BENEFIT
Plan Developments

A report covering plan design and legislative changes Volume 51, Number 8

Enhancements To Long-Term Care Financing Needed As Population Ages

As the baby boom generation enters retirement age, Congress and policymakers should consider taking action to improve the financing and delivery of long-term care in the United States, a study released by the Center for Retirement Research at Boston College has recommended.

In the study, "How Can We Improve Long-Term Care Financing?" author Howard Gleckman noted that, while families and the U.S. government currently spend more than $200 billion a year for long-term care services, many elderly Americans still fail to receive the care they need. Yet the demand for care is expected to grow, Gleckman said. Projections indicate that around two-thirds of people who turned 65 in 2005 will need long-term care at some point in their lives, and the average long-term care recipient will require assistance for three years.

The cost of long-term care is very high, with a private room in a nursing home currently costing an average of $75,000 per year and home health aides costing an average of $18 per hour, the study found. Around one-half of long-term care expenses are financed by Medicaid, 20% are paid for by Medicare, and the remainder are covered by private insurance or are paid for out-of-pocket. However, more than half of all long-term care takes the form of informal, unpaid assistance provided by family members.

"While the existing Medicaid-based system offers relatively comprehensive coverage for the poor, it is problematic for the middle class," Gleckman observed. "To become eligible, people must impoverish themselves." In most states, unmarried individuals must "spend down" assets to $2,000 to qualify for Medicaid assistance.

While middle-class people have the option of purchasing private long-term care insurance, the demand for this type of coverage has, Gleckman

In This Issue

J & D Goodliffe Associates, Inc.

103 Briar Hill Dr.
Scotch Plains, NJ 07076-2064

908•233•2800 - Phone
908•233•2804 - Fax
judie@goodliffeassoc.com

Insurance Consultants to Business
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A more ambitious proposal for tackling the long-term care crisis involves replacing the current welfare-based system with social insurance.

noted, "been modest due to the cost and complexity of policies and the reluctance of consumers to pre-fund the disabilities of old age."

One option for bolstering long-term care financing is improving private insurance aimed at middle- and upper-income Americans. While proposals have been made for expanding existing federal and state tax subsidies for long-term care insurance, private market enhancements may prove more effective, according to Gleckman. Insurance providers may, for example, combine long-term care insurance coverage with reverse mortgages or offer long-term care coverage in conjunction with an annuity.

"Because healthy buyers would be attracted to the annuity while unhealthy purchasers would favor the long-term care benefit, carriers could internally hedge the risk of each," Gleckman said. But, he added, while this feature should reduce the need for underwriting and substantially lower premiums, the significant upfront cost of the coverage would tend to limit the number of potential buyers.

An alternative approach to expanding private insurance coverage could lie in a plan called Medi-LTC, Gleckman said. Under this proposal, private insurance providers would offer three simplified benefit packages through Medicare. Insurance carriers would pay for the nursing home and home health benefit now provided by Medicare, and Medicare would use the cost savings to subsidize premiums. But because even this plan would allow insurers to underwrite policies, rejecting applicants considered too risky, it appears unlikely that proposals to expand private insurance would lead to significant increases in long-term care coverage, Gleckman asserted.

A more ambitious proposal for tackling the long-term care crisis involves replacing the current welfare-based system with social insurance. Under this model, a Part E would be added to Medicare that would provide both home care and nursing home care to the frail elderly and younger disabled people who are unable to perform at least two activities of daily living. All beneficiaries with incomes above a certain level would pay a \$500 deductible and a 20% co-payment up to \$5,000 a year. According to Gleckman, this model could prove effective in covering middle-class families who cannot afford private insurance. Funding for social insurance could come from payroll taxes or a new value added tax.

Yet another proposal discussed in the study calls for the creation of an alternative public insurance model that would allow people to purchase a lifetime long-term care benefit at a relatively low cost. One such plan would, for example, provide a lifetime daily cash benefit of \$75 after a five-year vesting period for an annual premium of \$1,270. To be effective, however, people would have to start paying for this type of insurance beginning at age 21, with the federal government providing subsidies for lower-income workers unable to afford the premiums. In addition, Gleckman warned, this type of plan could prove ineffective if people were allowed to opt out of the system or if the cost of long-term care were to rise substantially.

A hybrid public-private system has also been put forward as a possible solution to the long-term care funding crisis, the study reported. This model would resemble the Medi-LTC proposal in many respects, but participation in this plan would be mandatory.

Any successful reform of long-term care financing must make coverage more accessible and ensure that insurance coverage is greatly expanded to people at all income levels, while shifting the burden away from Medicaid, Gleckman said in conclusion.

"Each design discussed here is flawed, yet each has the potential to improve our existing system," Gleckman observed. "Long-term care experts agree that a solution that is both politically and economically viable will include some mix of public and private insurance. The challenge will be finding the proper balance between the two models."

Compensation And Health Care Costs Continue To Climb

Employee compensation costs averaged $28.46 per hour worked in March 2008, up from $28.11 per hour in December 2007 and $27.82 per hour one year previously, in March 2007, according to a quarterly report released by the U.S. Department of Labor's Bureau of Labor Statistics.

Averaging $19.83 per hour worked, wages and salaries accounted for 69.7% of compensation costs in March 2008, while benefits, averaging $8.63 per hour, accounted for 30.3%. By comparison, benefits accounted for 30.2% of total compensation in December 2007, and 30% in March 2007.

The cost of providing legally required benefits in March 2008, including Social Security, Medicare, unemployment insurance, and workers compensation, averaged $2.24 per hour, representing 7.9% of total hourly compensation; also, employer costs for life, health, and disability insurance benefits averaged $2.40 per hour, or 8.4% of the total. Paid leave benefits, including sick leave, vacations, and holidays, averaged $2.00 per hour, or 7% of total compensation costs, and retirement and savings benefits averaged $1.26, or 4.4% of total compensation per hour worked.

In private industry, the average cost of providing health benefits in March 2008 was $1.92 per hour worked, or 7.2% of total compensation, up from 6.3% in March 2003. Broken down by occupational categories, employer costs for health benefits were higher relative to wages among the natural resources, construction, and maintenance occupations, making up 9.6% of compensation costs; they were lower among employers in the management, professional, and related occupations, representing 5.8% of total compensation.

Broken down by region, employers in the South spent the least on health benefits in March 2008, averaging $1.65 per hour. By comparison, employers in the West spent an average of $1.99 per hour on health care costs, employers in the Midwest spent an average of $2.06 per hour, and employers in the Northeast spent an average of $2.12 per hour worked on health care benefits.

The report also indicated that employers with the smallest number of workers spent the least on health care benefits, while the largest employers spent the most: Organizations with 50 employees or fewer spent an average of $1.26 per hour, or 5.8% of total compensation, on health benefits in March 2008; employers with 500 or more employees spent an average of $3.01 per hour, or 8% of total compensation, on health benefits.

Researchers noted that employer costs for health benefits in March 2008 were significantly higher for union workers, averaging $3.95 per hour, or 10.9% of total compensation, than for non-union workers, averaging $1.68 per hour, or 6.5% of total compensation.

Minority Women Face Additional Challenges In Saving For Retirement

African-American and Hispanic women over the age of 65 are twice as likely as older white women to have retirement income levels below the poverty line, largely because minority women tend to earn less while working, according to a report published by the Women's Institute for a Secure Retirement (WISER), in conjunction with Mothers' Voices Georgia and MANA, A National Latina Organization.

Written by WISER president Cindy Hounsell, the report, "Your Future Paycheck: Minority Women and Retirement Income," analyzed the shortfalls in retirement savings among minority women and discussed initiatives that could help alleviate the problem. In 2006,

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11.5% of all women and 6.6% of all men age 65 and over had incomes below the poverty threshold, defined as $10,488 per year or less, the study said. In the same year, however, the poverty rate was 38.5% for single black women in this age group, 41.1% for single Hispanic women, and 16.7% for single white women.

Census figures for 2006 reveal gender gaps in retirement income among all ethnic groups: The median retirement income in 2006 was $24,546 for white men, $15,731 for black men, and $14,463 for Hispanic men. By contrast, the median retirement income in 2006 was only $13,987 for white women, $11,662 for black women, and $9,553 for Hispanic women.

The analysis showed that 59% of unmarried black women and 58% of single Hispanic women over the age of 65 have no income apart from Social Security benefits. The average Social Security benefit in 2006 was $878 for retired white women, $792 for retired black women, and $723 for Hispanic women. Researchers also observed that many elderly Americans living in poverty rely on their income from Supplemental Security Income (SSI), a federal poverty program that, in 2006, provided individual recipients with benefits amounting to just $603 a month.

Compared with men, women of all ethnicities are far less likely to have income from employer-sponsored pensions, the study found. Less than one-quarter of women age 65 and over received private pension benefits in 2004, and the median income from pensions among the women in this group was just $4,501, compared to $9,855 among men.

Among the principal reasons for these sharp discrepancies in retirement income, the report said, is the fact that minority women tend to work in jobs and industries where the pay is low and retirement benefits are minimal or non-existent. Minority women are overrepresented in the service and caregiving industries, often working in hospitals, restaurants, retail outlets, and educational institutions. Whereas white women who worked full-time in 2006 earned 77 cents for every dollar earned by men, black women made just 64 cents on the dollar, and Hispanic women earned 52 cents. These lower earnings can be attributed in part to lower educational levels among minority women: 38% of white women and 37% of white men have college degrees, compared with 28% of black women and nearly 19% of Hispanic women.

In addition, the study noted, women often take breaks from working to care for family members, with lower income women being more likely than higher earning women to spend time unemployed. The analysis showed that, while black women tend to take roughly the same amount of time out of the workforce as white women, Hispanic women are more likely to experience longer stretches of unemployment. Because of their lower incomes, minority women are also far less likely than men or white women to have investments or retirement savings.

To help address retirement income shortfalls among minority women, and among women in general, Hounsell recommended that Congress consider pension reform proposals that would increase pension coverage for low-wage and part-time workers, create new opportunities to save in the workplace, increase survivor benefits, make pension division upon divorce more equitable for women, and give women more credit for caregiving roles. She also suggested that government agencies broaden their approach to providing financial education to women and take steps to strengthen Social Security.

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