

Modeling a New Long-Term Care Financing Framework: Moran Company Report on the AAHSA Long-Term Care Solution

The Long-Term Care Solution Project
Of the American Association of Homes and Services for the Aging

The Vision

The United States does not have a comprehensive, fiscally sound approach to financing long-term care. The sheer size of the pending age wave of baby boomers will overwhelm Medicaid and other health and social service programs. Currently, Medicaid is the primary payer for long-term care services for elderly with low-incomes and individuals with disabilities. If we do nothing, the increasing burden on individuals and families and on state and federal programs-Medicaid, in particular, is unsustainable.

Mindful of the fact that our nation lacks a rational long-term care financing system, the American Association of Homes and Services for the Aging (AAHSA) developed the Long-Term Care Solution, an actuarially sound national insurance trust. Guided by the interests of consumers, The Solution is based on three core principles: consumer choice, financial responsibility and equity. Consumers will have choices in the types of services they can receive. Americans will take personal responsibility for their anticipated long-term care needs. Those who can afford premiums will pay while people with very low incomes will continue to receive help with premium payments. Benefits will be available to all adults.

With the framework identified, AAHSA retained the Moran Company, a nationally known economic consulting firm, to carry out the economic modeling. The modeling confirms that there is an affordable national solution.

The Project

The Moran Company constructed a financial model to determine the premium costs for an actuarially sound public long-term care insurance plan proposed by AAHSA. The plan is “fully funded,” meaning that the premiums (and earned interest on investments) cover the full cost of benefits and do not add to the federal deficit. To simplify the modeling, the plan is assumed to be mandatory.

Premium Prices for the New Insurance

The Moran Company explored various scenarios for plan details and estimated premium prices using two different assumptions regarding disability rates, which are key drivers of costs. The chart below shows premium prices for a program that includes everyone age 21+, has a five year vesting period, and pays \$75/day to people with qualifying disabilities (2+ ADLs). Various numbers of covered benefit years are shown. For example, **a plan that paid for just one year of benefits would cost participants \$0.73/day in premiums; a plan that paid for a lifetime of benefits would cost \$2.87/day in premiums.**

Number of Benefit years covered	High (premium price assumes high rates of disability)	Medium (premium price assumes medium disability rates)	Mid Point Annual	Premium Costs Per Day
1	\$318	\$213	\$266	\$0.73
2	\$557	\$373	\$465	\$1.27
3	\$717	\$490	\$614	\$1.66
5	\$971	\$641	\$806	\$2.21
Lifetime	\$1270	\$826	\$1048	\$2.87

Effect on Medicaid LTC Expenditures

The Moran Report estimates that **Medicaid could have saved about half of all its LTC costs, had the lifetime AAHSA program (outlined above) been operating in 2005** (the most recent year for which detailed information on Medicaid LTC costs is available). Potential savings would be less if the new insurance covered fewer benefit years because more disabled people would have exhausted their benefits in any one year and would still need to rely on Medicaid, if poor.

Number of Benefit Years that the insurance plan covers	Medicaid: Potential reduction in Federal & State LTC Medicaid spending due to the availability of the LTC insurance program (Billions)	Percent of Total Medicaid spending on LTC (Federal & State)	Percent of people with 2+ADLs who are actually collecting benefits in any one year
1	\$11.4	12%	22.2%
2	\$20.3	21%	39.5%
3	\$27.1	29%	52.8%
5	\$36.3	38%	70.7%
Lifetime	\$47.7	50%	92.9%

On the following pages you can read the complete report by the Moran Company, *Modeling a New Long-Term Care Financing Plan* (December, 2007). For a detailed report on the Long-Term Care Solution Project visit:

<http://www.thelongtermcaresolution.org/Files/Framework.pdf>