

Do misperceptions about Medicare coverage explain low demand for long-term care insurance?

Executive summary

The U.S. population is aging fast. Along with rapid aging comes rising demand for long-term care to help elderly and disabled individuals with everyday activities such as dressing, eating, getting out of bed and using the toilet. Long-term care is very expensive and has become a significant financial risk for elderly individuals.

Financing the growing burden of long-term care costs is a pressing issue for families and policymakers. However, only 14% of people age 60 and over have private long-term care insurance, and about one-third of all long-term care expenses in the United States are paid for out of pocket. There's a lot of interest in both the academic and policy worlds to understand the low demand for private long-term care insurance.

Our study provides the first empirical evidence that misperceptions about public insurance coverage of long-term care services may limit the size of the private long-term care insurance market. We find a 17.6% increase in the long-term care insurance coverage rate at age 65, an age when many individuals start to have firsthand experiences with the public insurance program Medicare. While more than 30% of individuals incorrectly believe Medicare covers the extended use of long-term care services, we document a significant increase in the proportion of people with correct knowledge about Medicare coverage of long-term care services at age 65. These findings support our hypothesis that individuals learn about its limitations when enrolling in Medicare, leading to an increase in their demand for private long-term care insurance. Our findings suggest that policies, such as information campaigns that increase knowledge of the limitations of public insurance coverage, could effectively boost demand for private long-term care insurance, expand the private long-term care insurance market and reduce the financial burden of long-term care on families and federal and state governments.

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