Healthcare Financing:
The Case for Long Term Care Insurance

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Outline

- Introduction
- Demographic Overview
- Long-Term Care Financing Issues
- Policy Options for the Future
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Introduction

- Globally, the demand for long-term care (LTC) has been growing rapidly due to improvements in longevity, medical technology and health care management.

- Hong Kong is no exception to this. However, being one of the most developed cities in Asia, Hong Kong has yet to formulate a comprehensive LTC funding policy which is sustainable and meticulously designed.

- In this presentation, a demographic overview is conducted to illustrate the increasing potential demand for LTC, and the critical funding implications for Hong Kong.
Introduction

- Alternative LTC financing models and options adopted in other countries will be comparatively surveyed.

- Preliminary findings indicate that the various LTC funding approaches adopted in different countries depict varying degrees of public/private collaborations.

- It is hoped that the experience drawn from analysing the practice and policies of other countries will help map out a possible blueprint for Hong Kong's policy-makers and insurance companies in formulating the most appropriate strategies that meet the unique needs and demands in Hong Kong.
Demographic Overview

Figure 1: Projected population age 65+ (% of total population)

Source: US Census Bureau, International Data Base
Demographic Overview

Figure 2: Projected population age 85+ (% of total population)

Source: US Census Bureau, International Data Base
Demographic Overview

Table 1: Projected dependency ratio, 2014 - 2041

<table>
<thead>
<tr>
<th>Year</th>
<th>0-19</th>
<th>20-64</th>
<th>65+</th>
<th>Age 65+ as % of Age 20-64</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>17.2%</td>
<td>67.5%</td>
<td>15.3%</td>
<td>22.7%</td>
</tr>
<tr>
<td>2015</td>
<td>16.8%</td>
<td>67.2%</td>
<td>16.0%</td>
<td>23.8%</td>
</tr>
<tr>
<td>2016</td>
<td>16.5%</td>
<td>67.0%</td>
<td>16.6%</td>
<td>24.7%</td>
</tr>
<tr>
<td>2017</td>
<td>16.2%</td>
<td>66.6%</td>
<td>17.1%</td>
<td>25.7%</td>
</tr>
<tr>
<td>2018</td>
<td>16.1%</td>
<td>66.2%</td>
<td>17.7%</td>
<td>26.8%</td>
</tr>
<tr>
<td>2019</td>
<td>16.0%</td>
<td>65.6%</td>
<td>18.4%</td>
<td>28.1%</td>
</tr>
<tr>
<td>2020</td>
<td>15.9%</td>
<td>65.0%</td>
<td>19.1%</td>
<td>29.5%</td>
</tr>
<tr>
<td>2021</td>
<td>15.8%</td>
<td>64.2%</td>
<td>19.9%</td>
<td>31.0%</td>
</tr>
<tr>
<td>2022</td>
<td>15.9%</td>
<td>63.3%</td>
<td>20.7%</td>
<td>32.7%</td>
</tr>
<tr>
<td>2023</td>
<td>16.0%</td>
<td>62.4%</td>
<td>21.6%</td>
<td>34.6%</td>
</tr>
<tr>
<td>2029</td>
<td>15.9%</td>
<td>57.4%</td>
<td>26.6%</td>
<td>46.4%</td>
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<tr>
<td>2035</td>
<td>14.5%</td>
<td>55.5%</td>
<td>30.0%</td>
<td>54.2%</td>
</tr>
<tr>
<td>2041</td>
<td>13.7%</td>
<td>54.3%</td>
<td>32.0%</td>
<td>59.0%</td>
</tr>
</tbody>
</table>

Source: Hong Kong Census & Statistics Department
Who needs Long-term Care?

- The need for long-term care arises from various causes, including diseases, disabling chronic conditions, injury, severe mental illness, and developmental disabilities.

- In estimating the number of people with long-term care needs, researchers often define a person as needing long-term care if he requires another people’s help with one or more activities of daily living (ADLs) or Instrumental ADL (IADLs)

- As seen in Figures 1 and 2, the number of Hong Kong people over age 85, who are most likely to need long-term care, will more than quadruple in the next four decades. The number of people with disabilities for age 65+ is likely to grow similarly.

- Although medical and technological advances may reduce disability rates and the need for associated supports, there is little doubt that the number of people who need long-term care will increase substantially in the years to come.
Who needs Long-term Care?

• References:
  ◦ Roger Y Chung et al. “Long-term care cost drivers and expenditure projection to 2036 in Hong Kong,” *BMC Health Services Research* 2009, 9:172
An Overview of Hong Kong’s Long-Term Care System
Source: Chung et al. (2009)
Long-term Care Financing Issues

- It was predicted, total spending on LTC in Hong Kong as a proportion of GDP, to increase from 1.4% in 2004, with a very temporary reprieve due to the demographic window until 2011, to 3.0% in 2036. (Chung et al., 2009)

- Coupled with the twinned set of health care expenses, which we projected to grow from 5.2% GDP in 2004 to 9.2% by 2036 (Tin et al., 2007).

- Since medical care and long-term care are quite different, their corresponding financing issues are different.

- Noted that coverages of health insurance (the third speaker, Mr Chris Sun’s topic) and long-term care insurance are often with little over-lapping.
Long-term Care Financing Issues

- Currently about one-tenth of LTC spending traces its incidence from private pockets while public sources provide the remaining majority.

- Looking into the future, given current patterns, public finances appear poised to be further saddled by the projected higher expenditure, not only in absolute but also relative terms.
Country Review: France

Public Systems

- The French LTC system is based on a mix of the government pays through general taxation (Beveridge) and through national insurance funds (Bismark) models. The French system also relies on families to play a key role in financing and assisting with LTC.

- The French system operates a decentralised model with most of the decisions being made at the "departmental" level where individuals receive a Personalised Autonomy Allocation (APA).

- Cost sharing for families is an important for LTC financing. The maximum amount of APA does not cover the total costs of care and families or individuals are expected to make up the difference. In 2007 families paid € 650 million in co-payments.

Private Systems

- The private insurance sector developed slowly in France, but has seen larger growth in recent years. According to the OECD less than 1% of LTC spending in France was from private insurance provision in 2007 but by 2010 15% of the population aged over 40 had a LTC policy.
Country Review: Germany

The German long term care system is a mixture of different insurance structures including both social insurance funds and private insurance schemes.

Public Systems

- Social insurance, based on health insurance rather than life insurance principles, was introduced as a compulsory insurance in 1995 with subsequent reform to the structure to enhance the benefits in 2008.

- In 2010 there were 69 million of the population covered by the compulsory social insurance.

Private Systems

- As an alternative to the social insurance coverage the high income earners (above €49,000 in 2011), civil servants and the self-employed may opt for private compulsory insurance coverage instead of the social insurance. 10 million of the population had private compulsory LTC insurance in 2010.
Country Review: Netherlands

Public Systems

- AWBZ (Algemene wet Bijzondere Ziektekosten/Exceptional Medical Expense Act)

- Incepted in 1968, The Exceptional Medical Expenses Act provides for care and support in cases of long-term ill health, handicap or old age, to everyone who lives in the Netherlands.

- It covers home help, nursing, care, treatment and supervision in care homes, nursing homes, or institutions. Care in hospitals and rehabilitation centres also falls under the Exceptional Medical Expenses Act, if the stay last longer than 365 days.

Private Systems

- There are currently no private systems for the provision of LTC in the Netherlands.
Country Review: USA

**Public Systems**

- Medicare (for 65+) does not pay the largest part of long-term care services or personal care -- such as help with bathing, or for supervision often called custodial care. Medicare will help pay for a short stay in a skilled nursing facility, for hospice care, or for home health care with conditions.

- Medicaid is a joint federal and state government program that helps people with low income and assets pay for some or all of their health care bills. It covers medical care, like doctor visits and hospital costs, long-term care services in nursing homes, and long-term care services provided at home, such as visiting nurses and assistance with personal care. Unlike Medicare, Medicaid does pay for custodial care in nursing homes and at home.

**Private Systems**

- Private LTC insurance in the US provides coverage for both institutional and non-institutional care. The claims trigger is generally based on a combination of activities of daily living or cognitive impairment. They offer benefit periods from up to a few years to lifetime and an elimination period of zero days up to 90 days. Their products also offer inflation protection.
Country Review: Japan

Public Systems

- Japan created its LTC social insurance programme in 2000 responding to the difficult demographic challenges such as high life expectancies, low birth rates and a restrictive immigration policy. It covers home care and institutional care but there are no cash benefits. It is a nationally administered programme where the price and benefits are set by the national government but the assessments are made locally.

- The programme is designed as a pay-as-you-go system. 90% of the cost of care (regardless of the type of service) is reimbursed provided the services are rendered by a certified provider. The remaining 10% is an out-of-pocket copayment subject to a maximum which can vary by income level.

Private Systems

- There is minimal private LTC insurance in Japan. It is mainly supplemental coverage.
Country Review: Singapore

ElderShield: Singapore’s National Long-Term Care Insurance Programme

- There are two national ElderShield schemes in Singapore, ElderShield300 and ElderShield400.
  - ElderShield300 was launched in 2002 and comes with a monthly payout of $300 for a maximum of 60 months.
  - ElderShield400 was introduced in 2007. It provides a monthly payout of $400 for a maximum of 72 months.
  - Since September 2007, one can only apply for ElderShield400.

- The Singapore Government has appointed 3 private insurers to run ElderShield.

- Singapore Citizens and Permanent Residents (PRs) with Medisave accounts are automatically covered under ElderShield at the age of 40.

- “It costs $800 to $4,000 every month to put a patient in a private nursing home”, Straits Times, 13 January 2009. Enhanced ElderShield Supplement Insurance are available from private insurers in Singapore.
How about Hong Kong?


• In 1999, the Hong Kong invited a research team from the Harvard School of Public Health to study the Hong Kong Health Care system.

• The Harvard Team singled out the importance of LTC financing in Hong Kong and proposed a funding scheme called MEDISAGE.

  • Mandatory schemes
  • Employers and employees contribute equally
  • Contribution rate at 1% of wages per month (0.5% from employer & 0.5% from employee).
  • Medical Savings Accounts to provide insurance coverage for long-term care
  • See the following chart for details.
Flows of the MEDISAGE Proposal

Taxpayers

- Premiums
  - 1% of wages
  - Include employer contribution (0.5%:0.5%)

Government

- Subsidy for the poor and not-so-poor

MEDISAGE

- At age 65

Long Term Care Services
- Nursing home days
- Visiting nurse services
- Home-aid visits

Monetary Flows

Service Flows

Providers
How about Hong Kong?

- Due to lack of data and feasibility studies of the MEDISAGE scheme, the Hong Kong government has not made a decision yet.

- Currently, there is no formal funding method for LTC in Hong Kong.

- Private LTC insurance market is extremely small.

- Informal methods such as personal savings and family supports are commonly used.

- Some elderly obtain financial support from the government via CSSA (Comprehensive Social Security Assistance) scheme which is means-tested.

- For the past few years, elderly CSSA recipients in Hong Kong have been increasing rapidly, partly due to lack of money for LTC.

- The sustainability of this type of “PAYG” system in Hong Kong is questionable.
Voluntary Health Insurance Scheme?

- Due to lack of local LTC data, it is a great challenge for private insurers in Hong Kong to offer LTC insurance.

- Currently, there are only a few larger scale of cross-sectional independent survey datasets on the demand of Hong Kong LTC in aggregated level available.

- Private insurance companies require reliable longitudinal LTC data of individuals for product design and actuarial calculation of premium.

- In other countries, such longitudinal LTC data are often publicly available.

- For example: The US National Long Term Care Survey Data Files:
Voluntary LTC Insurance Scheme?
Voluntary Health Insurance Scheme?

- Using US LTC Datasets with 1% real rate of interest, the **premium table** (in current constant dollars) for a simple LTC insurance (payments: HK$1,000 per month for mild disability; $3,000 per month for Home-Care and $6,000 per month for Institutional LTC) is constructed. The net premiums have been loaded up 10% for profits and administrative costs.

<table>
<thead>
<tr>
<th>Entry Age</th>
<th>Monthly Premium (HK$)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Female</td>
</tr>
<tr>
<td>20</td>
<td>406</td>
</tr>
<tr>
<td>30</td>
<td>500</td>
</tr>
<tr>
<td>40</td>
<td>670</td>
</tr>
<tr>
<td>50</td>
<td>1,066</td>
</tr>
<tr>
<td>60</td>
<td>3,028</td>
</tr>
</tbody>
</table>
Voluntary Health Insurance Scheme?

- The above calculation is just an illustration. We cannot use the US data for Hong Kong residents.

- It demonstrates what kind of data that insurance companies needed to practically design LTC insurance in Hong Kong.

- Unlike health care expenditure data in Hong Kong, which insurance companies often have more data and experience; most insurance companies do not have any LTC longitudinal data in Hong Kong.

- As mentioned in several research papers, the pattern of LTC demand in Hong Kong is quite different from other countries.
Thank you