Senate Counsel & Research

ROOM 123, CAPITOL

Short Subjects

Title: Long Term Care Insurance

Date: January 28, 1985

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Long term care insurance is a relatively new insurance product not widely available in Minnesota or elsewhere in the United States. Roughly two dozen insurance companies currently market this product in various states. In Minnesota, out of 850 companies licensed to sell health insurance only two are licensed to sell long term care insurance. The limited availability of policies to insure against long term care expenses is reflected in the insignificant role insurance currently plays in financing nursing home care. According to federal data for 1982, only about 1 percent of nursing home costs were paid by insurance. Governmental payments, mostly through the Medicaid program, accounted for 55 percent of costs. Residents paid 44 percent of nursing home costs. This division of costs is in marked contrast to hospital charges, for which insurance pays about one-third, patients pay only 12 percent, and the remaining charges are paid through governmental programs.

Interest in alternative funding sources for long term care has been generated by the magnitude of the funding problem facing Minnesota and the rest of the nation as the elderly population rapidly increases. Between 1980 and 1990 the number of Minnesotans aged 65 and older is expected to increase by 14 percent, from 479,564 to 548,952. The fastest growing category of elderly is in the 85 and over group, which is expected to increase by 30 percent, from 52,789 to 68,546. These are the persons most likely to need nursing home care. Medicaid expenditures for skilled and intermediate level nursing home care in Minnesota have grown from $176 million in FY 78 to $411 million in FY 84. The state share of these costs was $70 million in FY 78 and $182 million in FY 84.

The state has made substantial efforts in recent years to control nursing home expenditures and has succeeded in reducing the rate of growth in those costs. These efforts have included the Preadmission Screening/Alternative Care Grants program to restrict entry to nursing homes; a moratorium on certification of new nursing home beds to participate in the Medicaid program; and changes in nursing home reimbursement methodology. Proponents of long term care insurance believe it can become another tool to reduce the growth in Medicaid nursing home costs.

Proponents argue that the insurance mechanism is a feasible method for meeting the costs of nursing home and home health care. They argue that nursing home care is a typically insurable event. Long term care expenses, in this argument, are a personal disaster, threatening all of us but realized by relatively few. As such, this argument goes, they are as insurable as any other possible calamity. Insurance against these expenses would be beneficial to the individual, to the nursing home industry, and to the governmental programs that pay for this care. Insurance would relieve a source of financial worry for the elderly by giving them some confidence that a nursing home placement would not rapidly deplete assets accumulated over a lifetime. The industry would benefit by having an additional non-governmental source of revenue. The industry appears to be increasingly concerned about its dependence on Medicaid, especially given indications that pressures to restrain Medicaid expenditures at both the state and national levels will continue for some time. And governmental payers would benefit by having a portion of the costs now eligible for Medicaid reimbursement paid instead through the insurance mechanism.

Nevertheless, most insurance companies have been reluctant to enter this market. They argue that data on which to estimate risks, costs, and premiums is lacking. They say consumers are not demanding the product and employers are unwilling to add it to employee benefit packages. They are reluctant to insure the non-medical aspects of long term care. They fear that only those most likely to need nursing home care will purchase the insurance (adverse selection), and the availability of insurance will increase nursing home usage (induced demand). Another argument is that long term care treatment is not a typically insurable event. According to this reasoning, an insurable event is one over which the insured has little control--an auto accident, a house fire, etc. The decision to place someone in a nursing home, however, is subject at least in some cases, to choices made by the individual or family members. Another concern about long term care insurance is that it exhibits the same bias in favor of institutional care as the Medicaid program.

Some of the policies that now cover long term care do provide home health benefits, but that coverage is typically more limited than the nursing home benefit. This is one of several ways in which the companies offering long term care insurance have sought to limit their liability. Prior hospitalization is often required to establish that an underlying medical reason exists for the nursing home stay. Insurance companies often require evidence of insurability and exclude pre-existing conditions from coverage. Some companies use a strict definition of nursing home care in order to further limit their liability. These policies typically pay on an indemnity basis. That is, they pay a predetermined amount per day, typically $30 to $60, regardless of the actual cost of care.

The Minnesota Commerce Department is drafting legislation to remove some of the regulatory barriers that control the sale of long term care insurance to individuals over age 65. The legislation will also authorize the department to set minimum standards for long term care insurance policies sold in the state.

The following options have also been suggested as ways in which the state could encourage the development of long term care insurance: (1) tax incentives to employers and/or consumers to stimulate the market; (2) a state guarantee of the risks associated with long term care insurance; and (3) state assistance to help pay insurance premiums.

It is likely that legislation dealing with long term care insurance will come before the Senate Health and Human Services Committee during the 1985 session.