PROMOTING FINANCIAL WELL-BEING IN RETIREMENT

THE HAMILTON PROJECT

BROOKINGS

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#RetirementSecurity
ADDRESSING THE CHALLENGES OF THE LONG-TERM CARE INSURANCE MARKET
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
  o On average, $65,000 in LTSS spending for senior couple; 5% chance spending exceeds $260,000
  o Public coverage is limited; few buy private insurance
  o Middle-class Americans at greatest risk

• Medicaid faces fiscal challenges
  o $123 billion: accounts for nearly 30% of Medicaid budget
  o 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
  o Little support for a large expansion of public spending...
    ...or for a mandatory financing program
  o Squeezing a water balloon: a voluntary program necessarily trades off spending, coverage, and stability objectives

• Guiding principles
  o We don’t necessarily need more financing; we need to redirect current public and private direct LTSS spending toward financing more insurance
  o Encourage private capital before public spending, for those who can afford it
  o Progressive; modest but meaningful coverage expansion
Proposal: LTC Advantage Program

• Voluntary LTC Advantage program
  o **Cost sharing subsidy** for direct LTSS claims in lieu of Medicaid LTC benefits
  o Progressive cost share rate, pegged to lifetime Medicare earnings
  o Allows people to “top up” public LTSS benefit to cover assets above Medicaid levels

• Two-sided risk-corridor program
  o Common shocks: undiversifiable interest rate, lapse, and disability rate risks
  o “Qualifying” losses shared among carriers, consumers, and government
  o Covers qualifying losses only; no moral hazard or bailouts
  o 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
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
  o Tax credit is large enough to overcome costs of take-up

• Reduces costs of providing access for workers
  o Small firms especially not well suited for administrative
    and fiduciary responsibilities
  o Projected costs just as important as actual costs

• Employers can tailor offerings for workers
  o National parameters on defaults provide bounds
  o Firms have room to adjust settings to the needs of
    particular workers
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