National Long-Term Care Insurance: How Much Would It Cost?
Howard Gleckman

Abstract
About two-thirds of those over 65 will need some long-term care before they die. Howard Gleckman looks at a key question at the heart of the debate over long-term care insurance: how much will premiums cost?

Massachusetts Sen. Edward Kennedy, chairman of the Health, Education, Labor and Pensions (HELP) committee, has sparked an important debate over long-term care insurance by proposing national coverage that would be available to everyone. But the Kennedy plan, called the CLASS Act, leaves unanswered the question that is probably most important to consumers: How much would the premium be?

Kennedy's bill, which is likely to be debated by the committee this week, anticipates an average monthly premium of $65. The lifetime cash benefit would be $50 a day (the actual benefit would vary depending on a beneficiary's level of need). Such a low monthly price would be a terrific deal and likely attract lots of buyers.

However, in recognition of Kennedy's own uncertainty, the proposal gives the Secretary of Health and Human Services broad discretion to set actual premium levels. And there is some evidence that monthly payments would be quite a bit higher than Kennedy hopes.

In late June, the Congressional Budget Office projected premiums would average between $100 and $110 per month—still a good deal, but these higher prices would probably drive some buyers out of the market. CBO's estimate tracks earlier projections by a private actuarial firm, The Moran Co., that studied a similar long-term care insurance plan designed by the American Association of Homes and Services for the Aging, a trade group of nonprofit nursing homes and home health agencies.

There are lots of uncertainties to these estimates, but the biggest centers around whether everyone would be required to buy coverage. If there were such a mandate, individual premiums could be kept relatively low. If there weren't, costs for those who do buy would be higher.

The reason has to do with the way all insurance is designed. We know that about two-thirds of those over 65 will need some long-term care before they die, and about 20 percent will need this assistance for five years or more. Today, the relatively few people who buy private long-term care insurance are those most likely to need it. So, insurance companies charge high premiums since their likelihood of having to pay claims is high. In a mandatory system where everyone must buy, many who purchase insurance will never need coverage, or need only a small amount. That allows the insurer—the government, in Kennedy's plan--to lower premiums for everyone.

But the CLASS Act is not exactly mandatory insurance. Everyone would be automatically enrolled at age 18 or as soon as they started working. However, they'd be allowed to opt out. They could decide to buy when they are older, but their premiums would be higher.

The big unanswerable question is: How many of these young workers would walk away from coverage? It seems many would. After all, how many 20-somethings would be willing to reduce their income by $100 a month today to insure against a risk that may not occur for 60 years? On the other hand, the idea behind the opt-out is that people who are automatically enrolled in a benefit often don't bother to decline coverage. This “whatever” effect seems to work with 401(k)-type retirement plans.

Kennedy aides insist that with a bit of education, young people would buy long-term care insurance. But, in truth, nobody knows.
The other key issue is whether private insurers would be willing to sell long-term care coverage to supplement CLASS Act government policies, and what they would charge for those extra benefits. For now, many of the big carriers say privately they don’t want anything to do with such a structure. But private insurance sales have been in the dumps for years, and I’d bet many carriers would see add-on coverage as a big potential market, much like Medigap, or Medicare Supplement, health insurance.

With the CLASS Act benefit averaging only about $50 a day, I suspect many would want to buy extra insurance. But if they are already paying $100 a month for the government plan, how much more would they be willing to spend for add-on coverage?

These are all questions Kennedy will have to answer in the coming months. That’s why having this debate is so important to the future of long-term care.

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Other Publications by the Authors

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