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PROMOTING FINANCIAL WELL-BEING IN RETIREMENT

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Addressing the Challenges of the Long-Term Care Insurance Market

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Strengthening Risk Protection through Private Long-Term Care Insurance

Wesley Yin
UCLA and NBER

LTC finance reform is imperative

- Greatest source of financial risk facing American seniors
  - On average, $65,000 in LTSS spending for senior couple; 5% chance spending exceeds $260,000
  - Public coverage is limited; few buy private insurance
  - Middle-class Americans at greatest risk
- Medicaid faces fiscal challenges
  - $123 billion: accounts for nearly 30% of Medicaid budget
  - Growing at 6% per year, far higher than GDP growth

Key reform objectives

- Increases risk protection for the middle class
- Strengthen Medicaid through increased efficiency and services that meet the varied needs of Americans

Constraints and a path forward

- Important constraint
  - Little support for a large expansion of public spending…

    …or for a mandatory financing program
  - Squeezing a water balloon: a voluntary program necessarily trades off spending, coverage, and stability objectives
- Guiding principles
  - We don't necessarily need more financing; we need to redirect current public and private direct LTSS spending toward financing more insurance
  - Encourage private capital before public spending, for those who can afford it
  - Progressive; modest but meaningful coverage expansion

Proposal: LTC Advantage Program

- Voluntary LTC Advantage program
  - **Cost sharing subsidy** for direct LTSS claims in lieu of Medicaid LTC benefits
  - Progressive cost share rate, pegged to lifetime Medicare earnings
  - Allows people to “top up” public LTSS benefit to cover assets above Medicaid levels
- Two-sided risk-corridor program
  - Common shocks: undiversifiable interest rate, lapse, and disability rate risks
  - “Qualifying” losses shared among carriers, consumers, and government
  - Covers qualifying losses only; no moral hazard or bailouts
  - Such risks are already borne by consumers and government!

Other parts of the LTC Advantage Program

- Product standardization fosters smarter competition
  - HCBS, assisted living-only benefits, combination products
- Expand pool of savings
  - Penalty-free withdrawals from tax-advantaged retirement accounts
- Encourage employers to offer private LTC insurance
- Medicare demonstration
  - Integrate financing of LTSS and primary and acute health care delivery
  - Medicare Advantage or ACO mechanisms
  - Integrates into LTC Advantage platform

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Improving Policy for Retirement Savings Accounts

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Building on What Works: A Proposal to Modernize Retirement Savings

John Friedman
Brown University

The Challenge

- Workers are living longer and costlier lives in retirement
- Traditional sources of retirement income, such as Social Security and DB Pensions, are shrinking

→The middle class relies more than ever on individual savings, mostly through DC accounts.

The Proposal

1. Consolidate all retirement accounts into a single account (the "URSA") that a worker can use for all retirement savings throughout her life
   - Relocate many of the costs of plan management (e.g., account upkeep and fiduciary responsibility) to account managers
2. Offer firms large tax credits ($22 billion / yr) for enrolling workers in retirement savings plans
   - Pay for tax credit with a partial roll-back of the current tax credits for retirement savings

Benefits for Workers

- Large increase in participation
  - Projected to increase from 41% up to 65% for private employers
  - Biggest effects for workers at small firms
- Simplification will :
  - Improve decision-making in asset management
  - Reduce pre-retirement leakage
  - Reduce hassle
- New tax incentives provide more benefit to the middle class
  - Increases share of tax expenditure from 32% to 43%

Benefits for Employers

- Benefits firms directly for helping their workers save
  - Tax credit is large enough to overcome costs of take-up
- Reduces costs of providing access for workers
  - Small firms especially not well suited for administrative and fiduciary responsibilities
  - Projected costs just as important as actual costs
- Employers can tailor offerings for workers
  - National parameters on defaults provide bounds
  - Firms have room to adjust settings to the needs of particular workers

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