

SOCIAL INSURANCE vs. PUBLIC ASSISTANCE OVERVIEW

July 16, 2021

QUALIFICATIONS, ASSUMPTIONS AND LIMITING CONDITIONS

Oliver Wyman was commissioned by the California Department of Insurance to provide support associated with assessing the feasibility of developing and implementing a culturally competent statewide insurance program for long-term care services and supports. The primary audience for this report includes stakeholders from the California Department of Insurance, members of the Long-Term Care Insurance Task Force, and members of the general public within the state of California.

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OUR ASK OF LTC TASK FORCE MEMBERS

1. **Read** this document or **watch** the YouTube recording of this presentation



2. **Respond** to our brief questionnaire regarding your (preliminary) recommendations for the program design elements discussed in this document/presentation



3. **Review** summarized questionnaire results prior to upcoming Task Force Meeting

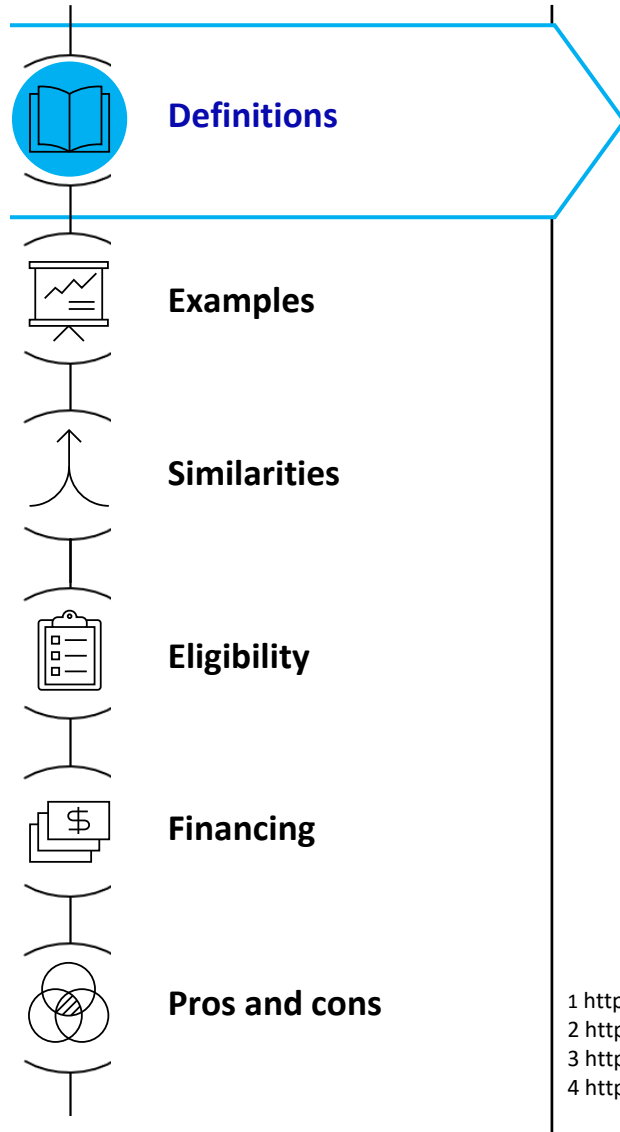


4. **Participate** in group discussions and debates around recommended program design at Task Force Meetings



DEFINITIONS

Social insurance involves the required pooling of risks among participants; public assistance provides basic economic security to the needy



Social Insurance

- Protection of the individual against economic hazards (such as unemployment, old age, or disability) in which the government participates or enforces the participation of employers and affected individuals¹
- Social insurance encompasses broad-based systems that help workers and their families pool risks to avoid loss of income due to retirement, death, disability, or unemployment; and to ensure access to health care²

Public Assistance

- Government aid to needy, aged, or disabled persons and to dependent children³
- The purpose of public assistance is to provide at least a minimum degree of economic security to persons in need. Public assistance programs complement other programs for economic security by supplying basic maintenance to needy persons for whom benefits are not available or are insufficient⁴

1 <https://www.merriam-webster.com/dictionary/social%20insurance>

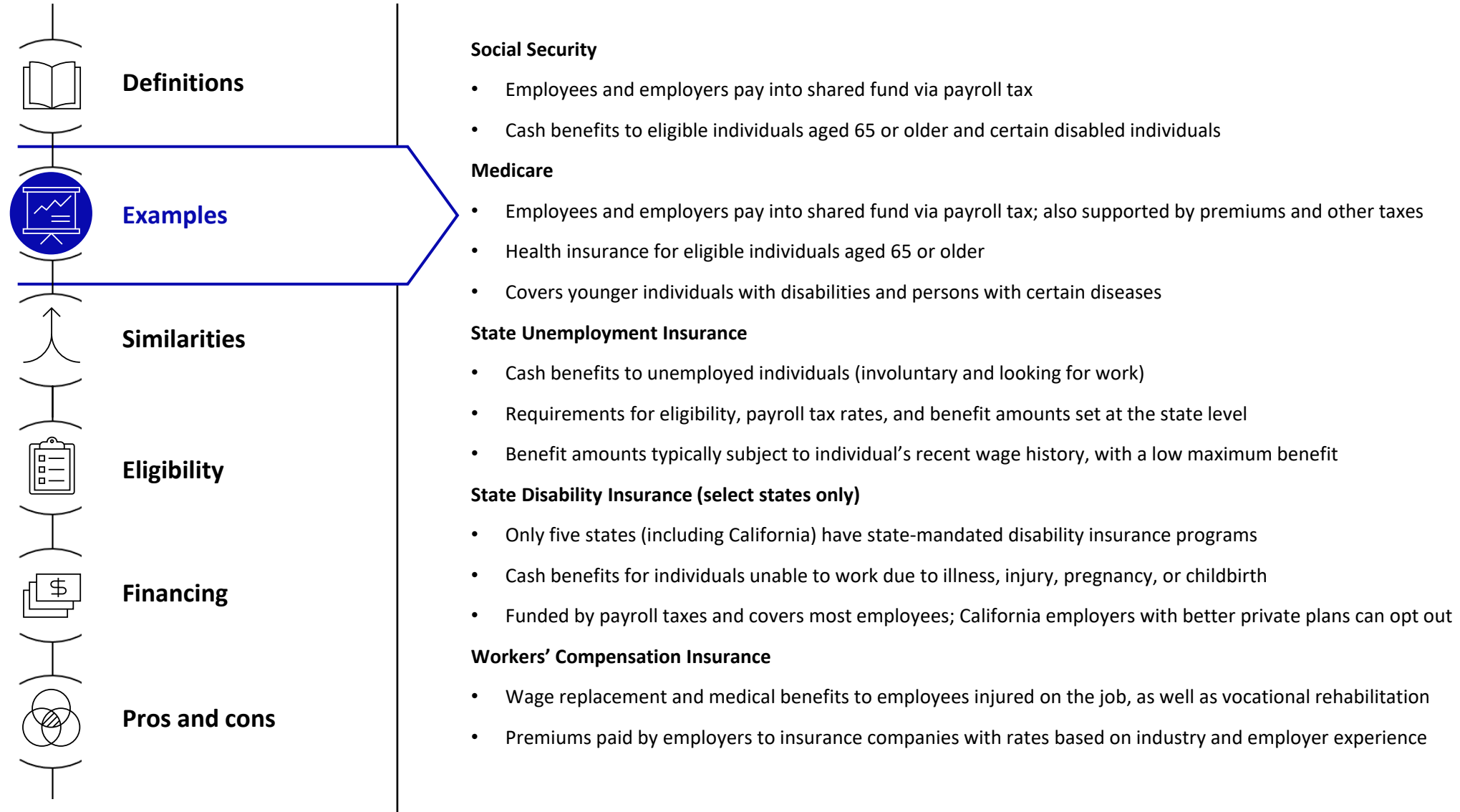
2 <https://www.nasi.org/about/> (NASI is the National Academy of Social Insurance)

3 <https://www.merriam-webster.com/dictionary/public%20assistance>

4 <https://www.ssa.gov/policy/docs/ssb/v7n11/v7n11p2.pdf> (SSA is the Social Security Administration)

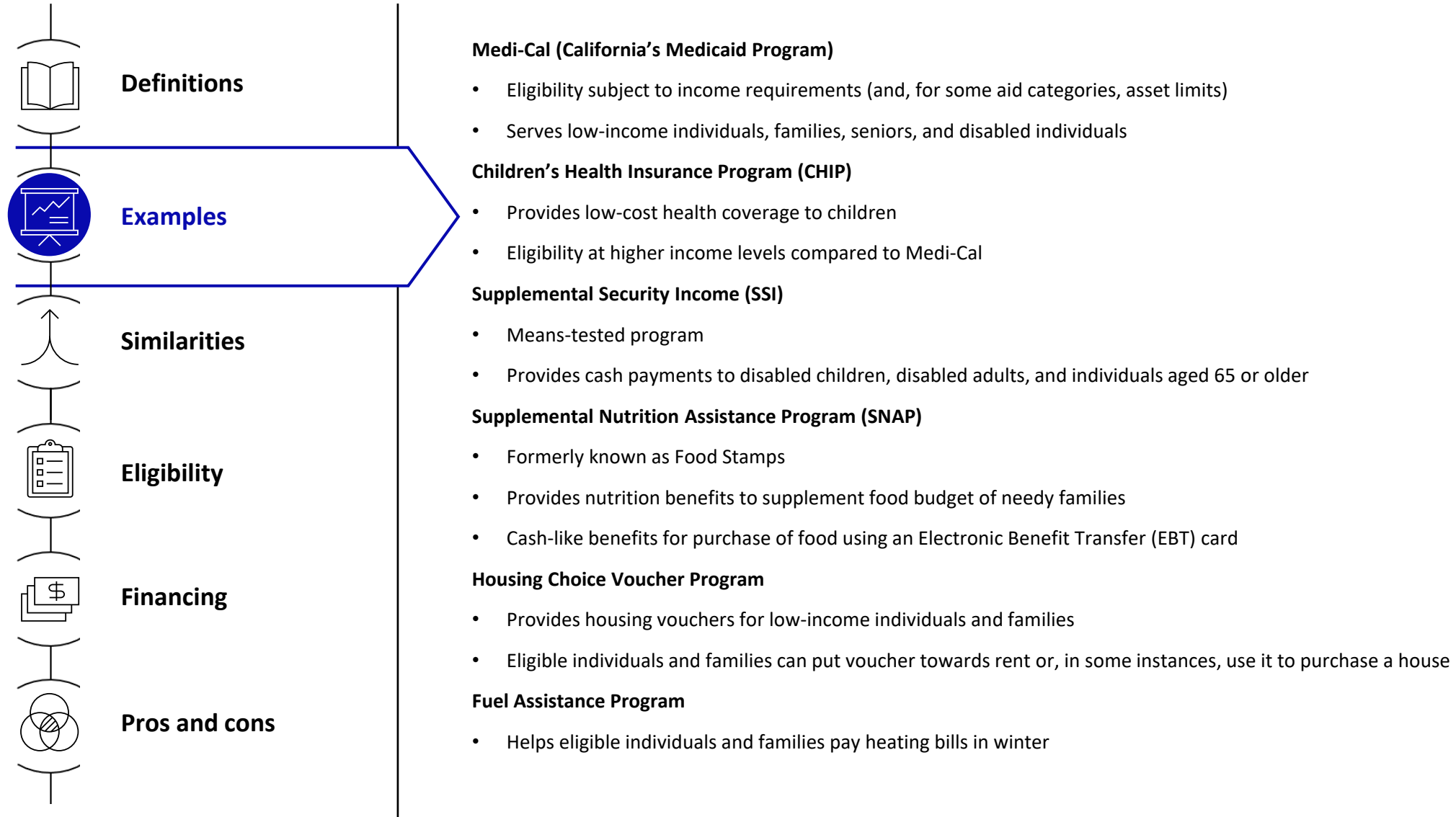
EXAMPLES: SOCIAL INSURANCE

Well-known examples can be used to highlight differences



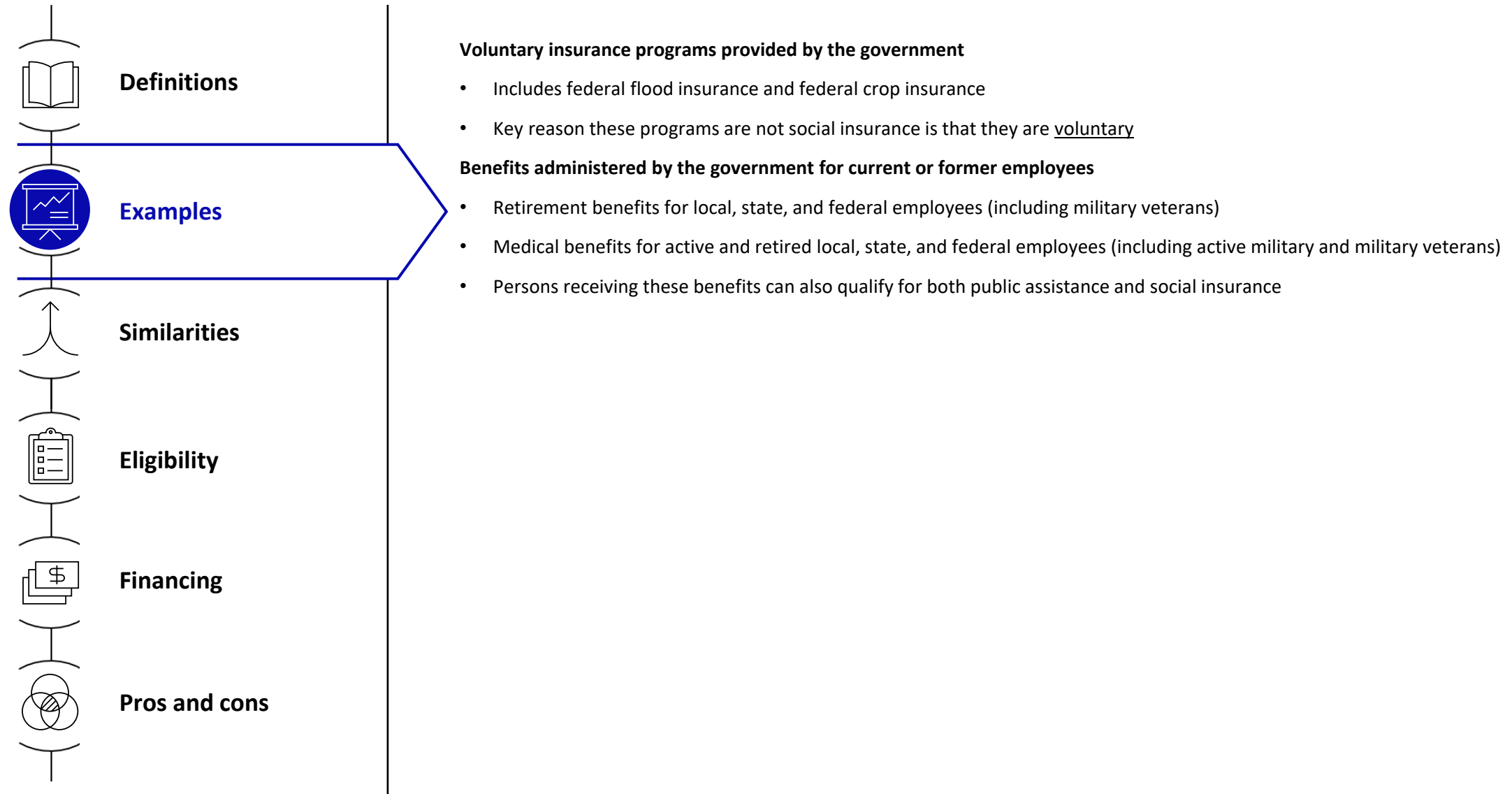
EXAMPLES: PUBLIC ASSISTANCE

Well-known examples can be used to highlight differences



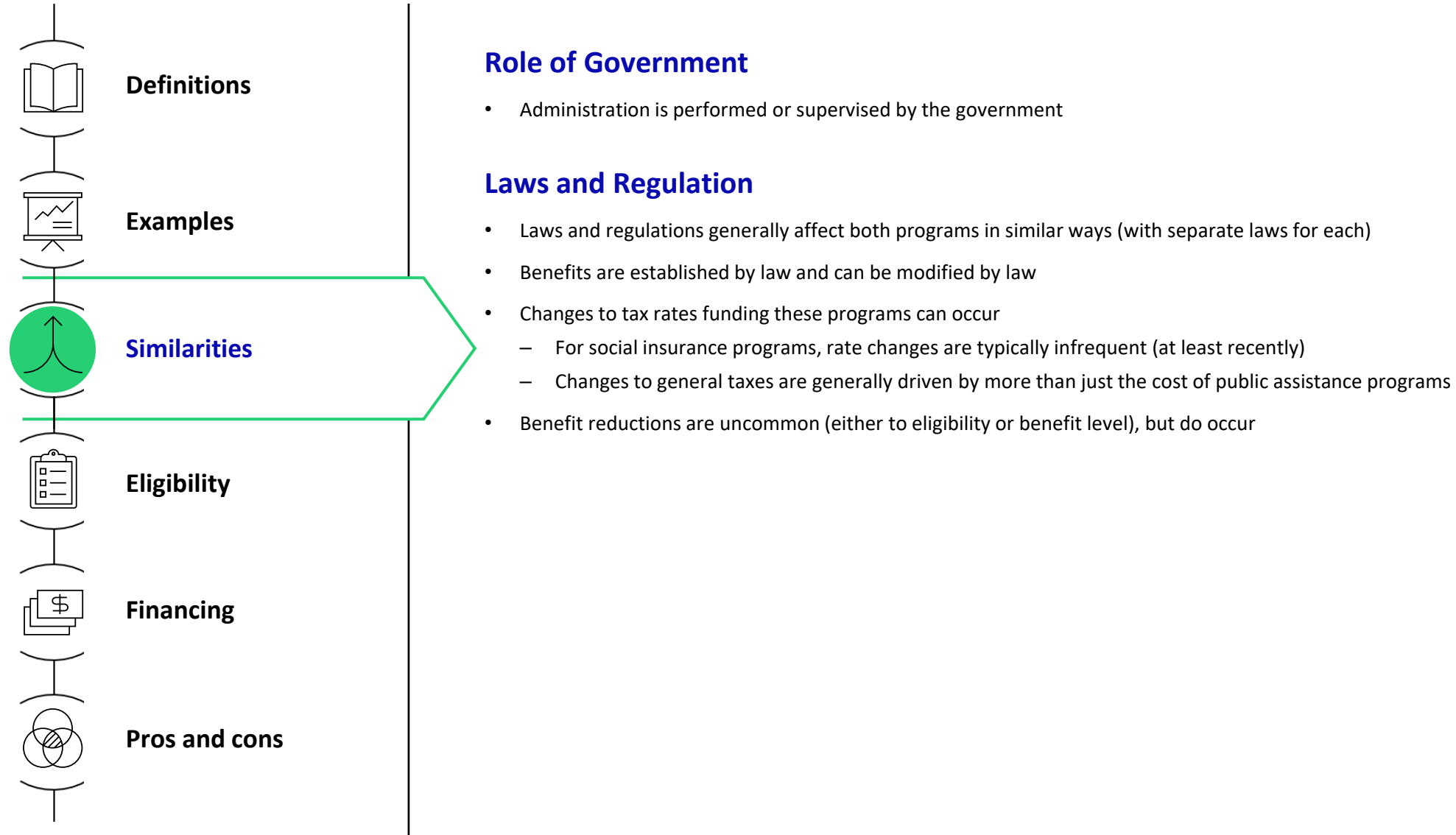
EXAMPLES: NEITHER SOCIAL INSURANCE NOR PUBLIC ASSISTANCE

Well-known examples can be used to highlight differences



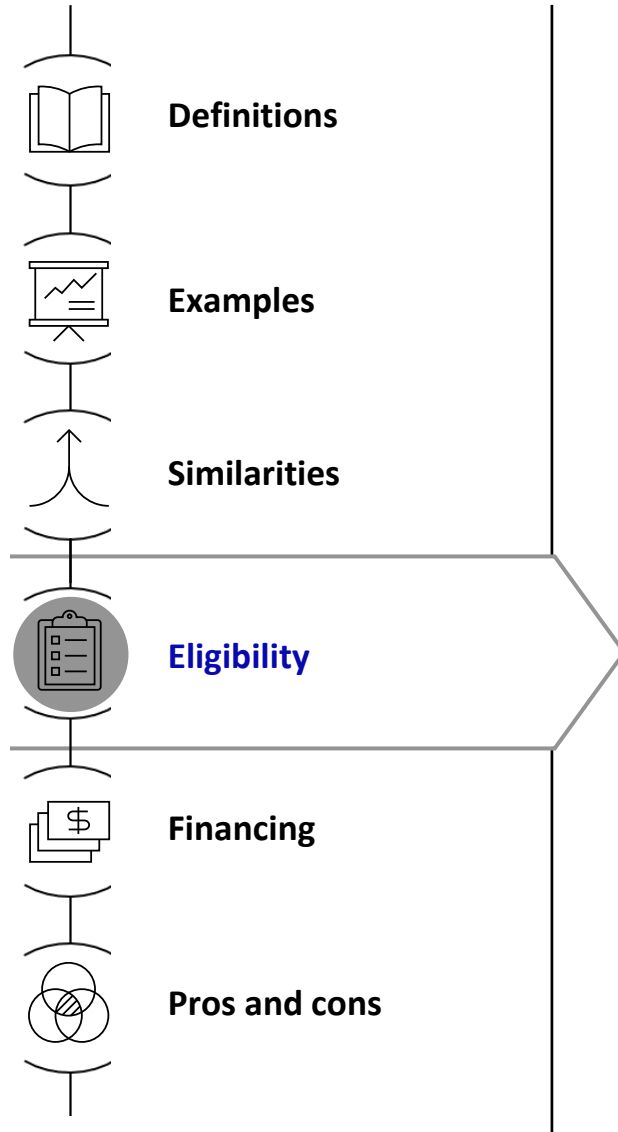
SIMILARITIES

Key similarities between social insurance and public assistance can be used to inform public policy decisions



ELIGIBILITY

Financial need and participation rates drive differences in eligibility



Social Insurance

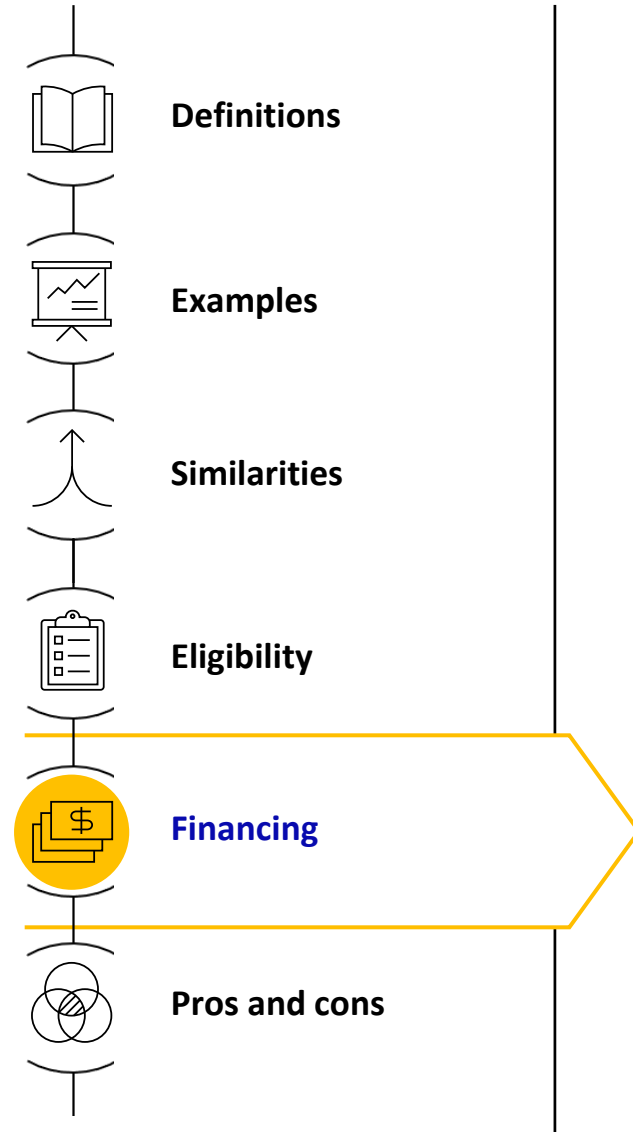
- **High participation**
 - Participation is universally (or almost universally) compulsory for defined population
 - In some cases, contribution is set at such a subsidized rate that vast majority of those eligible choose to participate
- **No financial need requirements**
 - Eligible individuals can participate regardless of financial need
- **Participants have a right to receive benefits**
 - Payroll contributions provide legal, moral, and political right to receive benefits
 - Payroll contributions from a worker can provide eligibility for a spouse or other family members
 - Number of claimants for Social Security and Medicare largely driven by population demographics

Public Assistance

- **Participation varies**
 - Enrollment typically increases when economic conditions worsen and may decline after periods of economic improvement, particularly for employment and wages
- **Financial need is required to participate**
 - Determined by an individual's income and/or assets, with an application
- **Medical conditions may factor into eligibility**
 - Certain medical conditions may allow for eligibility at higher income levels
 - For example, pregnant women are eligible for Medi-Cal up to higher income levels compared to women who are not pregnant
- **Participants must show continuing need**
 - Annual (or more frequent) redetermination is required to participate

FINANCING

Taxes are the most common source of financing



Social Insurance

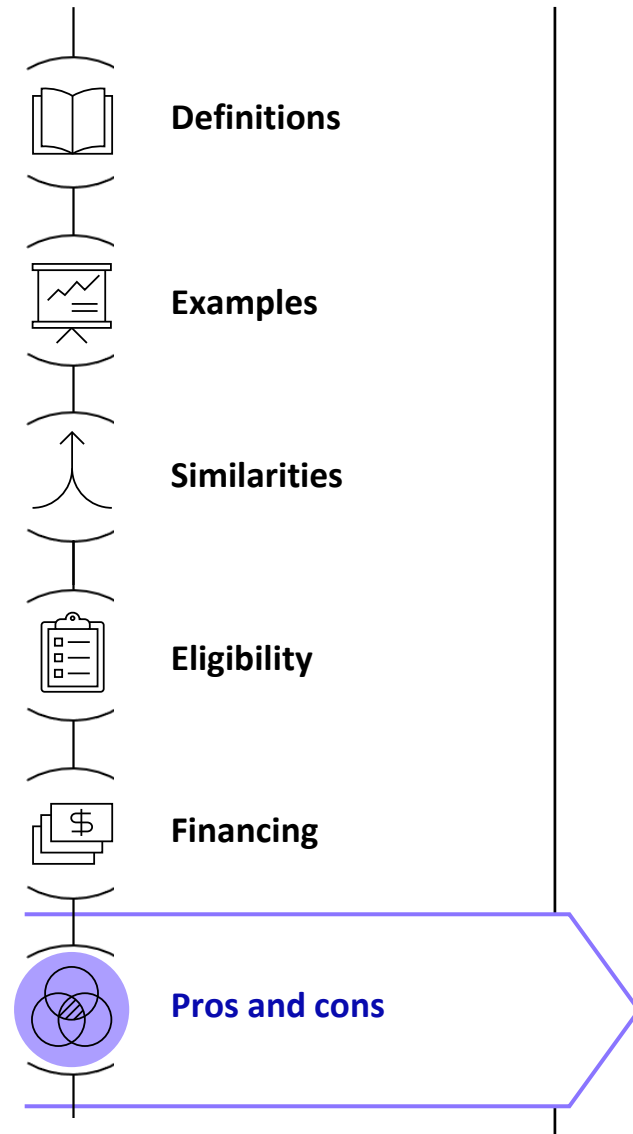
- **Payroll or income-based taxes**
 - Made by or on behalf of individual participants
 - Tax rates do not directly account for risk profile of individual participants or their potential benefits
 - Social Security and Medicare (Part A) are mainly funded through payroll taxes
- **Trust funds**
 - Provide explicit accountability of benefit payments and income
 - Generally used when benefits are likely many years into the future compared to contributions
 - Interest earned on trust fund is a revenue source for benefits and administrative costs
 - Medicare is funded through premiums and taxes, which go into Trust Funds

Public Assistance

- **General tax revenues**
 - Local, state, and federal taxes
 - Specific taxes are often earmarked (such as taxes on medical providers and managed care organizations)
 - For Medi-Cal, federal government pays a portion of total costs for services that qualify

PROS AND CONS

The handling of program administration and future benefit changes are design elements that can differ greatly depending on the selected structure



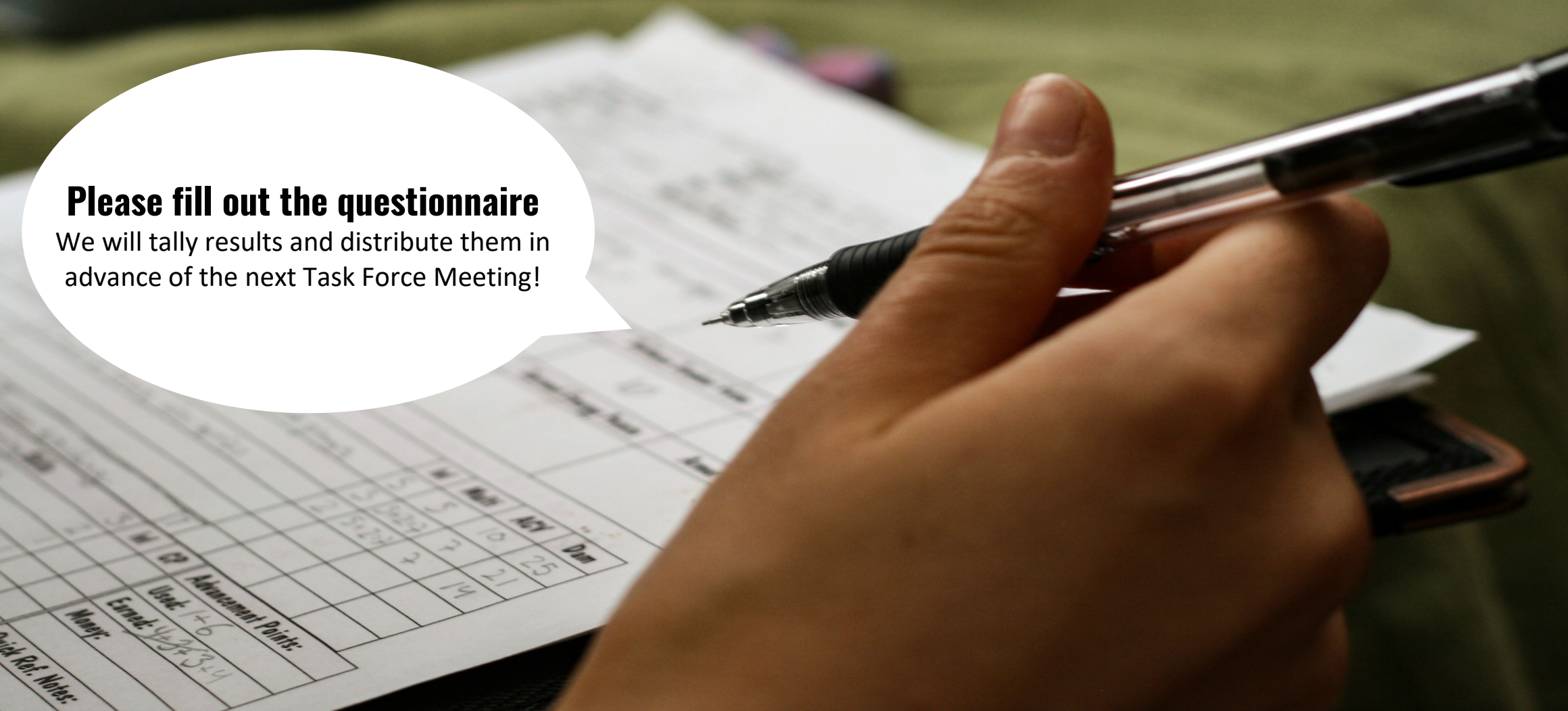
Program Administration

- **Under social insurance construct, California State Disability Insurance Program could be leveraged**
 - California State Disability Insurance (“CSDI”) program already tracks employee payroll taxes
 - AB 567 contemplates the long-term care (“LTC”) insurance program potentially being:
 - Included as a benefit in CSDI program (possibly though nominal increase in payroll tax)
 - Structured in same manner as Paid Family Leave benefits
- **Under public assistance construct, new eligibility record system would need to be built and maintained**
 - Presumes some record on years of residence in California and some means testing would be required
 - Could be like Medi-Cal, but:
 - At higher income and assets
 - Federal match could be explored through Medi-Cal if expenditures are budget neutral to federal government’s Medicaid budget

Changes to Benefit Levels

- **With social insurance, modifying benefits is more difficult (particularly for those already on claim)**
 - LTC initiatives at federal level may provide benefits that are duplicative of California program (in the future)
 - While it is politically difficult to increase premium rates, this has been done more frequently than reducing benefits (for example, for Social Security)
- **With public assistance, reducing benefits is not as difficult**
 - No dedicated payroll taxes makes reductions more feasible, although it may be politically difficult to reduce benefits for those on claim
 - Presumes taxes financing LTC benefits are general state taxes, such that increases would pay for numerous other programs

WHAT NEXT?



Please fill out the questionnaire

We will tally results and distribute them in advance of the next Task Force Meeting!

