LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6430 **DATE PREPARED:** Dec 13, 1999
BILL NUMBER: SB 319 **BILL AMENDED:**

SUBJECT: Long Term Care Insurance for State Employees.

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FUNDS AFFECTED: **X** **GENERAL** **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: This bill requires the state to establish a program of group long term care insurance for its employees through the purchase of one or more qualified long term care insurance policies that are written on a group basis. The bill provides that coverage under the program must be available to all state employees, that each state employee may elect whether to obtain the coverage, and that the state must pay 20% of the premium for the coverage of each employee who elects to obtain coverage. The bill also makes conforming changes in the law on the Long Term Care Program to reflect the availability of coverage under a qualified long term care policy that is written on a group basis.

Effective Date: July 1, 2000.

Explanation of State Expenditures: This bill provides for a state contribution of 20% of the premium cost of group long term care insurance policies for state employees who choose to participate. The breakeven point for a state contribution is estimated to be somewhere between 10% and 20% of the premium.

Background: Currently, at least fourteen states (Maryland, North Carolina, Colorado, Connecticut, Georgia, South Carolina, Alaska, Kansas, Nebraska, Nevada, North Dakota, Ohio, Wisconsin, and California) offer group long term care (LTC) insurance to their state employees. At least a few other states are in the process of developing employee group plans.

Available research indicates that increased purchases of LTC insurance policies can be expected to reduce future Medicaid expenditures for individuals in nursing homes, either because: (1) with a long term care insurance policy, an individual entering a nursing facility would be less likely to ever qualify for Medicaid; or (2) if the individual did qualify for Medicaid, the average daily Medicaid payment would be reduced by an amount equal to the daily insurance benefit (Cohen, Kumar, and Wallack, 1994). Cohen, Kumar, and Wallack (1994) estimated the average savings that accrue to the Medicaid program to be $3,500 to $6,854 per LTC policyholder over the life of a cohort of policyholders (in 1990 dollars). In other words, a group of individuals who purchase policies in a particular year and keep those policies until they enter nursing homes can be expected to save the Medicaid program $3,500 to $6,854 per policyholder over an extended period of time (e.g. 25-30 years). These benefits to the Medicaid program were inflated to the year 2001 by 3.5% per year, the recent annual increase of the HCFA-SNF index (a measure of the increase in nursing home costs). Based on Indiana's share of Medicaid expenditures (about 39% of total Medicaid costs), the estimated benefit in state dollars is $1,993 to $3,903 per policyholder.

Because the premium contribution cost to the state begins accruing immediately while benefits to the Medicaid program accrue later and over an extended period of time, the cost to the state is estimated on a per policyholder basis taking into account the age distribution of holders of LTC policies in the group LTC program for Connecticut state employees. This permits a projection of life expectancies remaining for a cohort of policyholders in order to calculate the expected average premiums paid and consequent premium contribution associated with that cohort.

A premium contribution rate of 20% would significantly increase the demand for LTC policies by state employees. However, in lieu of any good estimates of the demand curve for LTC policies, a break even point was calculated that equates the future benefits to the Medicaid program with the premium contribution costs to the state. Contribution rates between zero and the breakeven point would result in a net benefit to the state, while contribution rates above the breakeven point would result in net costs to the state. The breakeven point for a state contribution to employee group LTC insurance premiums is estimated to be somewhere between 10% and 20%. Since this bill provides for a state contribution of 20% of the premium, the state contribution is approaching breakeven for the state.

Some of the assumptions used in these computations are the following: (1) Group policies offered through an employer tend to be 15% to 25% less expensive than if the employee purchased long term care insurance on his own; (2) The age distribution of Connecticut state employee policyholders up to the age of 65 was used; (3) state contributions to premiums are assumed to occur even after an employee's retirement; (4) an annual premium of $573 was used for the 55 and under age category, $877 for the 56 to 60 age category, and $1281 for 60 to 65; and (5) no allowance is made for those individuals who would purchase group LTC insurance without the state subsidy.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All

Local Agencies Affected:

Information Sources: Cohen, Marc A., Nanda Kumar, and Stanley S. Wallack, "Long-Term Care Insurance and Medicaid", Health Affairs, Fall 1994, pp 127-139; Indiana Long Term Care Program, "Indiana Long Term Care Program: Statistical Summary", Report Prepared June 1999; "Who Buys Long-Term Care Insurance?: 1994-95 Profiles and Innovations in a Dynamic Market", Health Insurance Association of America, 1995.