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Are Medicare Advantage plans ready for the high costs of long-term care?

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In an April 27, 2018 memo from Centers for Medicare and Medicaid Services (CMS), Director Kathryn Coleman to Medicare Advantage (MA) plans, CMS provided guidance for plans preparing their contract year 2019 bids with respect to interpreting the scope of the "primarily health related" supplemental benefit definition. The guidance clarified that plans can provide certain long-term care (LTC) benefits as a supplemental benefit for individuals who need assistance with activities of daily living (ADLs) or instrumental ADLs (IADLs).

Many concerns exist in offering LTC benefits as part of a MA plan. We highlight below some of the factors that may influence how MA plans offer and price these new LTC benefits through a series of high-level questions.

Will consumers be interested in plans with potentially significantly higher premiums?

LTC is expensive. Licensed caregivers charge in the neighborhood of $20 to $25 per hour nationwide, on average. If an individual needs assistance for 40 hours per week—a level commonly observed in private LTC insurance in which someone who qualifies for benefits needs help with two or more ADLs—costs can easily exceed $45,000 per year. MA plans would need to charge significantly higher premiums if they intend to offer LTC coverage at these levels. Higher premiums may be particularly unattractive in the MA market, as the majority of enrollment is comprised of lower income individuals not covered under Medicaid.

Will anti-selection concerns deter plans from offering LTC benefits in 2019 and beyond?

A primary concern for offering LTC benefits is "anti-selection." This refers to a situation in which a higher proportion of benefit "users" signs up for a plan because the coverage offered is more attractive. This is made possible by an environment in which consumers can voluntarily choose plan options and plans have minimal ability to limit who can obtain coverage or to adjust rates at an individual level.

LTC coverage in the MA market is exposed to this anti-selection risk. Consumers will be free to choose any plan with "locked-in" rates for the year and MA plans will not be able to charge premiums that reflect an individual's likelihood for needing LTC. Individuals who already need or are likely to need assistance with ADLs or IADLs will have a strong incentive to sign up for plans providing LTC coverage. On the other hand, individuals not needing LTC in the next year will be motivated to pick a plan without LTC coverage to save on premiums.

Will premiums for plans with LTC coverage skyrocket due to anti-selection?

Consider an example in which a plan offers a limited LTC benefit of $1,000 per month ($12,000 per year), and that 3% of all individuals, on average, use LTC services. If a plan prices the coverage using this metric, the cost of the benefit would be (12,000 x 0.03/12), or $30 per month, ignoring any plan administration expenses. However, given the anti-selection phenomenon described above, it is likely the plan will attract a higher proportion of individuals needing care. If instead 5% of all individuals covered under the plan use LTC services, the cost would increase to $50 per month and the plan would be significantly underpriced.

If a plan tries to anticipate this higher proportion of benefit users by charging higher premiums, it could create an upward pricing "spiral." The higher premiums will likely drive away individuals looking for only some LTC coverage, leaving an even higher proportion of individuals likely to sign up and use benefits. This spiral could continue until the cost a plan charges would need to be equal to its maximum payout of $1,000 per month.

Can anti-selection be reduced or avoided?

Voluntary insurance coverage (such as a private LTC insurance policy) uses tools such as underwriting and premium rate classes to address anti-selection concerns. These tools cannot be used by MA plans for reducing anti-selection related to LTC coverage.

In the absence of underwriting or premiums adjusted for anticipated LTC needs, offering a very small benefit such that the premium is minimal may mitigate some of the selection (but conversely, may not be very attractive to consumers). Another possible mitigating example, which has not historically been met with CMS's approval, could be to implement a waiting period that creates a gap between when individuals elect coverage and when they can begin using benefits.

Will individuals be confused when it comes time to use their LTC benefits?

Individuals who have a plan that offers LTC benefits may not understand coverage levels. It will be important for individuals to understand any limitations in terms of the time period or dollar amounts covered. Additional considerations regarding what is included or excluded in the coverage will need to be understood, including policy terms such as:

- Will the plan offer cash benefits or reimburse individuals for care received?
- What definitions of allowable providers will be included if benefits are paid on a reimbursement basis?
- What specific measures will be used to determine whether an individual qualifies for receiving benefits?
- How will the coverage coordinate with an individual's existing LTC insurance coverage?

There is also risk that individuals with LTC coverage through their MA plans may believe they have taken care of their LTC planning needs. Likely, this will not be true, as the MA plan will only cover LTC costs the next year and coverage availability and pricing in subsequent years will remain uncertain. This is partly why private LTC insurance plans provide coverage for the life of the individual on a guaranteed renewable basis.

Final thoughts

MA plans face various challenges as they contemplate offering LTC coverage under the new CMS definition of "primarily health related" supplemental benefits. We examined a few of these challenges, but more exist. We applaud efforts to give individuals more options in financing their LTC needs. MA plans will need to carefully draw upon and learn from the experiences of other programs, such as private LTC insurance and Medicaid, to make this new financing choice a win for both plans and consumers.

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