Comments on “Why Don’t Retirees Insure Against Long-Term Care Expenses?” by Jeff Brown, Gopi Shah Goda, & Kathleen McGarry

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Survey Responses Shed Light on Lack of LTC Demand

• Perceived Relative Value of Resources when Healthy vs. When Unhealthy Affects Demand
• So Do Informal Care/Insurance Networks
• Confidence in Insurance Companies (“AIG Effect”) Receives Some Support
• Limited Support for “Self Insurance”
Applications of the Findings

• Help to Distinguish Competing Models of Insurance Demand in Late Life

• Assess Understanding of Factors that Affect Insurance Demand in Rational Models – Inform Education Programs

• Offer Insights on Potential Effects of Interventions (Tax Credits, Programs to Help Find LTC Providers)
Value of Resources in Different Health States

• LTC (premium c, benefit b) Moves Resources from Healthy (p) to Less-Healthy (1-p) State

• “Required Medical Spending Model”:
  \[ u'(y - c) = u'(y - m + b) \]
  \[ c = m - b \]
  \[ pc = (1-p)b \]
  \[ c^* = (1-p)m \ and \ b^* = pm \]
Different Health States (cont’d)

• Richer Model: Health in Utility Function
  \[ u_y(y - c, h_0) = u_y(y - m + b, h_1) \]

• Optimal Insurance Now Depends on How \( u_y \) Varies with \( h_0 - h_1 \).

• How Do Healthy Individuals Gauge This Effect?
  – Stratify those with and without experience of failing health (relative, spouse).
  – Ask questions about effects of poor health
Reality Check: Survey Answers vs. “Facts”

• “I Can’t Afford LTC Insurance” vs. Analysis of Current Income, Wealth, and Insurance Policy Costs

• “I Don’t Think I Will Need LTC” vs. “What is the Probability that Someone Like You Will Enter a Nursing Home at Some Point?” vs. Actual Data on Distribution of Care Utilization
Important Next Steps

• Use the Covariates in ALP to Evaluate “Reasonability” of Responses
• Estimate LTC Demand Model Ignoring Survey Answers, Identify Outliers, and THEN Look at Answers from Survey Questions