Willingness to Pay for Nursing Home Quality

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In 2012, more than 12 million people needed some form of long-term care in the United States, and because of the rapid aging of the population, this number is expected to increase to approximately 27 million in 2050[1]. Private long-term care in the U.S. is extremely expensive. The average yearly cost in a nursing home in 2012 was $78,110[2]. While the federal Medicaid program pays for a substantial portion of all long-term services, this benefit is only available for poor households. Putting all these elements together, standard economic models with forward-looking and risk-averse individuals would predict high levels of take-ups in private insurance against these risks. However, in 2012 less than 6% of long-term care expenditures were paid for by private insurance policies, whereas one-third are paid for out of pocket.

Some demand-side factors have been cited as drivers of low levels of private long-term care insurance. Maybe the most important one is Medicaid, potentially crowding out the demand for private insurance[3] if individuals perceive private and public provision of long-term care substitutable. In this paper, we study how preferences for the quality of nursing homes could drive insurance take-ups: if publically provided nursing homes (Medicaid) are viewed to be equivalent in quality to nursing homes that are paid for out-of-pocket, then public and private insurance would be highly substitutable. We designed an experimental module for the 2012 wave of the Health and Retirement Study, which aimed to elicit those preferences. In the module, respondents are asked to rate four different insurance policies paying the nursing home costs for the remaining years of life, but varying in the monthly premium and in two levels of quality. The first level of quality meets the minimum government standards in the provision of services and residents live two to a room, while the second level of quality provides better services and each resident has her own room. The monthly premiums vary according to age of the respondent and to the type of policy. Respondents are then asked to rate the four policy schemes varying quality and price one at a time and we estimate the willingness to pay to avoid Medicaid by purchasing insurance that would cover private (non-Medicaid) nursing homes. Our preliminary findings suggest that individuals would be willing to accept an increase ranging from 39% to 80% in the monthly premium to avoid long-term care provided by Medicaid.

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[1] Kaye H, Harrington C, LaPlante M. Long-Term Care: Who Gets It, Who Provides It, Who Pays, And How Much? Health Affairs. January 2010 2010; 29(1): 11-21.
[2] MetLife Mature Markets Institute, 2012.
[3] Brown, J., and A. Finkelstein (2009). The private market for Long-term care insurance in the United States: a review of the evidence. *The Journal of Risk and Insurance*, 2009, Vol. 76, No. 1, 5-29