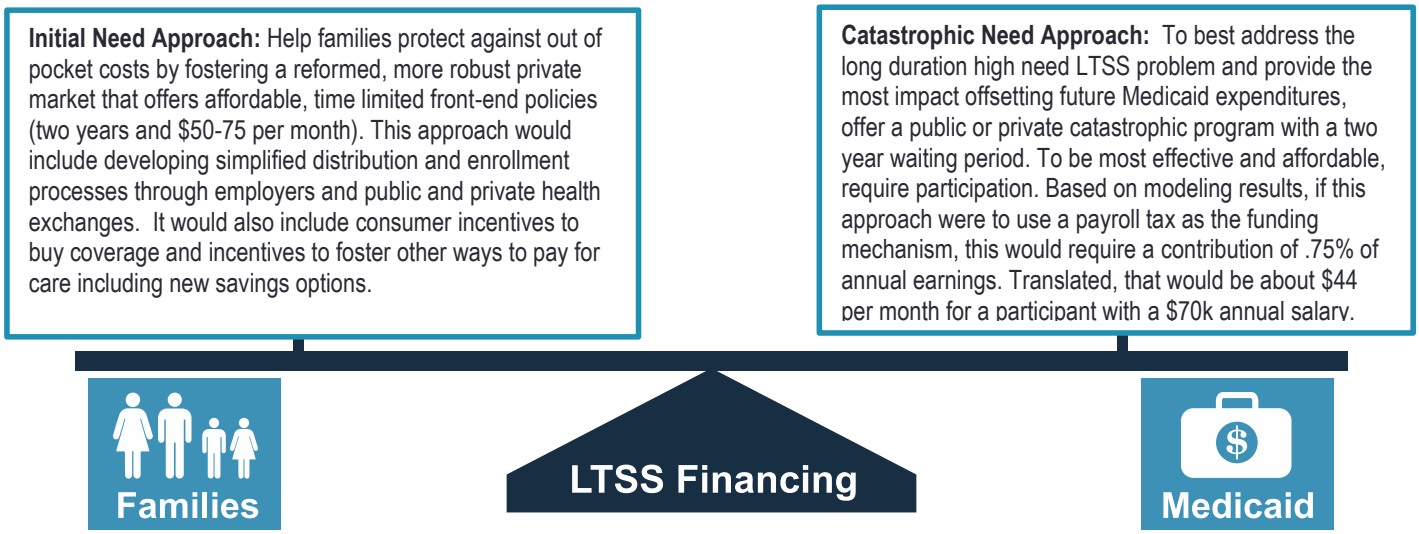


Illustration 18: LTSS Financing Balanced Package

3. RECOMMENDED APPROACHES

In summary, a multi-faceted approach to financing LTSS should:

- Encourage and generate **new, affordable private market options** to help people pay for the LTSS expenses incurred in the first two-three years of experiencing high need LTSS; and
- Address the **catastrophic financial risks** that will severely impact older adults who experience long duration LTSS need that results in costs of $250,000 or more. If unchecked, this issue poses the most severe threat to state and federal budgets.

Such an approach should encompass the following elements:

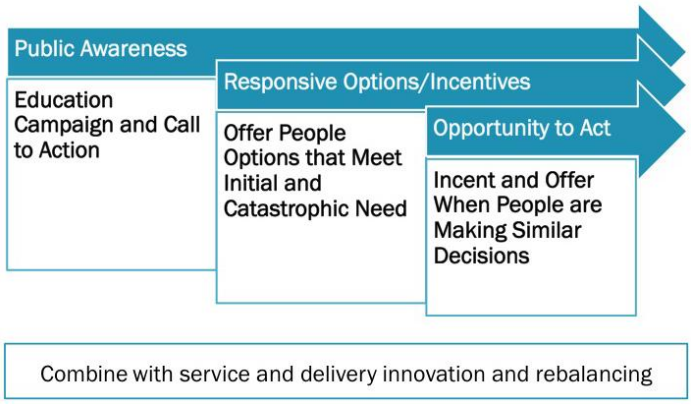
Fund initial needs through new insurance and savings options. An essential element of the systemic reform needed to help individuals and families protect against LTSS out of pocket costs is a reformed and robust private long-term care insurance market. New, time-limited insurance products with target monthly premiums in the $50-$75 range will help consumers offset initial out of pocket expenses incurred in the first two years of LTSS need and protect the majority of people experiencing such need. A number of principles should be applied to assure more affordable LTSS protection and higher rates of participation, including distribution through employer groups and health exchanges to reduce high sales commission costs, auto enrollment techniques with opt-out options to optimize voluntary participation, and product concepts that enable easier use of retirement savings to purchase LTSS insurance protections.

Fund long duration, catastrophic needs through a catastrophic insurance approach. The second essential component of a program to address the nation's LTSS financing problem is to provide a funding approach for those who experience long duration LTSS. The economic modeling provides good directional insight into potential solutions including a public or private catastrophic program with a two year waiting period and required participation. This approach provides the best combination of meaningful long duration LTSS protection, affordable costs for those with

middle incomes, and significant impact in offsetting future Medicaid expenditures. While there are a number of different ways such a program could be funded, the modeling evaluated options using a payroll tax approach. The two year waiting period catastrophic option would require a payroll tax contribution of .75% of annual earnings, or approximately $44 per month for a participant with a $70k annual salary.

Raise awareness of LTSS need through education campaigns paired with a call to action and meaningful options for response. There is a need to shift existing mental models around protecting against LTSS costs by raising awareness of impending need and moving LTSS insurance and savings decisions to familiar decision points for making other life planning decisions. This includes implementing national and state awareness and education campaigns that are jointly funded by carriers and states and marketed through employers to promote feasible and affordable tools, options and enrollment opportunities for families to protect against LTSS out of pocket and catastrophic costs. Campaigns should be targeted to a younger audience than has typically been the case for LTSS and combined with education and information about other life planning tools and resources regarding disability, retirement savings and life insurance.

Foster innovation in LTSS service delivery. People will be more likely to protect against their LTSS risks through insurance if they have new models for service integration and delivery that reflect services they would want if they had high need LTSS and may result in greater efficiencies and lower costs. Innovations might include personal care coordinators to develop and implement a plan to meet client needs throughout their life, homecare on demand that leverages technology and service delivery innovations, and in-home technology that provides individuals with the ability to access health care information and communicate with trained staff on LTSS issues.



4. CONCLUSION: This is Our Opportunity for a Unified, Systemic Approach to LTSS Financing for America

America is not the first country to address the challenge of LTSS financing. For the multiple countries that have adopted LTSS systems before us, we have seen that the LTSS systems they envisioned did not always materialize in the first iteration of reform.[xlviii] These countries found that the key is to begin with an initial approach, allowing experience and learning to guide future refinements and improvements. Waiting for the "perfect" design is tantamount to inaction, which we know has serious implications and is unsustainable.

America must use the current LTSS financing challenge as an opportunity to move forward with intentional LTSS reform, even if it is incremental in nature as long as it helps meet our two-fold goals. To this end, we seek to adopt reforms that will allow us to enhance private mechanisms and tools that help people plan and prepare for their LTSS needs, adopt a systemic and national approach to catastrophic need that will help curb reliance on Medicaid, and promote new levels of awareness and education that will help people understand and prepare for their LTSS needs using new tools and methods.

The challenge is before us. We invite you to join us in shaping a uniquely American response to the growing threat to families and state and federal budgets. We must act now.

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[v] Favreault M, & Johnson R (2015). Projections of lifetime risk of long-term services and supports at ages 65 and older under current law from Dynasim, June 8, 2015, Urban Institute

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[xi] Risks of needing LTSS: Dynasim Projections" Briefing for ASPE Long-Term Care Financing Colloquium, Meilissa Favreault , July 30 , 2015. This comports with The Health Insurance Portability and Accountability Act (HIPAA), which defines the standard benefit trigger for insurance: a need for assistance with at least two Activities of Daily Living (ADLs) for at least 90 days or severe cognitive impairment. ADLs are activities such as bathing, toileting, eating, dressing, or transferring. Medicaid uses a similar eligibility standard, although criteria vary by state. Herein, we describe this HIPAA-level of need as "high-level" or "severe" need.

[xii] This definition is consistent with disability criteria set in the Health Insurance Portability and Accountability Act (HIPAA)

[xiii] Long-Term Supports and Services for Older Americans: Risks & Financing Research Brief for the DHHS Office of the Assistant Secretary for Planning and Evaluation (ASPE). Melissa Favreault (Urban Institute) and Judith Dey (ASPE) 7/13/2015

[xiv] HHS ASPE Issue Brief: LTSS for Older Americans: Risks and Financing July 2015.
http://aspe.hhs.gov/sites/default/files/pdf/106211/ElderLTCrb_0.pdf

[xv] HHS ASPE Issue Brief: LTSS for Older Americans: Risks and Financing July 2015.
http://aspe.hhs.gov/sites/default/files/pdf/106211/ElderLTCrb_0.pdf
Since those costs will not be incurred all at once but over 20 years or more, there is a concept called "time value of money" that can also be considered. (A dollar today is worth more than a dollar will be in 20 years) The economic model enables us to look at the value of expenditures over 20 plus years beginning when a person turns age 65. In other words how much money would the average 65-year-old LTSS user need to set aside at age 65 (and gain interest) to pay the $266,000 over their lifetime? The model shows that be about $133,000 or half of the $266,000. Of note $133,000 is about twice as much as the median financial assets those 65 and older have been able to set aside.

Another important consideration is that the averages don't take account of different usage patterns. As with the differences in need, expenditures vary greatly. About 8 percent of people (12% of women and 5% of men) incur potentially devastating catastrophic expenses in excess of $250,000.[xv] And a similar percent, (8% of men, and 7% of women) incur expenses of less than $10,000.

This discrepancy highlights one of the fundamental learnings coming out of the modeling project…. that there need to be solutions that account for a significant population that will incur modest upfront LTSS expenditures and solutions for a smaller but critical group that will incur potentially catastrophic expenditures of $250,000 or even significantly more. Those programs should, in all likelihood, have different characteristics, potentially different structures, and different funding sources.

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[xxiv] HHS ASPE Issue Brief: LTSS for Older Americans: Risks and Financing July 2015. http://aspe.hhs.gov/sites/default/files/pdf/106211/ElderLTCrb_0.pdf

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- A daily cash benefit of $100 that increases 3 percent per year.
- Benefits can be used for both traditional and non-traditional services, such as paying family caregivers, purchasing transportation, or modifying a home.
- Enrollees qualify for benefits if a health care provider certifies that they need help with two or more ADLs or have severe cognitive impairment, what we describe in this report as high-need level of LTSS, which aligns with the HIPAA benefit trigger for private long-term care insurance benefits.
- The programs differ, however, by when benefits begin and how long they last. Enrollees in the front-end and comprehensive benefit programs must wait 90 days after qualifying for benefits to begin collecting, whereas enrollees in the catastrophic program must wait two years in one version and four years in a second version. Once they begin, benefits last for two years in the front-end benefit programs and for a lifetime in the back-end and comprehensive benefit programs.
- Enrollee premiums would fund the voluntary programs, and a payroll tax would fund the mandatory programs. Like the current Medicare payroll tax (but unlike the Social Security tax), the LTSS tax would not be subject to a wage cap.
- Adults 70 years and younger would be eligible to participate in the new programs and participation
- Voluntary programs would require 50 percent higher administrative costs than mandatory programs
- Participants would not be subject to underwriting, but, to limit the number of people with pre-existing disabilities who enroll in the voluntary program and drive up costs, enrollees in the voluntary programs could not qualify for benefits until they have paid premiums for at least five years, and participants in the mandatory program must have 40 Social Security covered quarters (about 10 years of work).
- For mandatory programs financed through a payroll tax, the annual payroll tax is lowest for the 4 year waiting period catastrophic program (.48% of earnings or about $1,000 annually for a person who enrolls at age 45), followed by front-end (.64%/ $1240), 2 year waiting period catastrophic (.77%, $1910) and comprehensive (1.41%/$2400)
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