DISCUSSION OF SCHOENMAECKERS AND KLIMAVICIUTE

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Introduction

- Two papers: about the effects of different financing schemes for LTC.
    - Schoenmaeckers analyses the incentives for "voluntary impoverishment" (strategic spend-down) in Medicaid.
    - Klimaviciute argues that an optimal scheme for LTC insurance includes a deductible. She suggests that one of the explanations for the LTC puzzle (i.e. the absence of LTC-insurance) is that such contracts are not offered.
- I think the topic of LTC insurance is highly relevant. Yet the authors do not work out the relevance of their results for the issue of "measuring and mobilizing wealth for a cohesive, inclusive and fair society".

Paper 1: LTC and strategic spend-down (Jerome Schoenmaeckers)

- The basic idea is simple and interesting. Since Medicaid covers LTC-expenditures, but is means-tested, people get an incentive to "impoverish themselves" by transferring their wealth to their children.

Paper 1: LTC and strategic spend-down (Jerome Schoenmaeckers)

- The basic idea is simple and interesting. Since Medicaid covers LTC-expenditures, but is means-tested, people get an incentive to "impoverish themselves" by transferring their wealth to their children.

- The question of the paper: is this indeed happening? Empirical exercise analysing the experience of the 2006 "Medicaid Reform and Deficit Reduction Act" that increased the look-back period to 5 years.
- Compare the effects of the Act on a "treated group" (aged 60-64) and a "control group" (aged 50-54). The author finds some effect, but it is not overwhelmingly strong.

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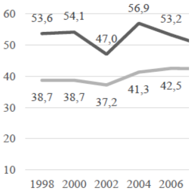
- I am not impressed by the statement that the (crucial) parallel trends assumption holds.



- What happened in 2002?

Can voluntary impoverishment be desirable?

- The author shows some sympathy for the natural position that "voluntary impoverishment defeats Medicaid's purpose and preserving peoples' inheritances does not justify diversion of government resources".
- Yet, if strategic spend-down is a phenomenon of the middle-class (and not of the very wealthy), can it then not be "desirable" (just a way to escape from a means-tested scheme, that is not desirable from an insurance or social welfare point of view)? *Is there any evidence on the distributional effects of voluntary impoverishment?*

Paper 2: Insurance with a deductible. A way out of the LTC puzzle (Justina Klimaviciute and Pierre Pestieau)

- The paper makes two points:

1. An optimal LTC-insurance contract should include a deductible.
2. The fact that such contracts are not offered is a possible explanation for the LTC-puzzle.

1. The optimality of a deductible policy: some questions

- I fully agree that introducing a deductible is desirable in LTC (and health insurance). In fact, the model in the paper is very close to the first two sections in Drèze and Schokkaert (Journal of Risk and Uncertainty, 2013).
- A technical question, that we were struggling with. The model does not introduce explicitly a deductible but formulates the problem as choosing the optimal values for α_s. Introducing an explicit deductible would change the behavioural reactions. Was this an irrelevant concern?

1. The optimality of a deductible policy: some questions

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- Klimaviciute and Pestieau (2018) have extended the model to incorporate the (important) issue of income differences. It seems indeed natural to make the deductible income-dependent. Yet, does this not raise the Schoenmaeckers-problem?

2. A way out of the LTC puzzle?

- Likely not: consumers do not understand and seem to hate deductibles.
- Bhargava et al. QJE 2017: insurance choices by 23.849 workers in an American firm. Insurance menu with 48 options (copay, stop-loss, deductible).
- Many dominated options. Almost always profitable to pick the insurance policies with the highest deductible.

Bhargava et al. (2017): people hate deductibles

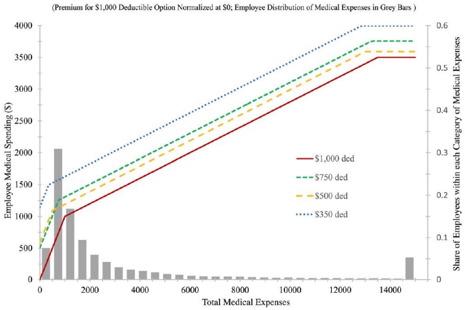

FIGURE I
Employee Spending by Total Medical Expenses

Hypothesis

- Introducing a deductible in LTC insurance would not solve the LTC-puzzle, because people hate deductibles (probably because they just do not understand how they work).
- If we want to introduce deductibles in LTC insurance, it has to be implemented in a public system.

3. Deductibles and wealth

- Here also: what would be the distributional consequences of introducing a deductible policy from the perspective of "measuring and mobilizing wealth for a cohesive, inclusive and fair society"?
- More specifically, what would be the effect on bequests, compared to the present situation with no well working LTC insurance policy?