

Helping America Age Well

Allowing Long-Term Care Insurance In Cafeteria Plans and Flexible Spending Arrangements

Allowing employers to offer long-term care insurance under a cafeteria plan makes coverage more affordable, saves Medicaid and Medicare dollars, and educates Americans on the importance of long-term care coverage to their financial stability and peace of mind.

More than half of all Americans turning age 65 today will need long-term care (LTC) at some point in their lives.* Many will need help with activities of daily living, such as bathing and eating, or they may need help due to cognitive impairment. The Department of Health and Human Services estimates that individuals and their families pay for 52 percent of LTC expenditures out-of-pocket. Medicaid pays about 34 percent, and other public programs (such as benefits for veterans) cover about 10 percent. Private qualified long-term care insurance (QLTCI) covers less than 3 percent of expenditures.

As the baby boom generation continues to age, the societal burden of LTC costs will continue to increase dramatically. The Congressional Budget Office estimates that spending by the federal government, states, and individuals on formal LTC for those aged 65 and older will increase from 1.3 percent of Gross Domestic Product (GDP) in 2010 to 3 percent of GDP in 2050. No single solution will be able to address these impending unmet financial needs, but increased protection through LTC insurance should be a part of any solution. Allowing employers to offer LTC benefits through cafeteria plans and Flexible Spending Arrangements (FSA) is a critical step toward increasing the number of Americans who have easy access to this protection.



How Allowing LTC Insurance as an Option under Cafeteria Plans and FSAs Can Help

Nearly 180 million Americans get health care coverage through their jobs, making the employer an essential link in helping people understand the value of QLTCI and expanding the investment in this coverage. Federal legislation that allows QLTCI to be offered within cafeteria plans and FSAs would further encourage employers to include information about LTC options in their employee benefits packages, helping employees make sound decisions about their long-term financial stability.

Cafeteria plans (often incorporating an FSA) provide employees an opportunity to receive certain qualified benefits on a pretax basis. Under current law, qualified benefits include most accident and health benefits; adoption assistance; dependent care assistance; group term life insurance; and health savings accounts, including the ability to use HSAs to pay for qualified LTC services.

Allowing LTC coverage to be provided under a cafeteria plan would make it more affordable. This solution would have limited impact on the tax dollars received from employees, because most employees would simply shift their cafeteria plan/FSA dollars from other pre-tax benefits to LTC coverage.**

Allowing QLTCI as a qualified benefit so that such insurance coverage could be available under a cafeteria plan would make LTC insurance more affordable to more Americans and, in doing so, help to ease some of the financial pressure that LTC costs are imposing on Medicaid and Medicare.

Adding QLTCI as a qualified benefit gives employers a new way to add value for their employees—and opens up essential pathways for Americans to become more educated on why QLTCI is so important to their financial stability and peace of mind. It is a small change to ensure coverage and care for America's seniors—and a smart change that will go a long way to reducing future state budget increases for Medicaid and other public programs.

* HHS, ASPE Issue Brief on Long-Term Services and Supports for Older Americans, February 2016.

** Conceptual Analysis of Potential Revenue Effects of Three Proposals to Encourage the Purchase of Long-Term Care Insurance; Mary M. Schmitt, Optimal Benefit Strategies, LLC; August 2018

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