

# **Long-term care insurance decisions: a theoretical and experimental investigation**

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## **ABSTRACT**

Loss of autonomy entails several expenses in long-term care (LTC). Long-term care insurance (LTCI) is a contract under which the insurer guarantees the payment of a life annuity or a lump sum to the insured in the event of loss of autonomy. However, LTCI coverage is considered to be too low. Our paper proposes a new approach to emphasize the role of correlation preference and preference towards quality of life in the joint decision to buy LTC and LTCI. We derive theoretical predictions and test them using data collected in a lab experiment. While we find that correlation averse individuals are not more likely than others to over-insure, we find that correlation seekers are more likely to be partially insured than others. While our empirical results partially support our theoretical predictions, this paper still provides suggestive evidence that correlation preference may be another important reason for the low take-up of LTCI.