

SOME THOUGHTS ON THE LTC INSURANCE PUZZLE

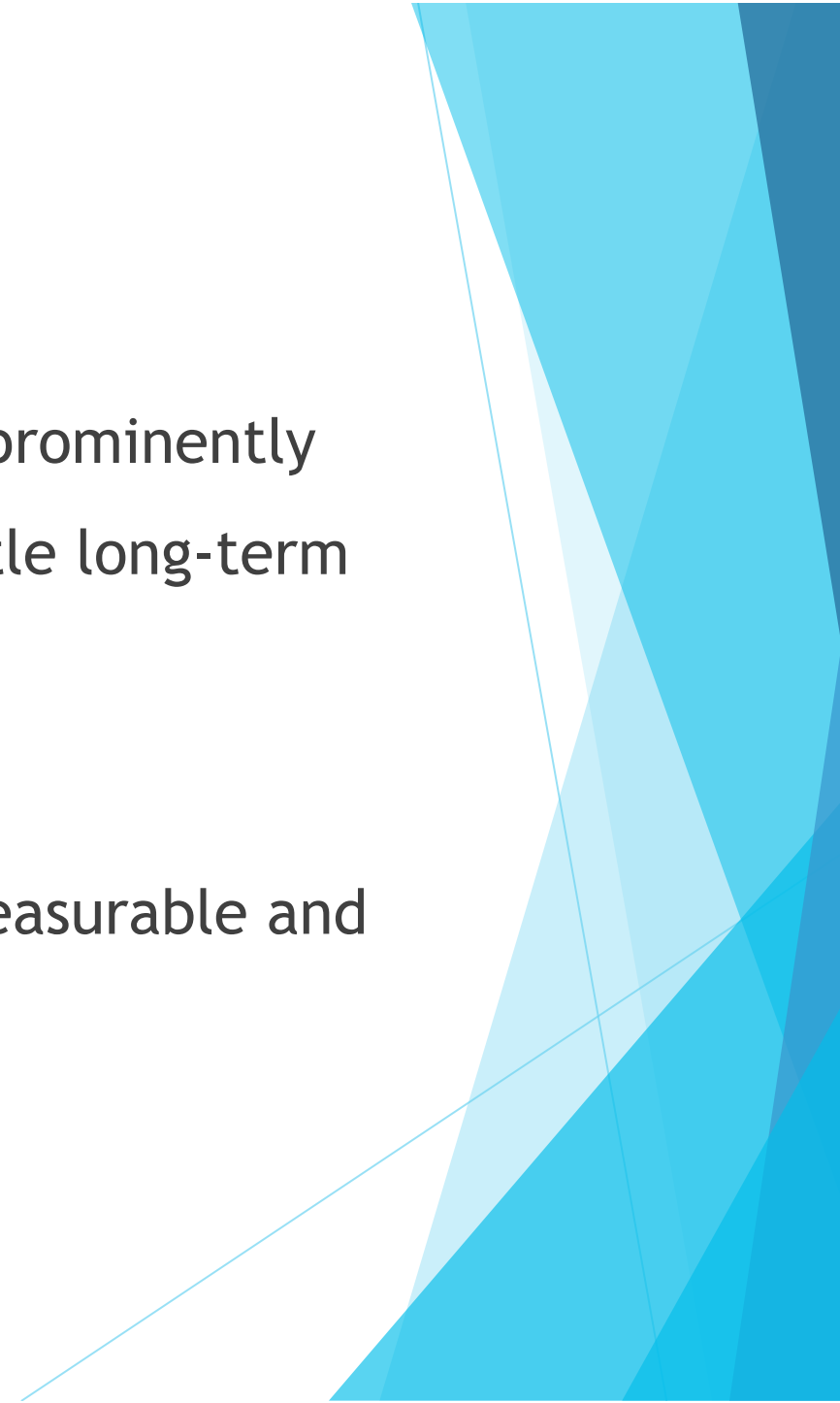
Pierre PESTIEAU

University of Liège, CORE and TSE

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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

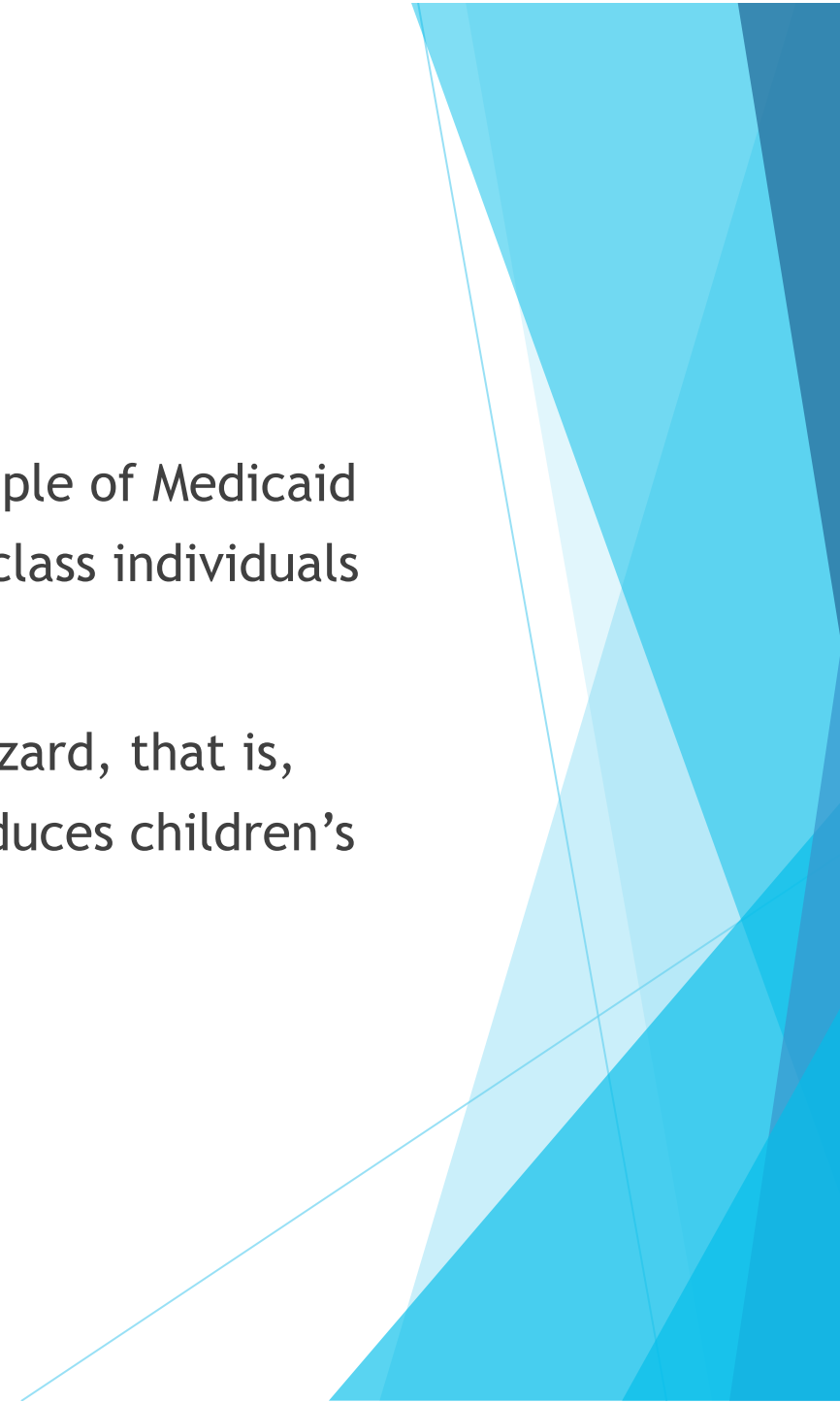
- **Supply side**

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



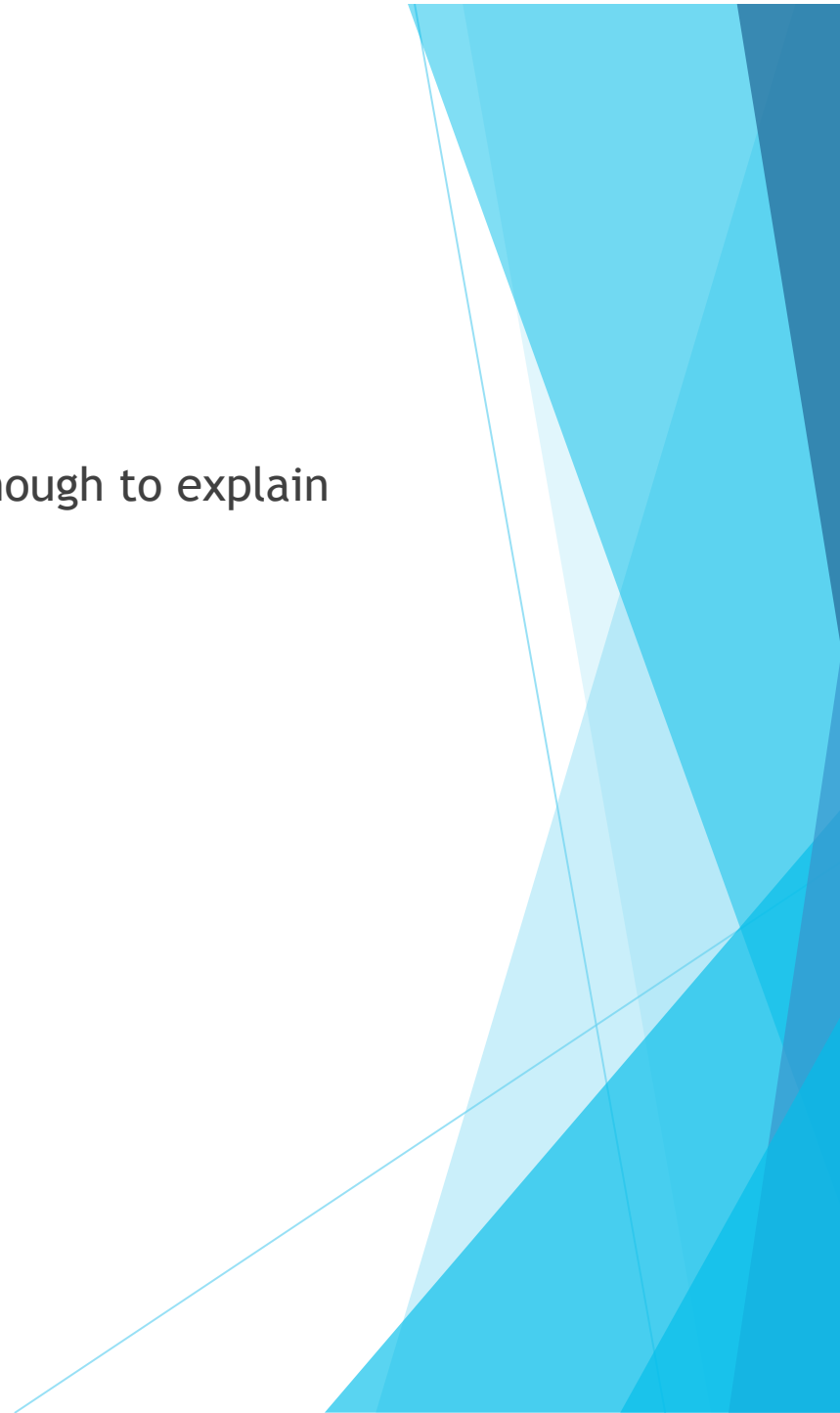
Lessons from two surveys

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

2. **Geneva Association survey:**

- Misunderstanding
- Uncertainty
- Distrust

Not very informative



2. 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.

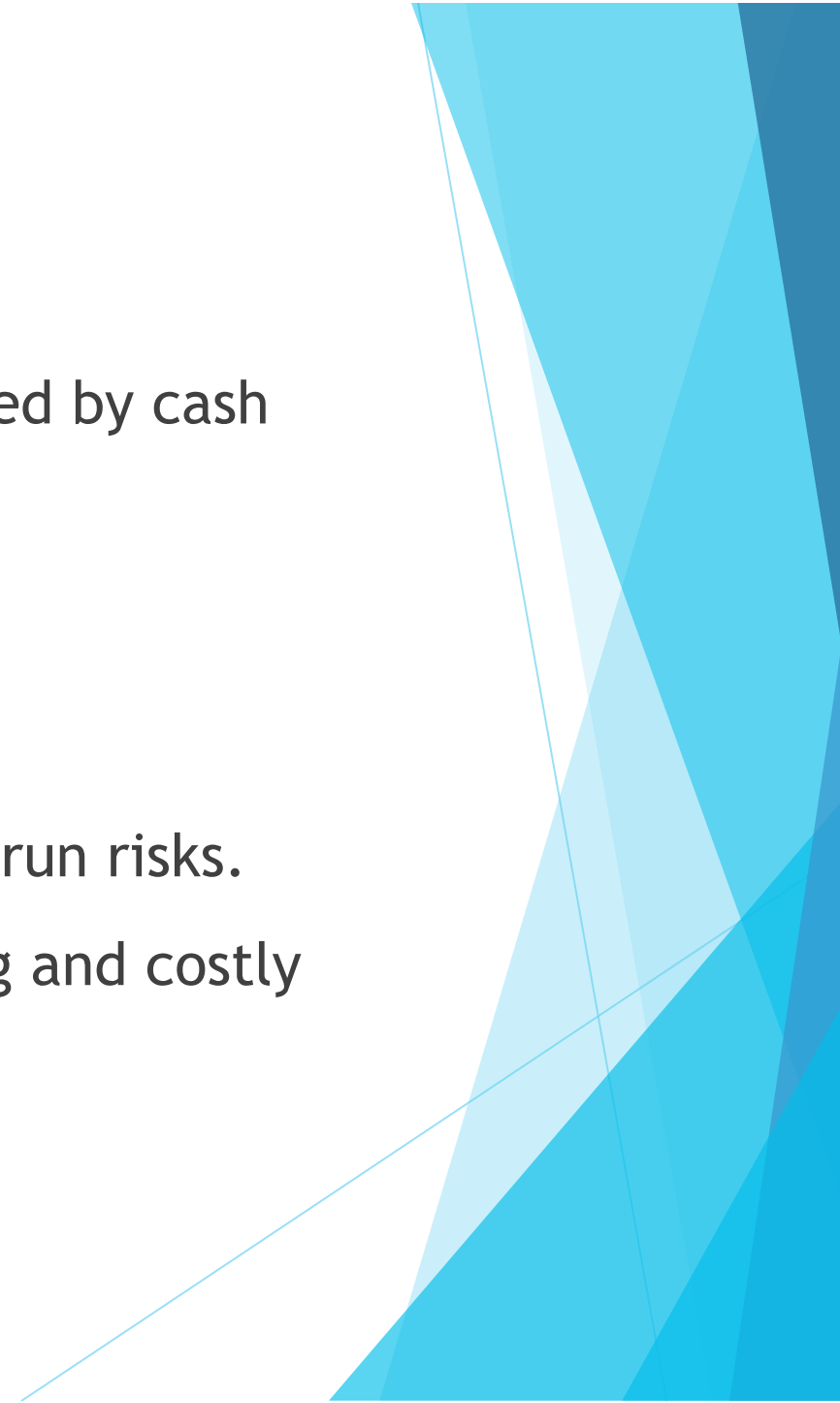
Cash indemnity long-term care insurance policies pay your selected daily benefit as soon as you qualify for benefits. It pays cash benefit regardless of your actual expenses. Limited in time or not.

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.

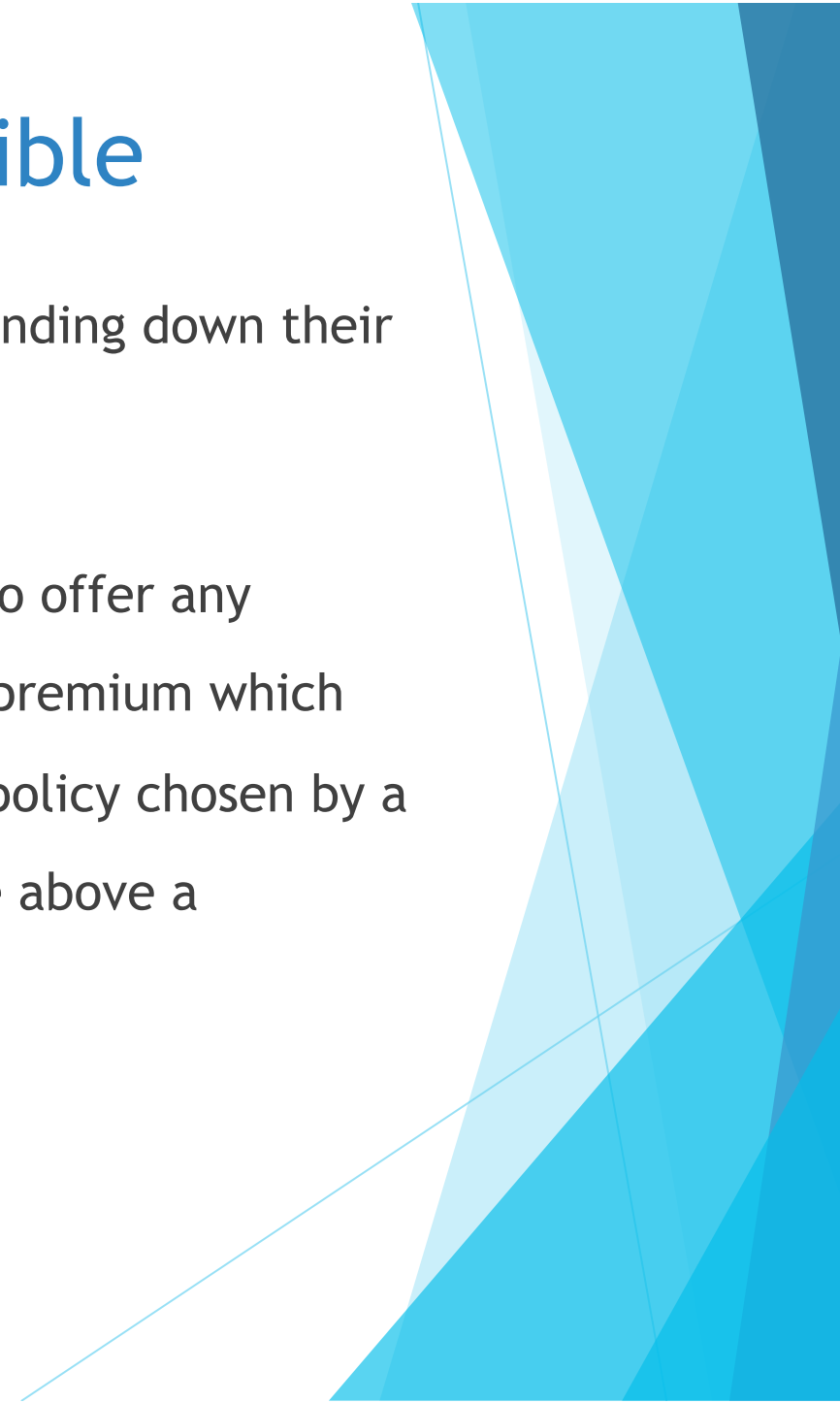
For the insuree, no protection against a too long and costly period of dependence.



3. Reimbursement with a deductible

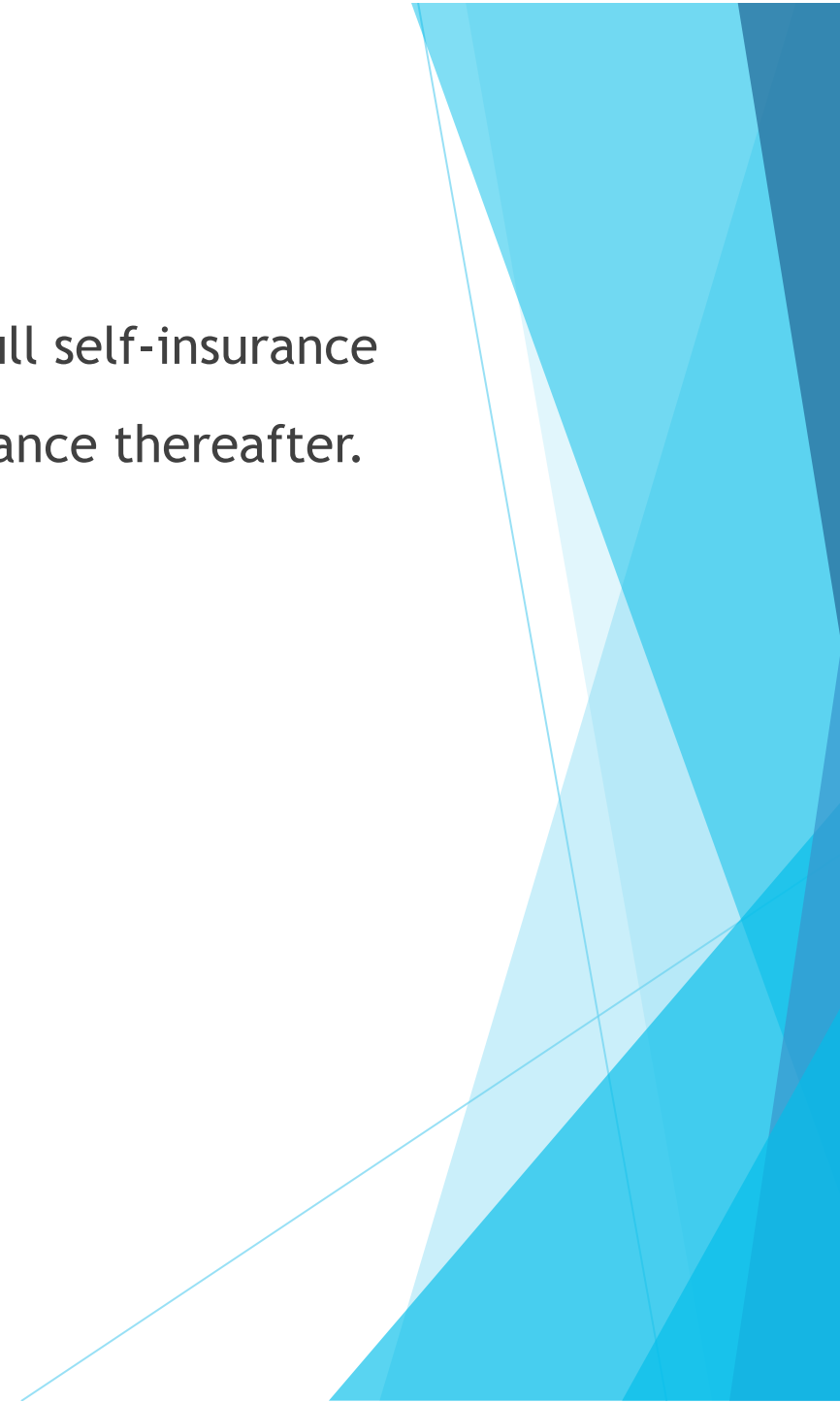
Concern for most individuals: avoiding to be forced spending down their wealth and to be unable to bequeath.

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.

