# SOME THOUGHTS ON THE LTC INSURANCE PUZZLE

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# The LTC insurance puzzle

- Individuals face significant late-in-life risks, prominently including the need for LTC. Yet, they hold little long-term care insurance.

- Puzzling as the risk of LTC and its cost are measurable and concerns a majority of individuals.

# Outline

1. Alternative explanatory factors
2. Traditional reimbursement formulas
3. Reimbursement with a deductible
4. The reality of long period of dependence
5. Conclusions

# 1. Alternative explanatory factors

- **Supply side**
  1. Excessive costs (adverse selection):18% load factor with large differences by gender

  2. Unattractive rule of reimbursement

- **Demand side**
  1. Social assistance acting as Good Samaritan: example of Medicaid that serves as a safety net for middle and upper class individuals who incur catastrophic nursing home costs.
  2. Trust into family solidarity: intra-family moral hazard, that is, parents might refuse to buy insurance since it reduces children’s incentives to provide them care.
  3. Myopia (cognitive dissonance) or ignorance
  4. Denial: dementia is an unbearable outcome

# Lessons from two surveys

1. **Canadian survey**: misperception is the key factor, but not enough to explain the low take-up rete of LTC insurance

2. **Geneva Association survey**:
   - Misunderstanding
   - Uncertainty
   - Distrust

Not very informative

# . Long-term care insurance benefits payment

- **Reimbursement** long-term care insurance policies pay for the actual cost of care. It comprises a ceiling in the amount of the benefits and in the length of reimbursement.

- **Cash indemnity** long-term care insurance policies pay your selected daily benefit as soon as you qualify for benefits. It pays cash benefit regardless of your actual expenses. Limited in time or not.

- US: reimbursement formula less popular, replaced by cash indemnity limited period.
  France: lifetime lump sum compensation.

- For the insurer, it limits the uncertainty of long run risks.
  For the insuree, no protection against a too long and costly period of dependence.

# 3. Reimbursement with a deductible

Concern for most individuals: avoiding to be forced spending down their wealth and to be unable to bequeath.

Arrow's theorem: « If an insurance company is willing to offer any insurance policy against loss desired by the buyer at a premium which depends only on the policy's actuarial value, then the policy chosen by a risk-averting buyer will take the form of 100% coverage above a deductible minimum. »

Applied to LTC, Arrow's theorem holds in the form of full self-insurance for the first years of dependency followed by full insurance thereafter.

Can be extended to account for ex post moral hazard.

# 4. The reality of long period of dependence

Table 1

Length of dependence

USA – People 65+

| | % with LTC Need | Average Years of High LTC Need | Distribution of need (% of cohort) | | | |
|---|---|---|---|---|---|---|
| | | | None | < 2 years | 2-5 years | > 5 years |
| Men | 46.7 | 1.5 | 53.3 | 25.8 | 11.1 | 9.8 |
| Women | 57.5 | 2.5 | 42.5 | 27.5 | 12.3 | 17.8 |

Source: Nordman 2018

# 5. Conclusions

The basic question is:

**Would there be a higher demand for LTC insurance with deductible?**

Without trying, it is very difficult to answer.