Office of the Assistant Secretary for Planning and Evaluation: Modeling the Decision to Purchase Private Long-term Care Insurance

This project estimated how the purchase of private long-term care insurance is influenced by various economic and demographic factors, including the effect of tax incentives. If all taxpayers could fully deduct premium expenses from income subject to federal income taxes, the number of older adults with coverage would increase by about 36 percent.

Lead Agency:

Office of the Assistant Secretary for Planning and Evaluation
U.S. Department of Health and Human Services

Agency Mission:

The Assistant Secretary for Planning and Evaluation advises the Secretary of the Department of Health and Human Services on policy development in health, disability and aging, human services, and science and data policy, and provides advice and analysis on economic policy. The Office of the Assistant Secretary for Planning and Evaluation (OASPE) leads special initiatives, coordinates the Department's evaluation, research and demonstration activities, and manages cross-Department planning activities such as strategic planning, legislative planning and review of regulations. Integral to this role, OASPE conducts research and evaluation studies, develops policy analyses, and estimates the cost and benefits of policy alternatives under consideration by the Department or Congress.

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General Description:

Modeling the Decision to Purchase Private Long-term Care Insurance

Long-term care spending is expected to soar in coming decades as the population ages. Enhanced private insurance coverage of long-term care needs might ease the looming crisis. Raising private insurance coverage rates would increase the pool of funds set aside to finance future services and would reduce reliance on public resources. Enhanced private coverage could also protect families from catastrophic long-term care costs. Some policymakers have proposed expanding tax incentives for private long-term care coverage to stimulate demand.

Like traditional medical insurance, private long-term care insurance is a financial contract whereby the insurer agrees to provide covered benefits in exchange for regular premium payments by the policyholder. Policies are guaranteed renewable, and premiums remain fixed over the life of the contract. However, rates can rise for an entire class of policyholders if insurers can demonstrate that their costs exceed premium revenue, and rate increases have been common in recent years.

The analysis estimated hazard models of time to purchase private long-term care insurance as a function of the net benefit that individuals expect to derive from the policy. The net expected benefit is the difference between what policyholders expect to receive in benefit payouts from the plan over their lifetimes, in present value terms, and what they expect to pay into the plan in the form of premiums. The measure, which accounted for state-level fluctuations in premiums and Medicaid eligibility rules, varied widely across individuals.

Data came primarily from the Health and Retirement Study (HRS), a nationally representative longitudinal survey of older Americans. The sample consisted of person-year observations between 1992 and 2004 on adults ages 51 to 61 in 1992 who did not have coverage in the previous year. The sample was restricted to respondents likely to satisfy long-term care insurers' underwriting restrictions and thus able to purchase private coverage.

The net expected benefit of coverage significantly increased the likelihood of taking-up private long-term care insurance coverage, although the impact was modest. Every $1,000 increase in the net expected benefit of coverage would raise purchase probabilities by about 2.3 percent. Take-up rates also increased with age, education, health status, and the self-assessed probability of using nursing home care in the next years. They declined with the number of children, perhaps because children help with their parents' home care or help finance nursing home costs.

Creating additional federal tax incentives for the purchase of private long-term care insurance would modestly boost take-up rates. Take-up rates would rise to 19 percent if all taxpayers could fully deduct premium expenses from income subject to federal income taxes, representing about a 36 percent boost in the number of older adults with coverage. The impact of tax incentives on private long-term care insurance would be concentrated among high-income taxpayers. Tax breaks would have very little impact on coverage rates for adults in the bottom half of the income distribution.