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":

$$u'(y - c) = u'(y - m + b)$$

$$c = m - b$$

$$pc = (1-p)b$$

$$c^* = (1-p)m \quad \text{and } b^* = pm$$

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