Medicaid and Crowd-out of Long-Term Care Insurance

by

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Long-Term Care: A Major Expenditure for Governments

... and growing ...

Public expenditure as share of GDP
Population demented will double by 2040

Percent of population demented

- 2010: 1.2
- 2020: 1.5
- 2030: 2.0
- 2040: 2.5
High and Growing Cost of Long-term Care Challenging to Finance

- Because of high cost of nursing home care, self-insurance will not be feasible for many households.

- Two main modes of financing:
  - Universal insurance (mandate or social insurance)
  - Social assistance for those in need (means-tested)
Long-term Care Provisions in US

- Financial responsibility of individuals/households
- Medicaid pays if household does not have the means
- Annual cost of nursing home: about $80k per year → major financial risk

- Singles: run down assets, Medicaid will pay
- Couples: one spouse admitted to nursing home, household assets depleted at $80k per year high risk of poverty for spouse in community

- Medicaid pays 40% of total costs for LTC services & support.
Why do people not buy Private Insurance to cover Long-term Care Cost?

- People do not like to think about long-term care

- Some believe the cost is covered by Medicare (it is not!)

- Long-term care insurance products too expensive, not well designed; provide only partial coverage, no coverage for right tail (extreme cost of LTC)

- Lack of trust in companies providing LTC insurance

- Medicaid crowd-out
Medicaid Crowd-Out of Private Insurance

- Medicaid is 2\textsuperscript{nd} payer: cannot buy private insurance to top up Medicaid coverage

- Brown and Finkelstein showed:
  - Large Medicaid crowd-out for private LTC insurance
  - Model for singles only
This Paper:
Important Improvements over Brown and Finkelstein

- Updated data on transition probabilities across care states
- Extend model to couples
Updated Transition Probabilities for Care States

- monthly transitions using data from NLTS and HRS
- Implied life-time risk of nursing home use and comparison with results from other study

<table>
<thead>
<tr>
<th>Nursing home use</th>
<th>Friedberg et al.</th>
<th>Hurd et al.*</th>
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<tbody>
<tr>
<td></td>
<td>Men</td>
<td>Women</td>
</tr>
<tr>
<td>Ever</td>
<td>0.44</td>
<td>0.58</td>
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<tr>
<td>Duration, conditional on using</td>
<td>0.88</td>
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</tbody>
</table>


Question: How did you obtain monthly transitions?
Couples Model: an Important Extension!

- about 75% of 65 year-olds are married (HRS 2010)
- Different characteristics: married people tend to be
  - Healthier
  - More educated
  - Higher income
  - Higher wealth
  - Higher subjective survival
  - …
Couples Model: Much more Complex

- Dynamic programming model, very difficult to solve for couples
- VERY messy budget constraints when taking into account Medicaid rules

Questions:
- How well does the calibrated model match the data?
- How do you handle short-term stays?
- Equivalence scales when analyzing couples: why?
- Married couples decumulating assets faster than singles?
Asset decumulation in HRS: Singles decumulate faster than Couples

2-year Wealth Change [%] in Panel: Ratio of medians

- 65-69
- 70-74
- 75-79
- 80-84
- 85+

- Singles
- Couples
Model and Data

Very little information provided.
Difficult to gauge whether potential issues one should worry about.

Questions:
Could you take into account taxes in budget constraint?
Results

- Medicaid tax: very interesting!

- Willingness to pay for entire wealth distribution for singles, and for couples

- Medicaid crowd-out: What fraction of the population does not purchase long-term care insurance due to the presence of Medicaid?

- What fraction of long-term care cost is paid for by Medicaid, according to your model?
**Medicaid tax:**

What fraction of LTC Insurance benefits would have been paid by Medicaid?

<table>
<thead>
<tr>
<th>Wealth Percentile</th>
<th>Couples</th>
<th>Single men</th>
<th>Single women</th>
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<tbody>
<tr>
<td>20th</td>
<td>0.954</td>
<td>0.889</td>
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Very Important Work!

Looking forward to future version!