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Private Long-Term Care Insurance in Israel

Shuli Brammli-Greenberg ◆ Ruth Waitzberg ◆ Revital Gross

The study was funded with the assistance of the National Institute for Health Policy and Health Services Research

RESEARCH REPORT

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Executive Summary

Introduction

Caring for the elderly and for people with disabilities constitutes a major challenge for the health and social services all over the world. In Israel, the state subsidizes care for poor people with disabilities and provides services for them, but the fundamental responsibility for funding these services lies with the individuals themselves.

Long-term care is very costly both to the public system and to the elderly and their families. In view of the limited sources of public funding, there is growing recognition of the need to combine private and public funding to cover the cost of long-term care. Expanding private long-term care insurance (LTCI), which insures against the need for long-term care in the community or in an institution, is one of the policy alternatives currently being discussed by policymakers as a source of funding for long-term care (LTC).

In Israel today, there are three types of LTCI:

1. Commercial individual long-term care insurance
2. Commercial collective long-term care insurance
3. Collective long-term care insurance through the health plans.

The current report summarizes the findings from a 2006 population survey regarding LTCI in Israel conducted by the Myers-JDC-Brookdale Institute, as well as financial data about the market, the LTCI policies marketed by the health plans, and the main policies marketed by the insurance companies. The study examined an extensive range of factors that affect the demand for long-term insurance and the characteristics of those who purchase it. Consequently, it contributes much to understanding the development of the market for this product in Israel.

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1. Study Goals

- To describe the private LTCI market in Israel, including its size, the key players, the types of policies and the role of government within the market
- To analyze the factors affecting ownership of LTCI.

2. Study Methods

A number of research tools were employed. In order to achieve the first goal, we analyzed financial data about the market, the LTCI policies marketed by the health plans, and the main policies marketed by the insurance companies.

To achieve the second goal, data were collected from the population survey conducted by the Myers-JDC-Brookdale Institute, which provides information about consumer behavior in general and about the factors affecting ownership of private LTCI. The survey was conducted toward the end of 2006 among residents of Israel aged 22+. The interviews were conducted on the telephone using a structured questionnaire in Hebrew, which was translated into Arabic and Russian for use

as required. Altogether, 1,699 people were interviewed and there was a high response rate of 80%. Although the study was conducted in 2006, it still provides relevant information about consumer behavior and the factors that affect ownership of LTCI policies, since the questions remain relevant and since then, there has been no dramatic change in the market that might affect the responses to them. Moreover, the findings of the population survey about the level of service and the performance of the health system in Israel conducted at the Myers-JDC-Brookdale Institute in 2007 and 2009[1] confirm and corroborate the findings of the current study.

In order to supplement the information from the survey, a comprehensive review of the economic literature, including behavioral economics, was conducted for an in-depth examination of various aspects of the market, including: market-based explanations concerning supply and demand and addressing the question why the long-term care insurance market is small all over the world; the factors that affect the purchase of LTCI abroad; misperception of individual future risk; and the tendency to opt for the default and status quo when making decisions.

Findings

1. The Private Long-term Care Insurance Market in Israel

Data provided by the Commissioner of Insurance (Capital Market, Insurance and Saving Division at the Ministry of Finance) in 2010 based on information from the health plans and insurance companies show that 4.56 million people (60% of the entire population including children) have some form of LTCI policy purchased through the health plan or directly from a commercial insurance company. Most policyholders (88%) have collective insurance (with the vast majority purchasing it through their health plan). However, in the population survey, only 39% of people aged 22+ reported owning some form of LTCI. This is far below the ownership percentage according to the Commissioner of Insurance's data. The disparity between the reported figures and the true figures derives largely from the difference between the reported and true figures for insurance purchased through the health plans (for which 31% reported ownership, while in fact about half actually owned a policy). Eighteen percent reported having commercial insurance (about half of them having both types of insurance) and this is close to the comparable figure derived from the administrative data.

An examination of the distribution of supplemental insurance ownership among LTCI policyholders reveals that almost all individuals with LTCI through their health plans also have supplemental insurance. This finding supports the already-known fact that at the outset, LTCI was marketed as a component of supplemental insurances and, after supplemental and LTCI were

[1] Brammli-Greenberg, S.; Gross, R.; Yair, Y. and Akiva, E. 2011. ***Public Opinion on the Level of Service and Performance of the Healthcare System in 2009 and in Comparison with Previous Years***. RR-587-11. Myers-JDC-Brookdale Institute, Jerusalem (Hebrew).
Gross, R.; Brammli-Greenberg, S and Matzliach, R. 2007. ***Public Opinion on the Level of Service and Performance of the Health Care System Ten Years after the Introduction of National Health Insurance***. RR-487-07. Myers-JDC-Brookdale Institute, Jerusalem (Hebrew).

separated by law (in 1998), those already insured were automatically covered, while new policyholders purchased both types of cover (supplemental and LTCI) as a single package.

2. Factors Affecting LTCI Ownership

a. Personal and Health-Related Characteristics

The percentage of those who reported having LTCI of any kind was relatively high among Hebrew speakers, persons aged 45–64, those with an academic degree, and those in a high-income bracket. It was particularly high among people who considered themselves to be in good or very good health and those who believed their spouses to be in good or very good health. The percentage was low among people with cardiovascular disease, digestive disorders and arthritis.

b. Individuals' Perception of the Probability of Requiring Long-term Care and their Assessment of the Consequences

About a third of the respondents thought that the there was a high to very high probability that they would require long-term care. About half of them believed that the cost of long-term care in an institution would be relatively high (over NIS 7,000 per month). As expected, these factors affect LTCI ownership. In contrast, only about a quarter of the population believed that the cost of long-term care in the community would be relatively high. This factor was found not to affect LTCI ownership.

Another interesting finding of our study was the high proportion of people who are afraid to think about the subject – about a fifth of the general population and approximately a third of those aged 65+. This fear could prevent members of the public from making appropriate preparations for the eventuality of one day needing LTC.

It has been argued that the fact that a considerable proportion of the public (over half) has collective or individual LTCI partially solves the problem of funding long-term care and hence there is no widespread problem of public preparedness. However, many are unaware that they have LTC insurance and this constitutes an important barrier to use of the insurance.

c. Perceptions about the Funding of Long-term Care

The respondents were asked who would fund their LTC should they require it (more than one answer was permitted, therefore the percentage sum was greater than 100%). Fifty-four percent replied that they would rely on their own funds to cover most of the cost; 54% said that the state or a public body would fund most of the care (but over half of them said they were also self-reliant). A relatively low percentage (34%) said that they believed their families would pay for most of the care (but 61% of them said they were also self-reliant). Public funding of LTC, even if limited, is an inexpensive alternative to LTCI. We did find that the tendency to purchase LTCI was lower among those who believed a public agency would fund their care.

d. Relationship with Children

The literature reveals that the effect of individuals' relationship with their offspring on LTCI ownership is not clear-cut. Some studies have shown that parents who have a good relationship

with their children tend to rely more on their children to care for them and are therefore less worried about receiving and paying for LTC. However, other studies have found that parents who have a good relationship with their children tend not to want to burden them with LTC and prefer not to depend on them in this respect.

In our study, 82% of the respondents reported having at least one child and approximately half of them said they had a child over the age of 18.

We built four measures to examine parents' relationships with their children:

1. Perception of the relationship and the role of children (parents are not entitled to a partial refund of what they have given their children)
2. Financial independence from children
3. Nature and strength of emotional relationship with children
4. Trust that the children or spouses will pay for LTC should the need arise.

We found differences in LTCI ownership according to these measures: A higher proportion of those with fewer children and those who had high scores in the relationship measures reported having LTCI ownership (be it through the health plans or an insurance company).

e. Preferred Residential Arrangement if Unable to Live Alone in Old Age

All the respondents were asked: "If you were no longer able to live alone and had the choice of living at home with a caregiver, living together with one of your children or a relative, or living in an institution, which would you choose?" Fifty-three percent said that they would prefer to remain at home with a caregiver, 22% opted for living with one of their children or a relative (in their own home or in the relative's home), and 19% would prefer an institution. Six percent refused to answer and said that they did not know which they would prefer or that they would rather commit suicide in such a case.

We found that people's preference for where they would like to live affected LTCI ownership. A statistically significantly higher proportion of those who have any kind of LTCI would prefer to live in their own homes with a caregiver than would those who do not have insurance (63% versus 47%, respectively). Conversely, a lower proportion of those who have LTCI would prefer to live with a child or relative than those who do not have insurance (13% versus 27%, respectively). In contrast, the proportion of those who would prefer to live in an institution does not differ according to whether or not they have insurance.

f. Multivariate Analysis

In a multivariate analysis, we examined the independent effect of each of the factors on LTCI ownership (excluding relationship with offspring).[2] We found that in addition to the personal characteristics affecting LTCI ownership, variables associated with risk aversion, perception of

[2] The measures of relationships with children were not entered as explanatory variables in the multivariate analysis because of the causal relationship of the other independent variables for the measures. A multivariate analysis in the form of a path analysis will be published separately.

the risk of needing LTC, acquaintance with a nursing-care patient and the extent of trust in the health plans and insurance companies had an impact as well.

Conclusion and Discussion

This study is the first of its kind in Israel and it contributes important information about the demand for LTC insurance and the factors that affect it. We expect this information to assist policymakers to make the best use of this funding alternative in the current situation in which long-term care is still not covered by the National Health Insurance Law.

1. The LTCI Market

One of the main findings of this study is the size of the LTCI market in Israel (approximately 60%), which is very much higher than in other countries. The main marketing lever of LTCI, which was through other forms of health insurance (supplemental and commercial), is apparently the main reason for this situation. This finding raises the ethical issue as to the desirability of having "automatic coverage" as the "default option"[3] to cover catastrophe situations that the health plan or state is interested in covering through the existing insurance system. On the one hand, automatic coverage is an effective way of achieving the goal of broad coverage but, on the other, it may be detrimental to the consumer's right to informed and educated choice.

The study findings show that the percentage of those reporting that they have LTCI is higher among the stronger strata of the population and not necessarily among those at high risk. No differences were found between chronically ill patients and others in the percentages of ownership of any kind of LTCI (39%). However, the percentages of ownership of LTCI through the health plans and commercial insurance were relatively lower among those who had at some time had certain chronic illnesses. This finding could be connected to an adverse-selection market failure on the part of the insurers.

2. Tools to Increase the Knowledge, Awareness and Educated Use of LTCI by Consumers

It may be that active state intervention is required to enhance the public's knowledge and awareness and perhaps even to encourage purchase among middle-class target groups. It is possible to turn LTCI into a more effective tool for funding LTC by taking appropriate action such as continuing to regulate LTCI to stimulate public trust in the product and disseminating information about the LTC situation and about funding possibilities (public and private). This would help people overcome their fears and disinclination to think about the matter and encourage them to make practical plans for the eventuality of needing LTC one day. Insufficient knowledge and awareness of insurance ownership could deny people the possibility of acquiring and using it.

When considering LTCI as an alternative means of funding LTC, it is necessary to take into account the barriers facing potential purchasers of LTCI connected to the characteristics of the

[3] Those who do ***not*** want LTCI have actively to notify the health plan.

insurance (benefits provided and the cost of the insurance) and the public's attitudes to the insurance companies (trust and confidence in their stability). For example, LTCI does not cover the mild disabilities of elderly people in need of care (those with fewer than three ADL disabilities and Alzheimer's patients in the early stages of the illness), even if they are policyholders. These people need assistance, but in such cases, the insurance is of no help. There is, therefore, a need for further regulation (e.g., to extend coverage to these situations) so that LTCI can indeed be one of the significant sources of funding for LTC.

3. Raising Awareness

In light of the considerable proportion of people who have LTCI but are unaware of the fact (approximately 20%), we believe it is necessary to regulate the relations between the insurance companies and public bodies (e.g., the Ministry of Health and the health plans) in order to utilize more effectively the existing sources of funding. There is potential for cooperation to combine LTCI ownership and subsidized institutionalization by the Ministry of Health.

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The findings have been presented to the Minister of Health and to the Minister of Senior Citizens' Affairs and to senior officials at both ministries, as well as the Commissioner of Insurance at the Ministry of Finance and senior members of the division and to the executive staff of the Geriatric Department at the Ministry of Health. The findings also served as the basis of discussions on LTCI at the 2011 Dead Sea Conference, which addressed action to be taken by the state in light of the projected increase in the elderly population. They were also presented at an international conference at the London School of Economics – "Recent Developments in Financing LTC in USA, UK, Japan and Israel," organized by the Personal Social Services Research Unit (PSSRU).

We are grateful to the Israel National Institute for Health Policy and Health Services Research for co-funding the study.

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We are grateful to the Israel National Institute for Health Policy and Health Services Research for co-funding the study and for providing us with a distinguished platform at its conferences on which to present our findings.

The study findings have been presented to the Minister of Health and to the Minister of Senior Citizens' Affairs and to senior officials at both ministries, as well as the Commissioner of Insurance and senior members of the division and to the executive staff of the Geriatric Department at the Ministry of Health. We thank the participants at these lectures for their contribution to understanding the findings.

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The research team, together with the entire staff of the Smokler Center for Health Policy Research and the Myers-JDC-Brookdale Institute, regrets the untimely passing of Professor Revital Gross. Professor Gross was a member of the research team in the early stages of the study, but did not live to see its completion.

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