

Part I. Strategies for increasing private Long-term care insurance takeup in Japan: An example

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Private long-term care insurance market

- Probability of entering a nursing home is high, out-of-pocket costs are significant, and risk is concentrated at end of lifecycle.
- Private insurance should be attractive to individuals: pay premia now, receive benefit if enter a nursing home.
- Yet, private long-term care insurance (LTCI) take-up rates are small in Japan, USA and Germany.
- Private LTCI payouts account for
 - 10% of aggregate LTC expenditures in USA
 - 4% of aggregate LTC expenditures in Germany
 - less than 1% of aggregate LTC expenditures in Japan
- Why is the private LTCI market so small?
 - Administrative costs: costs of selling and paying claims are higher than other life insurance products.
 - Adverse selection: households who have the highest risk of nursing home entry are more likely to purchase private LTCI.
 - Public insurance: crowds out demand for private LTCI.
 - Cognitive biases: Individuals don't start thinking/worrying about LTC risk until they are close to retirement.
(see Braun and Kopecky, CIGS WP 24-005E, for a nontechnical discussion).

Recent private pension reforms create new business opportunities for private LTCI issuers.

- Japanese companies are shifting from defined benefit to defined contribution (401k plans) for employees.
 - Employee chooses how savings are allocated among a list of ETFs.
 - At retirement employee decides whether to receive cash lumpsum payment and/or purchase an annuity.
- iDeCo (individual defined contribution pension)
 - Individuals decide how much to contribute and how savings are allocated among a list of ETFs.
 - At retirement, individual decides whether to receive lumpsum cash payment and/or purchase an annuity.

Annuities and long-term care risk

- Annuity: Owner pays a lumpsum now and receives a fixed monthly payment for life. Great product for individuals who are healthy and expect to have a long life.
- An annuity is *not* an effective way to insure against LTC risk.
- **An annuity with LTCL rider** is a better way to insure against LTC risk.
 - **Annuity** Owner receives a fixed monthly payment if healthy.
 - **LTCL rider** If owner experiences a LTC event receives a higher monthly payment.

A specific proposal

Offer employees with defined contribution plans, and owners of iDeCo a new option for receiving their benefits

1. Cash payout
2. Annuity
3. Annuity with a LTCL rider

Implementation details

This is a new product with a novel distribution channel

- Life insurance company designs and markets the **annuity with LTCL rider** product to 401k plan administrators.
- 401k plan administrators market their product to employers.
- In USA, UK and Japan, 401k plan administrators have had considerable success in developing and promoting new financial products to employers that help employees save for their retirement. Example: target date mutual funds.

Benefits of annuity with LTCL rider

- Competition between
 1. Private assisted living facilities
 2. Public nursing homes (Tokuyo, special care nursing homes).
- Private LTCL benefit provides additional resources to cover higher costs of private assisted living.
- Private LTCL benefit also fills coverage gaps at public nursing homes.
- Offering a cash LTC benefit in the **annuity with LTCL rider** will have a positive impact on take-up and informal care provision.

Part 2. Boosting supply of informal care by family in Japan

- Japanese supply less informal care than Americans and Germans.
- Measures that promote supply of informal care
 - Barczyk and Kredler (2018, Review of Economic Studies; 2014, Quantitative Economics) find using USA data:
 - Small subsidies to family members incentivizes them to provide informal care
 - Homeowners receive more informal care than renters.
 - USA: transfer of home to a child is exempt from bequest taxes if family member cohabitates with and provides 5 years of informal care to parent.
 - Germany: public LTCI offers cash benefit option that allows family members to be paid for providing personal assistance.
- Supply of informal care by family will increase in Japan if
 - Bequest taxes to informal care providers are reduced.
 - Family members can be compensated for informal care services (**annuity with LCTI rider**, is one way to implement this in Japan).

Boosting supply of informal care by others

- Traditionally majority of informal care provided by women family members (spouse, daughter, daughter-in-law).
- Women's role in society is changing
 - Large increases and now high levels of labor force participation of women
 - New incentives to promote fertility.
 - Less time for informal care of elderly
- Younger retirees are natural providers of informal care.
 - Large amounts of leisure time
 - Good health status
 - Eager to build new social networks.
 - Benevolent
- Opportunity for local governments to help foster bonds among younger retirees within their cohort and, also across cohorts.
 - Parks & recreation (radio Taiso, softball, soccer, walking, running, picnics)
 - Community center activities (hobbies, learning, culture)
 - Community events (Matsuri, 5k races)
- Benefits
 - An active retirement with regular social interactions is health preserving
 - Strong communities supply more informal care services.