



LABOR AND POPULATION

***Medicaid and Crowd-out  
of Long-Term Care Insurance***

***by***

***Leora Friedberg, Wei Sun, and Webb***

**Susann Rohwedder**

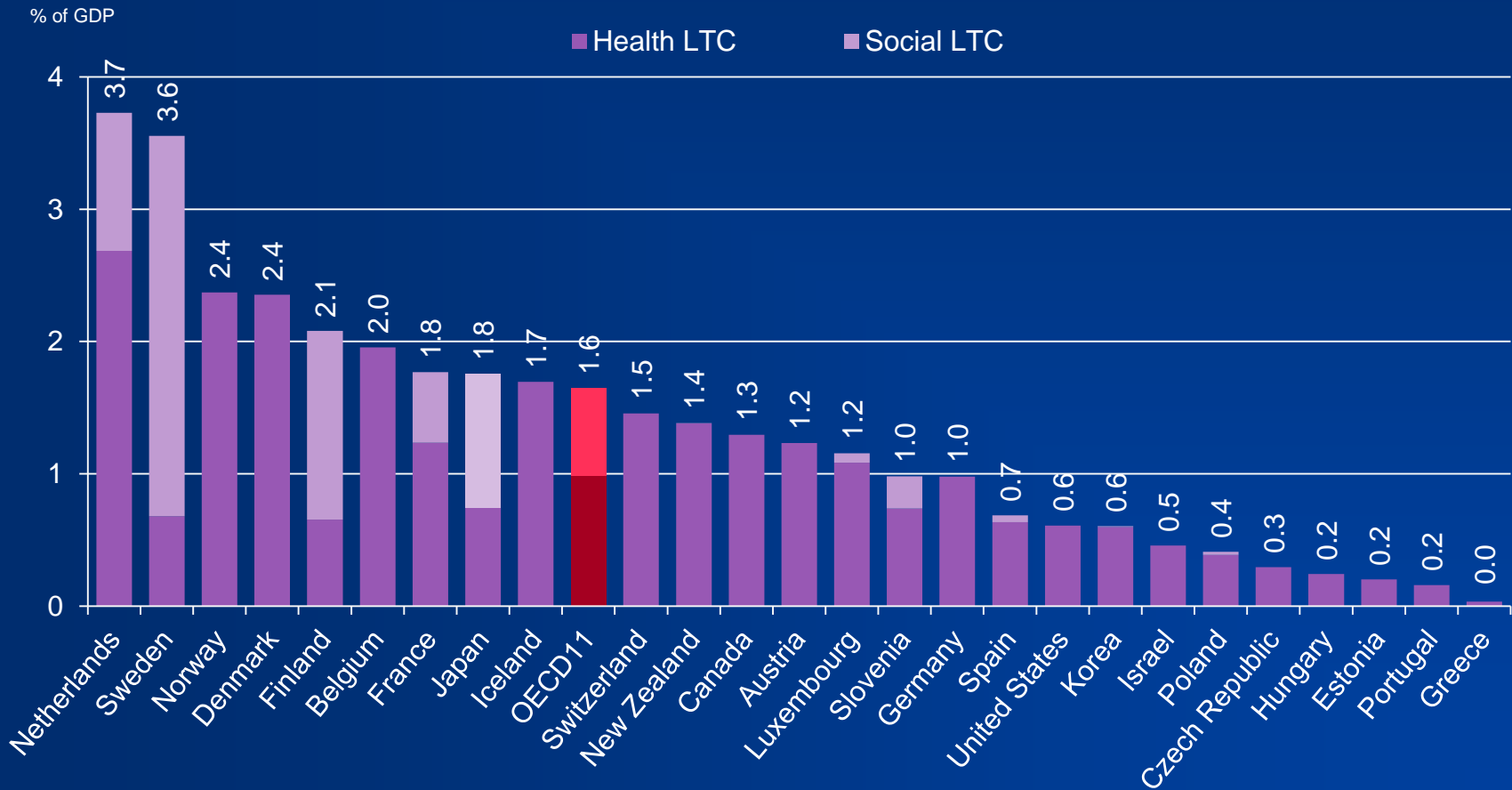
**RAND, NETSPAR, SMU**

**January 2015**

# Long-Term Care: A Major Expenditure for Governments

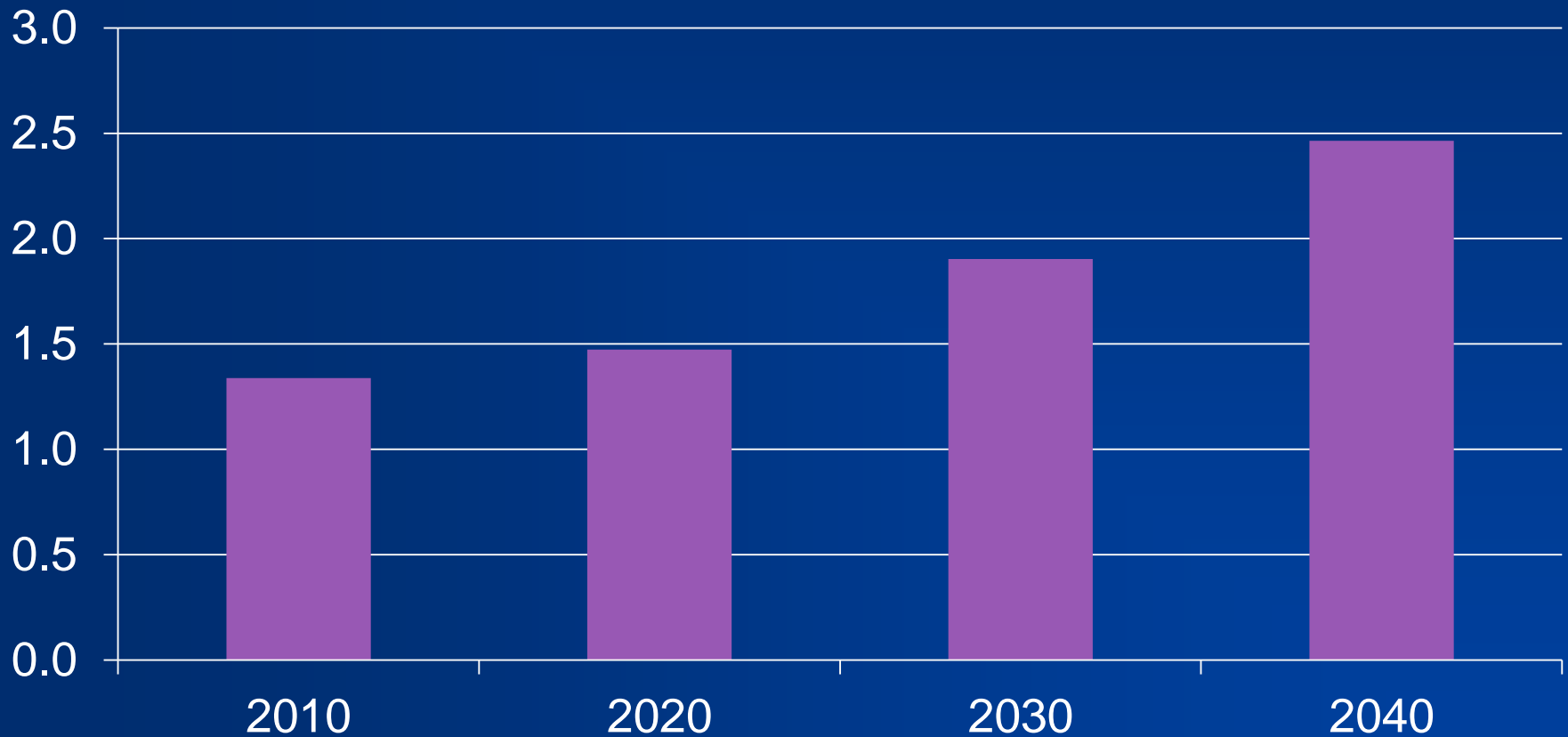
Public expenditure as share of GDP

... and growing ...



# *Population demented will double by 2040*

## Percent of population demented



# ***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<sup>nd</sup> 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

Nursing home use	Friedberg et al.		Hurd et al.*	
	Men	Women	Men	Women
Ever	0.44	0.58	0.50	0.65
Duration, conditional on using	0.88	1.44	0.75	1.20

\* Hurd, Michael D., Pierre-Carl Michaud and Susann Rohwedder, 2014, "The Lifetime Risk of Nursing Home Use," in D. Wise (ed.) *Discoveries in the Economics of Aging*, pp. 81-109.

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***

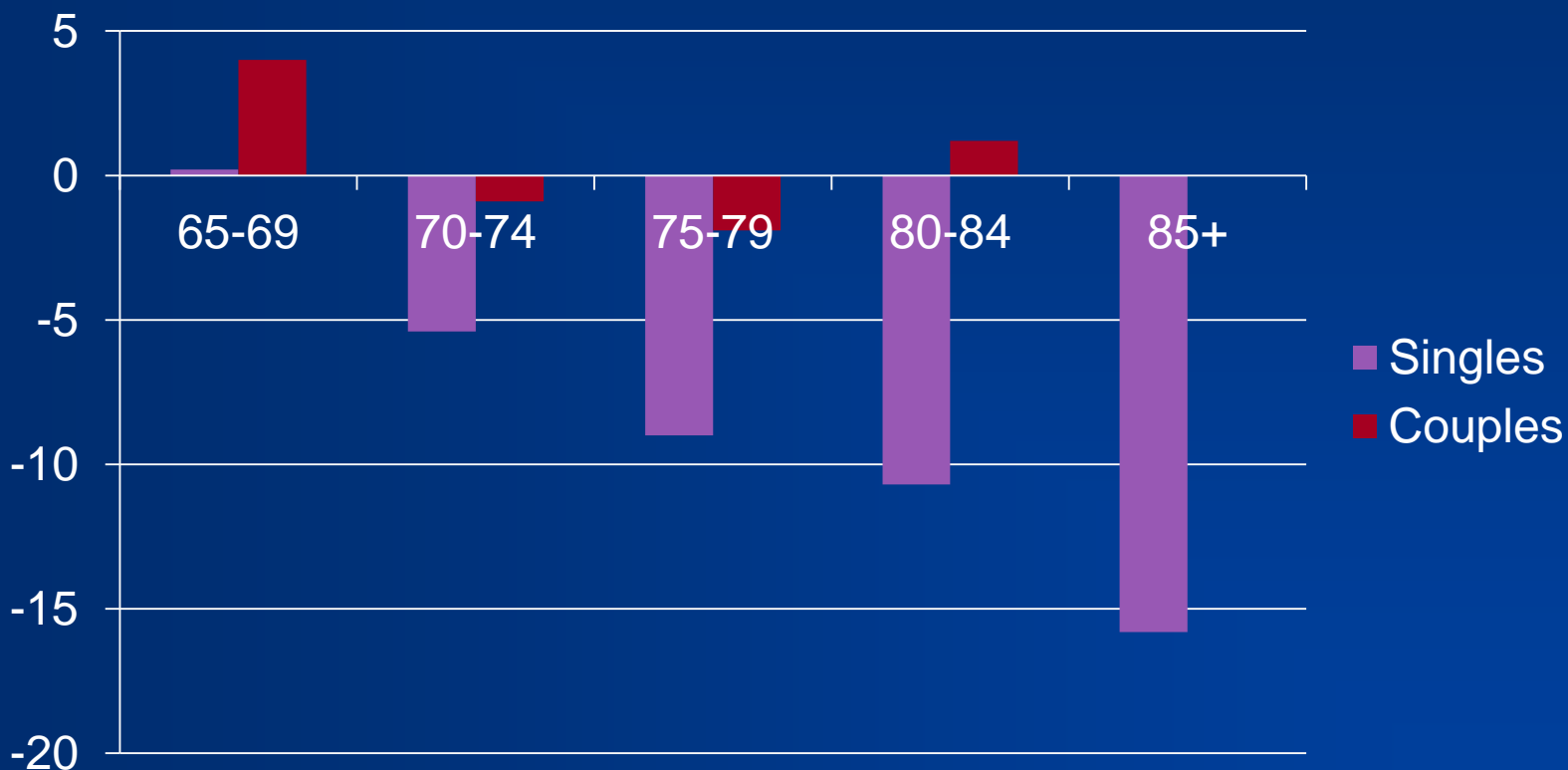
- **Dynamic programming model, very difficult to solve for couples**
- **VERY messy budget constraints when taking into account Medicaid rules**

## **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



# *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?***

---

Wealth Percentile	Couples	Single men	Single women
20th	0.954	0.889	0.935
30th	0.912	0.833	0.891
40th	0.818	0.771	0.828
50th	0.751	0.71	0.762
60th	0.641	0.632	0.673
70th	0.466	0.523	0.542
80th	0.294	0.379	0.402
90th	0.132	0.216	0.24

---

***Very Important Work!***

**Looking forward to future version!**