

STATEWIDE LONG-TERM CARE (LTC) INSURANCE PROGRAM ILLUSTRATIVE EXAMPLES

Program contribution limits, intergenerational (in)equity, PACE coordination, private LTC insurance coordination

June 2022

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.

Oliver Wyman shall not have any liability to any third party in respect of this report or any actions taken or decisions made as a consequence of the results, advice or recommendations set forth herein.

The opinions expressed herein are valid only for the purpose stated herein and as of the date hereof. Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been verified. No warranty is given as to the accuracy of such information. Public information and industry and statistical data are from sources Oliver Wyman deems to be reliable; however, Oliver Wyman makes no representation as to the accuracy or completeness of such information and has accepted the information without further verification. No responsibility is taken for changes in market conditions or laws or regulations and no obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

ILLUSTRATIVE EXAMPLE: PROGRAM CONTRIBUTION LIMITS

Even with a limit, higher earners subsidize program benefits for lower earners, but incorporating a limit balances the “value proposition” for these individuals and may encourage program support


 Tax rates in this example are for **illustrative purposes only**; they do not represent an estimate of the potential tax rate for a statewide LTC program in California

Illustrative state program lifetime benefit amounts

Lower end: **\$72,000** (\$3,000/month for 2 years)

Higher end: **\$144,000** (\$6,000/month for 2 years)

Lifetime program contributions¹

 Lifetime contributions < lifetime benefits

 Lifetime contributions > lifetime benefits

Hypothetical payroll tax rate	Middle class annual wages ²			Upper class annual wages		
	\$30,000	\$50,000	\$100,000	\$150,000	\$250,000	\$500,000
Without an (annual) upper limit on program contributions						
1% (lower end)	\$14,100	\$23,500	\$47,000	\$70,500	\$117,500	\$235,000
3% (higher end)	\$42,300	\$70,500	\$141,000	\$211,500	\$352,500	\$705,000
With an (annual) upper limit on program contributions (of \$147,000³)						
1% (lower end)	\$14,100	\$23,500	\$47,000	\$69,090	\$69,090	\$69,090
3% (higher end)	\$42,300	\$70,500	\$141,000	\$207,270	\$207,270	\$207,270

¹ Illustrative example assumptions: (a) an individual contributes to the program for 47 years (age 18 to 65) and (6) wage growth and program benefit inflation are assumed to offset each other and are thus ignored for the purpose of this illustration

² Based on Los Angeles-Long Beach-Anaheim metropolitan area (2018 data); “middle class” is defined as a household with income ranging from two-thirds to double the median income

³ 2022 Social Security Administration maximum allowable tax limit (\$147,000) is assumed for illustrative purposes only

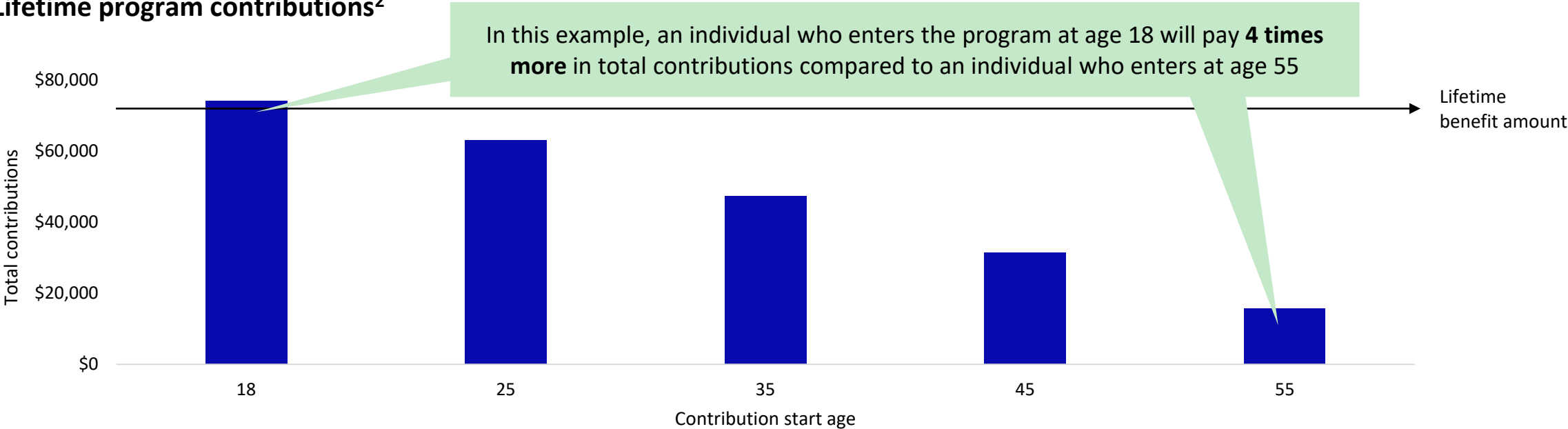
ILLUSTRATIVE EXAMPLE: INTERGENERATIONAL (IN)EQUITY

Upon program inception, older individuals are likely to contribute less to the program over their lifetime relative to younger individuals; this inequity wanes as the program matures

⚠ Tax rates in this example are for **illustrative purposes only**; they do not represent an estimate of the potential tax rate for a statewide LTC program in California

Lifetime benefit amount: **\$72,000** (\$3,000/month for 2 years)
Median annual wage: **\$78,672¹**

Lifetime program contributions²



¹ Based on 2020 U.S. Census median household income in California

² Illustrative example assumptions: (a) an individual contributes to the program up to age 65, (b) the payroll tax rate is 2%, and (c) wage growth and program benefit inflation are assumed to offset each other and are thus ignored for the purpose of this illustration

ILLUSTRATIVE EXAMPLE: PACE COORDINATION

The scenario assumes the individual is eligible for Medicare but not Medi-Cal

PACE capitated fee: \$5,177 per month¹

- Capitated fee covers a defined range of PACE services but is not dependent on the specific counts or types of services an individual receives

Design option 1: PACE capitated fee paid via certified provider reimbursement

- Assume statewide LTC **reimbursement benefit** of \$6,000 per month
- Statewide LTC program would reimburse individuals for **actual PACE capitated fees incurred** up to a specified monthly limit

Design option 2: PACE capitated fee paid via cash benefit

- Assume statewide LTC **cash benefit** of \$3,000 per month (i.e., 50% of reimbursement benefit)
- Statewide LTC program would pay individuals cash to **use however the individual wishes** (e.g., to offset PACE capitated fees)
 - Invoice/receipt(s) would not need to be submitted to receive cash

Program design	PACE capitated fee (monthly)	Portion paid by statewide LTC program	Out-of-pocket cost	Actual services used
PACE capitated fee paid via certified provider reimbursement	\$5,177	\$5,177	\$0	<i>Irrelevant (due to capitation)</i>
PACE capitated fee paid via cash benefit	\$5,177	\$3,000	\$2,177	<i>Irrelevant (due to capitation)</i>

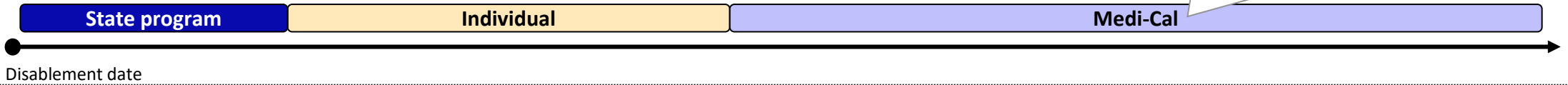
¹ Figure represents average 2021 rates in California based on information from the National PACE Association. Rates vary based on several factors, including each PACE organization's length of operating experience, geographic location, and cost experience. 2021 rates range from \$3,990 (Orange County) to \$8,150 (San Francisco). The illustrative example disregards non-LTSS costs (e.g., approx. \$1,000 to cover prescription drugs for those who do not have Medicare Part D coverage)

ILLUSTRATIVE EXAMPLE: PRIVATE LTC INSURANCE COORDINATION

⚠ Relative size of each bar is **not** indicative of the magnitude of corresponding LTSS financing source (e.g., individuals may have unlimited private LTC benefits)

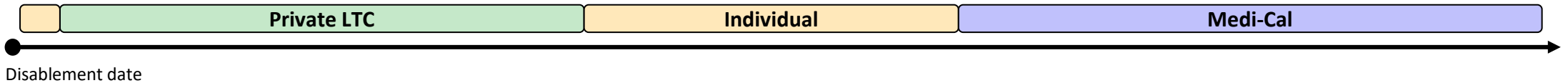
Medi-Cal is the payer of last resort (subject to eligibility requirements)

Scenario 1: No private LTC insurance



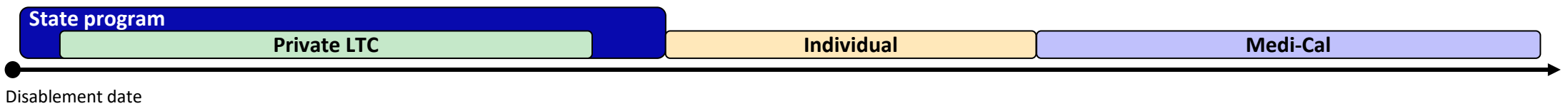
Scenario 2: Opt-out due to eligible private LTC insurance (before program enactment)

Individual finances LTSS costs out of pocket during private LTC insurance elimination period (EP)



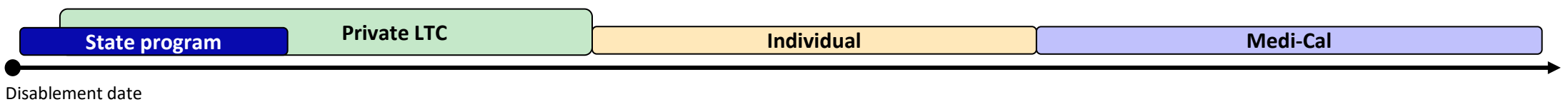
Scenario 3: Reduced program contributions due to eligible private LTC insurance (after program enactment)

State program would finance eligible LTSS costs during (1) private LTC EP and (2) costs in excess of private LTC insurance daily/monthly limits (if applicable)



Scenario 4: Private LTC supplemental “wrap-around” product (after program enactment)¹

Supplemental private LTC insurance could finance eligible LTSS costs (1) in excess of state program monthly limits, (2) for any services not covered by the state program, and (3) after state program benefits are exhausted



¹ Establishing different interaction criteria for private LTC insurance designed before vs. after program enactment was discussed as a potential option at Task Force Meeting #6

