The Private Long Term Care Insurance Market in France: Implications for the US

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Also acknowledge my co-authors

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- Etienne Dupourque
- Nefissa Sator
Why the interest in the French system?

- It has the biggest voluntary market for private LTCI in the OECD, in terms of proportion of adults buying it
  - 5.7 million policies
  - About 11% of people 18+ (2012)
  - In contrast, the US market is 7.3 million, covering 3% of Americans 18+ (2010)

- Arguably, the French model is appealing to US sensibilities
  - Mixed public-private
  - Steeply income-adjusted public benefits, which create incentives for supplementation
The Questions:

- Why is private LTCI so popular in France?
- What role does private insurance play in protecting people against the financial risk of needing LTSS?
  - Who buys it?
  - Does it provide adequate coverage?
  - To what extent does it support public policy and public programs?

But most importantly,

- What, if anything, can the US learn from France?
The most critical feature of the French model is that private insurance wraps around the public benefit, much like Medigap wraps around Medicare.
The public benefit: the APA
Allocation personnalisee d’autonomie

- Instituted 2002
- Universal coverage for 60+
- Cash benefit, in accordance with a service plan
- Does not cover room and board
- Steep income adjustment – 90% copays at the highest income level (€2,928 or $3,946 monthly for 2012)
  - Hollande proposed to reduce this to 80%
- 1.2 million beneficiaries in 2012 (vs the projected 800 million)
<table>
<thead>
<tr>
<th>GIRR Level</th>
<th>Level of Dependency</th>
<th>Monthly Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Heavy: must be bed or chair-bound and require constant access to help; at the end of life</td>
<td>€1,304.84 ($1,758.69)</td>
</tr>
<tr>
<td>2</td>
<td>Heavy: must be bed or chair-bound and require daily assistance several times a day, or require constant monitoring due to cognitive impairment</td>
<td>€1,118.43 ($1,507.39)</td>
</tr>
<tr>
<td>3</td>
<td>Partial: requires assistance with transferring and mobility, as well as bathing and dressing</td>
<td>€838.82 ($1,130.54)</td>
</tr>
<tr>
<td>4</td>
<td>Partial: requires some help with transferring, bathing, and dressing</td>
<td>€559.22 ($753.72)</td>
</tr>
</tbody>
</table>
The Private LTCI Market in France
Key Features -- Coverage

- Two-thirds of policies cover heavy dependency only – GIRs 1&2
- 90 day waiting period after triggering disability
- Long vesting period – one year for physical disability, 3 for cognitive impairment
- No underwriting for employer policies
- Relatively simple, cash products
  - Easy for purchasers to understand
  - Fall under rules of APA re expenditures
  - Actuarially, easier to project costs than for benefits tied to the cost of service
Key features -- Premiums and benefits

- **Individual policies**
  - Average premium (heavy) = €345 / $465 pa
  - Average benefit (heavy) = €540 / $728 pm

- **Employer plans**
  - Average premium (heavy) = €74 / $100 pa
    - Mostly employer-subsidized
    - Often linked with employer-sponsored private supplemental health insurance
  - Average benefit (heavy) = €150 / $202 pm
The Private LTCI Market in France, 2010

<table>
<thead>
<tr>
<th></th>
<th>Individuals Insured</th>
<th>Total Premiums Collected</th>
<th>Total Benefits Delivered</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number (millions)</td>
<td>Percentage</td>
<td>Amount millions</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>1.6</td>
<td>29</td>
<td>€403</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$542</td>
</tr>
<tr>
<td>Mutual Societies</td>
<td>3.6</td>
<td>65</td>
<td>€97</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$131</td>
</tr>
<tr>
<td>Provident Societies</td>
<td>0.3</td>
<td>6</td>
<td>€25</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$34</td>
</tr>
<tr>
<td>Total</td>
<td>5.5</td>
<td>100</td>
<td>€525</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$707</td>
</tr>
</tbody>
</table>

Source: FFSA et CTIP
So, does the French system do a good job protecting against the financial risk of LTSS?

- Cost of LTSS estimated at
  - €2500 / $3368 pm for “partial” dependency
  - €3500 / $4715 pm for “heavy” dependency
- The average payout from the APA = €500 / $674 pm
- The average payout from private LTCI = €300 / $404 pm
- Thus, APA + private LTCI covers roughly 32% of the average monthly cost of care.

- Average retirement income = €1300 / $1751 pm
Moreover...

- The costs of room and board are not covered by the APA
- These costs range from €1200 / $1617 to €2300 / $3099 pm
- “Family responsibility” laws are still on the books

Therefore...

- There is significant reliance on locally funded safety-net programs
- Local government now picks up roughly 78% of the cost of the APA
Figure 1: Funding Sources for the Three Primary Components of LTSS Spending in France, 2010

Out of Pocket | Local Government | Federal General Revenue | CNSA | Social Welfare Budget
---|---|---|---|---
Supportive Services | 1% | 17% | 64% | 18%
Room and Board | 4% | 13% | 81% | 5%
Health Care Services | 5% | 6% | 89% | 1%

Notes: CNSA is a special fund to support programs for older people. The Social Welfare Budget is “Securite Sociale”, which funds the French universal health and retirement programs.
Remarks on the French System

- LTSS is recognized as the “Fifth Risk” in the social welfare system
- Employers/mutual societies have a significant role in encouraging purchase
- Arguably greater propensity to purchase
  - The French are more risk averse (higher savings rates, greater purchase of insurance)
  - Established habit of supplementing public insurance with private -- 96% buy supplemental health insurance
- Political parties have converged on a public/private approach
  - However, proposals to make private LTCI mandatory have been shelved
- Expansion of paid LTSS helps address chronic unemployment
- Responsibility is split between local and national levels of government
Advantages of French system:

▸ Universal coverage for 60+, designed along progressive lines
▸ Private insurers have established broad market share
  ▸ Thin edge of the wedge?
▸ Design of private LTCI products
  ▸ Less vulnerable to economic downturns and actuarial miscalculations
  ▸ Easier for purchasers to understand
  ▸ Risk of lapsing not an issue for many products
Disadvantages of French system:

- Inadequate level of coverage, targeted at severely impaired individuals
- Public system has cost more than projected
- Private LTCI does little to alleviate pressures on the public system, covering an estimated 0.5% of national LTSS costs
- The “catastrophic cost” of extended nursing home care is still carried by safety-net programs administered and paid for by local government
- The system is yet to be tested, with little claims experience among markets with the greatest growth (employer plans)
  - Thus, it’s unclear whether coverage through employers translates to coverage during periods of greatest need – old age
Implications for the US

- Such a public/private mix, with steep means-testing, might be politically feasible over the longer term
- Meanwhile, features of the private LTCI market in France might be replicable in the US
  - A cheaper, simpler, more bare-bones product might be marketable to a broader population than is currently in the market
  - US insurers could consider product design changes that make the products less risky for insurance companies
  - Employers could be encouraged to offer such bare-bones products