HOW THE NEW YORK COMPACT IS COST EFFECTIVE

Q: Can you please explain the actuarial analysis.

A: With the exception of the possible divestiture and non-participation percentages, all other projections are calculated using accepted actuarial modeling formulas. The steps are as follows:

PART I

1. Using the 2000 census, divide the NYS population into age groups.
2. Subtract those with incomes/assets less than $40K (excluding home). (Fiscal Eligibility)
3. Subtract those who are currently disabled (Physical Eligibility)
4. Apply factor for LTC risk by age group. (This is the chance that a currently able individual in that age group will meet LTC definition within a given year).
5. Subtract 25% non-participation factor. (These are those who will opt not to participate in the Compact.)
6. The remaining group consists of all NYers expected to enter the Compact in the year.

PART II

1. Divide the total group of expected LTC eligible into those who will use community vs those who will use institutional care.
2. Divide each the two groups into subgroups by assets. (e.g. $40K-$50K, $100-$200K, etc.)
3. Track the groups' LTC population by month over the next 20 years. (The number of users will decline each month as group members die or recover over time.)

PART III

1. Given each asset group's funds, track spenddown. (Using average monthly institutional or community care – as appropriate – how many months can the individual pay privately vs requiring Medicaid as the payer over his/her LTC episode. For example, for those in an institution in the group with $40K in assets and the average monthly institutional cost is $5K, they will pay privately for up to 8 months. Any further months will be Medicaid paid.)
2. Add up total private months and Medicaid months for all groups.

PART IV

1. Apply possible divestiture scenarios. (What would happen if a certain percentage of the group divested.
2. Results:

a. If 25% of all groups would have divested absent the program, the difference under the Compact would be $55M over the lifetime of the population hat became LTC eligible in that year. If the percent of divestiture would have been 50%, the lifetime savings to Medicaid would be approximately $500M.

b. In addition to divestiture savings, non-LTC savings were factored in. Because persons under the Compact do not receive any benefits other than their LTC services subsidy, there is an additional 10% of LTC costs avoided because Medicaid will not be responsible for other health care expenses including Medicare premiums, co-payments or uncovered services.

c. Other potential Medicaid savings not included in the projection are:

i. A reduction in administrative expense because Compact participants do not require initial or follow-up eligibility. As long as they require LTC, certification is privately paid by the participant.

ii. Allowed more income, more participants will be able to remain at home using less expensive home care services and informal care whereas, Medicaid would have had to pay institutional care costs.

Q: Why wouldn't people divest to reduce their pledge amount?

A. Medicaid rules regarding the 5 year look-back apply under the Compact. Had they divested without the Compact, Medicaid would get nothing. With the compact, if they divest, Medicaid will still get more than it would have. However, since the choice is no longer impoverishment by spenddown or impoverishment via divesting, the 50% of assets plus 75% of income is a more attractive alternative. This is especially true when it would be possible to keep all assets if they insure the 50% of assets.

Q. What about the NYPLTC?

A. The NY Partnership for Long Term Care has been successful on many levels and should certainly continue, but it was not intended to be a total answer. The uninsurable cannot participate and PLTC coverage is not affordable for the majority of NYers.

At least 20% of those who apply for LTCI are not accepted. In addition, the premium for a PLTC policy can be (or perceived to be) prohibitively expensive. The average cost for a three years policy for a 57 year-old (average purchase age) that provides approximately $250K in coverage is over $2K. Since the vast majority of LTCI purchasers are couples, this means an annual outlay of $5K, a significant expense that most can't afford especially when the actual need for such coverage is misunderstood.

Q. How does the Compact affect the sale LTCI in NY?

Those who wish to be fully independent of the State can still buy whatever they wish. Others might buy a PLTC policy. (Current and future PLTC policies work well for wealthier Compact participants.) This is business as usual. Nothing will change. However, the Compact actually expands the potential LTCI market. Most individuals have assets that are less than the $250K in coverage the PLTC requires. In short, they are forced to buy more coverage than they need at a price they can't afford.

Under the Compact, the individual can buy insurance equal to their risk – which under the Compact is only ½ of their actual assets not the cost of a three year LTC episode many years in the future. Where the individual with $100K in assets couldn't purchase before, the $50K of coverage without the need for expensive inflation protection could be purchased at a fraction of the cost of a PLTC policy. The anticipated premium for an average 57 year-old protecting his assets under the Compact could drop to approximately $600 or less. This means that while there will probably be less $3K+ premium policies sold, many more policies could be sold overall.

Some insurance representatives have objected to the Compact on the basis that it would contract the LTCI market. They are argue that given only 50% of assets would be at stake, the incentive to purchase any insurance would diminish. Given the Compact's affordability factor and that sales have remained

relatively level in the current system where 100% of assets are at risk, the concern as expressed does not appear fully considered. However, there is a legitimate point in the insurer position.

By using the point of need as the focal point, LTC financial planning could lose some of its immediacy factor. Earlier versions of the Compact legislation foresaw this possibility and included a requirement that supported insurance sales and answered the industry's concerns. To summarize, the clause said that those over a certain age seeking Compact participation would have to have insurance or proof that income/assets or insurability prevented such purchase.

Q: If the clause had been accepted, what would incent LTC planning?

A: Those without insurance or proof would be subject to penalty. While the issue was dropped with the exclusion of the insurance requirement, consideration was underway for higher percentages of pledge vs assets (e.g. 60% rather than 50%), income contribution (e.g. 30% vs 25%), and/or benefit co-pay (e.g. 15% vs 10%).

Q: The Compact allows a home exemption. How does this comply with Federal rules or keep individuals from turning Compact assets into an expensive home?

A. Excludable home assets would be $750K in accordance with NY's limit. Home equity above that amount would be added to Compact eligible assets.

The Compact legislation contains detailed requirements regarding when a home is purchased for more than the prior home's worth during the look-back period. In general, the difference between the former and newly purchased home's equity becomes a Compact eligible asset.

Q: Won't a community spouse benefit more under the current Medicare Catastrophic rules?

A: In some cases in terms of non-housing assets, yes. However, the Compact eliminates two issues that have plagued the Catastrophic program. The first is the tracking the home after the institutionalized spouse dies. The second is spousal refusal.

Q: How the Compact affect providers?

A: Providers stand to gain in two ways: a) with divestiture avoidance, more private pay in the first instance under the mandatory pledge and b) subsidy rates will be 110% of the current Medicaid rate (full Medicaid plus another 10% from the participant).

Q: What will stop non-NYers from taking advantage of the Compact?

A: Federal law prevents residency requirements, but experience from the PLTC indicates the concern may be unfounded. Those needing LTC go where their support system is regardless of state policies or programs. Instead, if the PLTC experience is any indicator, people tend to age in place as long as possible and then go home. If NY is home, they will return. In the meantime, they lobby their state to be as progressive as the original PLTC states. Over 34 states now have PLTC programs.

Q: Exactly how does the Compact expect to achieve Medicaid savings?

A: Savings are expected from four areas.

1. Divestiture avoidance expands to include those who are uninsurable or can't afford PLTC coverage.

2. Reduced Medicaid expenses on behalf of Compact participants.for non-LTC health services.
3. Reduction in administrative expenses that would have been incurred had participants been enrolled in Medicaid.
4. Increased use of lower cost community based care.