Summary of Long-Term Care Financing Options Being Analyzed
Private Long-Term Care Financing Legislative Study
Homework for December 3 Conference Registrants
November 2004

A. Background

The Minnesota Department of Human Services is completing a feasibility study of private long-term care financing options for the Minnesota Legislature. The study will provide a description of the options and an analysis of the feasibility of various options to achieve the state goals of limiting future Medicaid liabilities and expanding the use of private dollars to pay for long-term care. As the large baby boom generation ages, the need for long-term care will soar, and the state budget could be overwhelmed by demands for long-term care assistance. The study is trying to identify options that the state could encourage, support or perhaps subsidize in order to increase the proportion of boomers who use their own personal resources to pay for long-term care.

As a part of the study, the department sponsored a series of policy briefings between March and October 2004 where different options were described and discussed by Minnesotans. On December 3, 2004, a statewide conference will be held where these options will be discussed and compared by a group of Minnesotans to see which options have the most potential to achieve the state's goals. The University of Minnesota is also working on two research studies that will further delineate the extent of this problem in Minnesota and analyze the options from an econometric perspective.

Purpose of this Summary

This report provides a brief description of each of the options that is included in the study, and also lists some of the criteria that can be used to compare and contrast the options, from both the demand and the supply side.

Registrants for the December 3 conference should review these short descriptions and the more complete summaries of each briefing held on the options. This is especially critical for registrants who did not attend the briefings. These summaries can be found on the website listed below. The materials from each of the seven briefings held are organized by date and topic. All the presentations from each of the briefings are also available on the project website, and registrants are encouraged to review these additional materials as desired.
http://www.dhs.state.mn.us/main/groups/aging/documents/pub/dhs_id_025734.hcsp

The expectation is that all registrants will read through this background information so that the conference can focus on discussion of options relative to each other, rather than repeating descriptive information on the options from the briefings held earlier.

B. Description of Options[1]

1. Long-term care insurance (LTCI)
(See summary of briefing on March 5, 2004)

LTCI is private insurance that is purchased before long-term care is needed. When care is needed, the insurance policy will pay costs as stipulated in the particular policy purchased. Policies can be individual or group-based; group LTCI is usually available through an employer or a type of association. Some of the features/benefits that can be purchased in a policy include:

- How benefits are paid – pooled or joint policies
- What services are covered and not covered
- How much coverage is purchased
- When benefits are paid (what triggers eligibility for benefits)
- Inflation protection or none
- Nonforfeiture of benefits

Another approach that uses LTCI is the subsidy/purchase of LTCI policies for individuals who otherwise would not be able to afford them, as a way of preventing their need for accessing the Medicaid .program.[2]

The Partnership for Long-Term Care[3] is a program now available in four states that allows these states to provide Medicaid coverage of long-term care costs to individuals who have purchased a "qualified" LTCI policy in that state, have exhausted those benefits and still need long-term care. Partnership policy holders receive a disregard of the maximum asset limit to be eligible for Medicaid payment of LTC. The disregard is equal to the value of the LTCI policy, but in some states it can be inclusive of all assets. This option is thought to increase the incentive to purchase LTCI by offering Medicaid coverage and the ability to retain some portion of assets rather than having to spend assets down to $3,000 (in Minnesota) before qualifying for Medicaid.

2. Life insurance and combined products
(See summary of briefing on April 2, 2004)

Life insurance can be used to pay long-term care costs. Options include:

- Accelerated death benefits – being able to tap in the death benefits of a life insurance policy before you die; this option is especially used for costs during a terminal illness.
- Life settlements - selling your life insurance for the present value, to get the cash and use that for long-term care costs.

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[1] Two of the options described here will not be specifically compared and contrasted at the December 3 conference, since they are broad strategies that individuals and the public and private sectors need to pursue regardless of what other options are supported. These are personal savings (#4) and making long-term care more affordable (#8).

[2] The use of public funds to subsidize this option must be addressed in the study.

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- Single premium life/long-term care policies – using cash to purchase a single premium policy that pays long-term care expenses and provides death benefits for heirs.
- A viatical settlement – terminally ill person sells life insurance policy to a third party for a fraction of face value, and uses the money for any purpose.
- Long-term care annuities are an example of a combined savings and insurance product where an individual purchases an annuity and along with that, has a long-term care policy. When the benefit is triggered, the long-term care policy increases the monthly cash amount received over and above the basic annuity, for use in paying long-term care costs.

3. Health insurance options or combinations with LTC coverage
(See summary of briefing on September 10, 2004)
Right now, most health insurance does not include long-term care benefits. But there may be ways to integrate insurance for acute and primary care (what is covered in most health insurance) with long-term care. Options include:

- Health savings accounts – these instruments are just now becoming available as savings tools for individuals to save money to be used to pay for co-pays and deductibles and other non-covered services. With some changes, these accounts may have potential as tools to save money for long-term care costs or to save money to pay LTCI premiums.
- Development of more Medicare products under the new Medicare Modernization Act that provide traditional Medicare but also offer long-term care benefits.
- Mandating that nursing facility coverage be included in Medicare Supplemental policies sold in Minnesota.[4]

4. Personal savings and savings tools
(See summary of briefing on June 4, 2004)
Sometimes called "self-insurance" this option emphasizes saving enough (using any of a number of tools) so that any long-term care costs can be paid directly from the resources the individual has accumulated. This strategy tends to work best (unless a person is already wealthy) if an individual starts saving early in life and maintains the discipline needed to consistently save a portion of their income.

5. Family loan programs[5]
(See summary of briefing on May 7, 2004)
This option provides a personal, nonsecured loan to families who want to help their older relative pay for long-term care costs. As currently available in several states (not Minnesota), this type of loan is often offered to families of potential residents by assisted living or nursing facilities as a way to make immediate move-ins possible. Many other variations on this theme are possible, but the concept always includes the family

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obtaining a personal loan and using the funds to pay for their older relative's long-term care costs.

6. Public savings plan (Hawaii's CarePlus program)
(See summary of briefing on June 4, 2004)
A public or mandatory savings plan was passed by the Hawaii Legislature in 2003 after years of discussion and debate, but then vetoed that same year by the new governor because it was seen as a tax increase. The program requires all taxpayers over 25 years of age in the state to pay $120/year as part of filing their tax return. Then, when a vested individual (10% vesting per year of participation) qualifies for long-term care, they receive a benefit of $70 per day for one year. The funds paid into the program are managed and invested by an independent board that has oversight by state government. Provisions are included for individuals who move out of state, who don't pay taxes, etc.

7. Reverse mortgages
(See summary of briefing on August 6, 2004)
Reverse mortgages allow homeowners over age 62 to access the equity in their homes and receive monthly checks or a line of credit to use for any purpose including long-term care and related costs, e.g., home modification needed because of disabilities. The individual is allowed to remain in their home until they die or move. Then, the equity in the home is used to pay back the "reverse mortgage." Reverse mortgages are federally insured and covered by federal HUD requirements, including the requirement that individuals must receive counseling on the option from a third party. Reverse mortgages are also available through private lenders. Experts point out that the fees associated with getting a reverse mortgages can be high and thus individuals should be aware of the costs and benefits. It should be noted that there are other vehicles for converting home equity into resources for LTC, but reverse mortgages are increasing in popularity in Minnesota as a way to access additional cash income from home equity.

8. Strategies to make long-term care more affordable
(See summary of briefing on October 8, 2004)
Since many individuals may never have the ability to save enough to cover retirement and long-term care costs adequately, they need to look at ways to make long-term care more affordable. Some of these include:

- Having family provide care as long and as much as they are able.
- Hiring your own worker (such as a friend or a neighbor instead of a licensed agency) to provide personal services.
- Living in or moving to an "age-friendly" community that offers services and supports that make living independently more possible and affordable, e.g., affordable senior housing, demand-responsive transportation, social connections and opportunities, home care services provided on sliding fee scale basis or by volunteers.
- Sharing your housing costs with others in models such as the Golden Girl homes model.

C. Criteria for comparing the options

In order to compare the options described above, the following criteria are being used to begin an analysis.

1. Who benefits most from this option? (Low, middle, high income, married or single - especially single women, rural or urban, those who are already disabled or ill)
2. Who is most likely to use this option? (Same groups as above)
3. For whom is this option not appropriate? (Same groups as above)
4. What is this option's potential to reduce long-term Medical Assistance expenditures? (High, medium, low)
5. What will it take to get more and better products in each of the option categories?
6. What can the State do to work with financial, health care, and insurance corporations to develop products in these option categories?
7. What can the State and the private sector do together to inform and educate individuals about these options and the need to plan and prepare?
8. What can the State and private sector do together to get changes at the federal level to help stimulate the demand for and the supply of better private financing solutions?