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LONG-TERM CARE INSURANCE: Proposals To Link Private Insurance and Medicaid Need Close Scrutiny

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Before the
Subcommittee on Health and
the Environment
Committee on Energy and Commerce
House of Representatives

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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our report, Long-Term Care Insurance: Proposals to Link Private Insurance and Medicaid Need Close Scrutiny.[1] The report discusses proposed state demonstration projects that would coordinate private long-term care insurance with Medicaid to finance long-term care costs. The purpose of the proposed projects is to examine whether we can provide more adequate long-term care protection without increasing public sector costs through the promotion of long-term care insurance for the elderly.

Both the government and consumers can benefit potentially from an expanded long-term care insurance market. The government can benefit if middle-income elderly no longer rely on Medicaid for assistance in paying for extended long-term care services, and consumers can benefit by delaying or avoiding the financial hardships that so often result from catastrophic long-term care costs. However, many long-term care insurance policies are deficient in such matters as coverage, eligibility for benefits, and inflation protection. Further, policies tend to be too expensive for most elderly to purchase.

The Robert Wood Johnson Foundation gave planning grants to eight states to address the concerns about costs of long-term care

[1]GAO/HRD-90/154, September 10, 1990.

and the limitations of insurance coverage. The proposed demonstration projects we will discuss today are an outgrowth of these planning grants. While the projects vary significantly, most propose allowing persons who purchase a qualifying private long-term care policy to become Medicaid-eligible after the policy pays for a period of long-term care costs. Participants would not have to "spend down" or deplete as much of their assets as is now required to meet Medicaid eligibility thresholds. Implementing the projects, however, requires that the Department of Health and Human Services (HHS) be given legislative authority to waive certain Medicaid requirements.

We believe that the proposed projects could significantly reduce the financial hardships that some elderly endure as a result of catastrophic long-term care costs. Additionally, the projects could provide a key source of information on the use of long-term care services experienced by project participants. This could help state regulators develop (1) better standards and oversight mechanisms to increase consumers' protection and (2) educational campaigns to inform consumers of the appropriate role of long-term care insurance options.

On the other hand, risks are involved if the Congress gives HHS authority to implement projects that link private insurance coverage with Medicaid. The Medicaid program could experience cost increases, while consumers risk not receiving the benefits they expected. Any problems that might arise can have significant effects, because the 8 states with planning grants account for nearly 45 percent of all Medicaid expenditures nationwide. Further, while the projects are considered demonstrations, their commitments to project participants may require that they operate for 20 or more years. Such a long operating time frame is more characteristic of programs than of demonstrations. Consequently, authorizing the demonstrations would represent a significant policy decision.

Today I will discuss the nature of the risks involved in making such a decision and the minimum safeguards that would be warranted to avoid their being realized.

RISKS OF MEDICAID COST INCREASES SHOULD BE MINIMIZED

The proposed demonstrations should not become vehicles for higher income persons to protect their incomes and assets through the Medicaid program. The risk of this occurring could be significant because long-term care insurance is presently affordable to only a relatively small number of elderly persons with higher incomes. For example, a recent study examining the cost of policies from nine companies found that policies offering a basic range of services averaged in excess of $1,300 for a 67-year-old. Policy prices escalate with a person's age, and by age

77 premiums averaged $3,200. Reportedly, less than 20 percent of persons between the ages of 65 and 79, the target market for most long-term care insurers, could afford such policies.

If higher income individuals predominate among the projects' participants, they could add to Medicaid rolls and hence to overall Medicaid costs. For one project we reviewed, such risks were particularly significant because over 70 percent of the participants are expected to be higher income persons (that is, have incomes more than 5 times the poverty level). Projects that mitigate this risk are those that incorporate features to (1) make insurance more affordable to lower income persons and (2) limit the amount of assets that individuals can protect from Medicaid's spend-down requirements.

STATES SHOULD BE REQUIRED TO ADOPT EXISTING REGULATORY STANDARDS

These projects would involve the states in an activity that itself has risks--promoting long-term care insurance products. These are relatively new products that are evolving rapidly--often more rapidly than states' regulatory and oversight mechanisms. As little as two years ago, for example, many long-term care insurance products included provisions, such as the exclusion of coverage for Alzheimer's disease, that today are widely viewed as overly restrictive.

Because the projects will involve states in promoting private long-term care insurance products, states that seek the necessary Medicaid waivers will assume an even greater regulatory responsibility than other states. For the projects we reviewed, the state will provide a seal of approval to the policies of insurers electing to participate. States also will undertake advertising campaigns to encourage the purchase of these products. Given these circumstances, should subsequent problems arise with the products because of such factors as coverage restrictions or an insurer's financial difficulties, project participants may look to the states to provide the coverage that was expected of the insurer. Accordingly, we believe that any legislation authorizing these demonstrations should stipulate that a state demonstrate to HHS, prior to being granted necessary waivers, that its laws and regulations meet at least the National Association of Insurance Commissioner's (NAIC's) minimum standards and that it has the capability to enforce them.

STATES SHOULD PROVIDE ADEQUATE CONSUMER EDUCATION

By virtue of their involvement in the promotion of private long-term care insurance, states would also assume added responsibilities to ensure that consumers understand any risks associated with the policies offered under these projects. The policies could lessen, but may not eliminate, an individual's risk of impoverishment as a result of catastrophic long-term care costs.

For example, consumers who choose to participate in such projects by buying approved long-term care insurance would continue to be at risk for high out-of-pocket costs. These could include payments for services not covered under their insurance policy, or the difference between what the policies pay and billed charges. Additionally, individuals would need to understand that the added protection afforded by the projects will only continue as long as they maintain their long-term care policies in force. If an insurer elects to increase long-term care policy premiums in the future, existing NAIC standards allow it to do so on a class basis. If a policyholder is unable to continue paying these increased premiums, he or she would lose coverage, along with their entire prior investment in premiums. Thus, we believe that any legislation authorizing these demonstrations should stipulate that a state demonstrate to HHS, prior to being granted necessary waivers, that it will provide the information and counseling consumers need to make informed decisions.

ADEQUATE DATA COLLECTION SHOULD BE REQUIRED

Further, states would need to collect and evaluate substantially more data than is now routinely collected through their oversight programs to (1) adequately monitor insurers' compliance with regulatory standards, and (2) assess whether the demonstration projects are successful. Heretofore, much of the information needed to assess the adequacy and role of private long-term care insurance in a public-private partnership has been unavailable, except to the insurers. Such information would include demographics of policyholders, the numbers of persons denied coverage or benefits, and the numbers of and reasons for policy cancellations.

These kinds of data are essential, for both the private sector in developing the long-term care insurance market and the public sector in instituting appropriate regulatory controls. Thus, we believe that any legislation authorizing these demonstrations should stipulate that a state demonstrate to HHS, prior to being granted necessary waivers, that states and insurers have agreed to (1) collect sufficient data, and (2) share all research and tracking data on program participants with HHS. In this way, HHS can monitor the projects and the data can become a matter of public record.

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In summary, the proposed projects could reduce the financial hardships that some elderly endure as a result of catastrophic long-term care costs. On the other hand, risks would be involved if the projects are given authority to link private insurance coverage with Medicaid. Consequently, if the Congress wishes to give HHS authority to approve demonstrations such as those proposed by the Robert Wood Foundation grantee states, it should consider including in the legislation,

-- Statutory requirements to minimize the financial risks to the Medicaid program and to consumers and

-- Requirements that the Secretary of Health and Human Services prepare interim reports to the authorizing committees on whether the statutory requirements are meeting their intended purposes.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you may have at this time.