



Private Long-Term Care Insurance: Where Is the Market Heading?

FORUM SESSION ANNOUNCEMENT

A DISCUSSION FEATURING:

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Senior Issues Task Force

National Association of Insurance Commissioners

FRIDAY, APRIL 15, 2011

11:45AM–12:15PM—Lunch

12:15PM–2:00PM—Discussion

LOCATION

Reserve Officers Association
One Constitution Avenue, NE
Congressional Hall of Honor
Fifth Floor

*(Across from the Dirksen
Senate Office Building)*

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With the leading edge of the baby boomers reaching age 65 this year, states facing challenges in financing their Medicaid programs, and federal budget deficits ballooning, concern is growing about how long-term services and supports (LTSS) for the elderly and people with disabilities will be provided and financed in the future. Private long-term care insurance (LTCI) has been postulated as a way to protect individuals from catastrophic expenses, provide flexibility in where and how services are delivered, and reduce reliance on Medicaid as the primary payer for LTSS. Yet the promise of LTCI has not been fulfilled. The number of individuals who purchase LTCI remains quite small despite various federal and state efforts to promote the market. Lagging sales have been attributed to a number of factors including consumers' lack of understanding about their risks for needing LTSS and the extent to which current private insurance policies and public programs pay for these services. Moreover, some insurers have found LTCI a difficult product to price and market. Interest continues, however, in the potential of LTCI to relieve pressure on Medicaid and in how the LTCI market might be affected by the Community Living Assistance Services and Support (CLASS) Act,¹ a voluntary LTSS insurance program enacted by the Patient Protection and Affordable Care Act of 2010.

LONG-TERM SERVICES AND SUPPORTS

LTSS include a broad range of supportive services needed by people who have limitations in their ability to perform the activities of daily living (ADLs) such as dressing, bathing, or toileting. These services are provided by paid and unpaid caregivers to people residing in the community as well as to those in institutions such as nursing homes or assisted living facilities. (LTSS do not include medical or nursing services needed to manage the underlying health conditions that lead to frailty or disability.)²

Today about 10 to 11 million individuals age 18 and older living in the community, almost half of whom are *under* age 65, need assistance with ADLs. Another 1.5 to 1.8 million individuals, the vast majority of whom are elderly, receive LTSS in nursing homes.³ And about 1 million individuals live in assisted living residences where they receive some help with ADLs or instrumental activities of daily living such as chores, personal care, or managing medications.⁴ About 70 percent of people who turn 65 will need LTSS at some point in their lives. On average, older adults will need some form of LTSS for a total of three years with women needing care an average of 3.7 years

compared with 2.2 years for men. And while 31 percent of elders will have no need, 20 percent will need care for more than five years.⁵ Some experts predict that with the aging of the baby boom population, the numbers needing LTSS will double over the next 40 years.⁶

Spending for LTSS

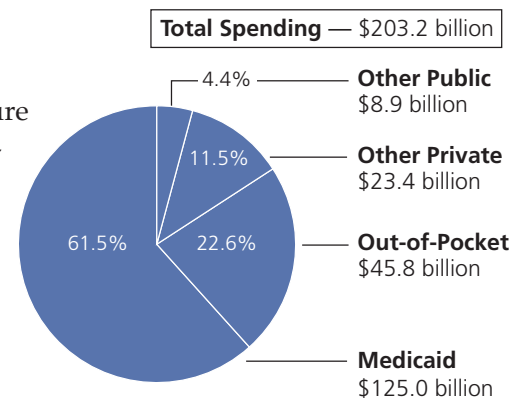
National spending for LTSS is significant. As shown in Figure 1, spending totaled just over \$203 billion in 2009. At 61.5 percent, Medicaid is the primary source of funding for LTSS. The elderly and people with disabilities also pay a sizeable share of their costs for LTSS. Nearly 27 percent of total costs in 2009 were paid out-of-pocket; another 11.5 percent was financed by other private sources such as private long-term care insurance. Because it covers only acute and post-acute care for a limited period of time, Medicare plays no role in financing LTSS for individuals who need care on an extended basis.⁷

Although the majority of elderly face the risk of needing *some* form of LTSS during their lifetimes, the distribution of the kind and cost of care varies. Unpaid caregivers, predominately family and friends, provide the vast majority of informal care delivered to individuals living in the community. Only 18 percent of people age 65 and older living in the community who need LTSS rely on formal paid services for all or part of their care.⁸ However, with the average cost for a nursing home now well over \$70,000 per year in many parts of the country, people needing care in nursing homes face substantial costs.⁹

Using microsimulation modeling, Peter Kemper and colleagues found that the average present discounted value of lifetime LTSS expenditures from all sources for people turning 65 in 2005 would be \$47,000. The model projects that there would be no expenditures for 42 percent of people and more than \$100,000 for 16 percent.

As shown in Table 1 (see next page), there is likely to be considerable variation in the distribution of out-of-pocket (OOP) expenditures for LTSS. Kemper and colleagues found that 50 percent of people turning 65 in 2005 could expect to pay nothing out-of-pocket for LTSS whereas 6 percent could expect to pay \$100,000 or more.¹⁰ Even the vast majority of those who eventually have services covered by Medicaid will incur OOP expenditures that include both assets and income contributed to the cost of their care.¹¹

FIGURE 1
LTSS Expenditures
by Source, 2009



Note: Dollars do not total due to rounding. Includes Medicaid spending for nursing homes and continuing care retirement communities (including in hospital-based and freestanding facilities), home health services (including in hospital-based and freestanding facilities), intermediate care facilities for people with intellectual and other developmental disabilities (also known as ICFs/MR), home and community-based services (HCBS) waiver programs, and Children's Health Insurance Program (CHIP) spending for nursing homes and home health services. "Other Private" includes private long-term care insurance, other health insurance, and other private spending for nursing homes and home health services. "Other Public" includes Department of Veterans Affairs, state and local programs, and general assistance spending for nursing homes and home health services. "Out-of-Pocket" includes spending for nursing homes and home health services not covered by insurance, public programs, and other third parties. Excludes Medicare spending and some public and private spending for residential care for those with mental illness, substance abuse disorders, and intellectual disabilities. Estimates may differ from others published elsewhere due to variation in amounts defined as LTSS.

Source: Prepared by the National Health Policy Forum based on published and unpublished data in the National Health Expenditure Accounts provided by the Office of the Actuary, Centers for Medicare & Medicaid Services. See Anne Martin et al., "Recession Contributes To Slowest Annual Rate Of Increase In Health Spending In Five Decades," Health Affairs, 30, no. 1 (January 2011): pp. 11–22, available with subscription at <http://content.healthaffairs.org/content/30/1/11.full.pdf+html>.

TABLE 1: Distribution of Present Discounted Value of Lifetime Private Out-of-Pocket LTSS Expenditures for Persons Turning 65 in 2005

	Percent of People	Percent with Any OOP Expenditures	OUT-OF-POCKET EXPENDITURE DISTRIBUTION				
			Zero	Less than \$9,999	\$10,000 – \$25,999	\$25,000 - \$99,999	\$100,000 or More
ALL PEOPLE	100%	50%	50%	25%	7%	12%	6%
PEOPLE WHO USE FORMAL LTSS							
Some Medicaid LTSS	30%	95%	5%	47%	14%	23%	10%
No Medicaid LTSS	27%	80%	20%	40%	11%	17%	13%

Adapted from: Peter Kemper, Harriet L. Komisar, Lisa Alexch, "Long-Term Care Over an Uncertain Future: What Can Current Retirees Expect?" *Inquiry* 42, no. 4 (Winter 2005-2006): p. 345, available with subscription at www.inquiryjournalonline.org/doi/abs/10.5034/inquiryjrnl_42.4.335?journalCode=inqr.

THE MARKET FOR LONG-TERM CARE INSURANCE

Given the risk of high—potentially catastrophic—out-of-pocket expenses, it seems rational that many individuals would want to insure against the costs of LTSS. Indeed, it has been suggested that the costs of LTSS are an “archetypal insurable risk that could be spread by insurance.”¹² Likely LTCI purchasers are those who want to maintain greater control over where and how they might receive LTSS and to protect their assets for a spouse or other heirs. Yet the number of Americans who have purchased long-term care insurance remains very small.

In 2009, there were about 7 million lives covered by “in force”¹³ LTCI policies in the United States. Of these, 4.8 million lives were covered under individual policies; the remaining 2.3 million were covered under group policies purchased through an employer or association.¹⁴ The total for 2009 is about 1 million fewer than were covered several years ago, suggesting that many policies have lapsed, whether by choice or due to individuals’ inability to pay. Given the state of the economy, some analysts expect the numbers for 2010 to remain flat or decline.

Policies issued today bear little resemblance to the first LTCI policies sold to Medicare beneficiaries in the late 1960s that covered only nursing home care. Most policies now cover a wide array of services ranging from nursing homes and assisted living facilities to adult day and in-home care. The majority of policies sold today provide a maximum daily benefit in excess of \$100 and have some level of inflation protection, an important attribute given that benefits may not be paid for 30 or more years after initial purchase.¹⁵

PROMOTING AND REGULATING LTCI

Both the federal government and the states have taken an active role in promoting the sale of LTCI. The 1996 Health Insurance Portability and Accountability Act (HIPAA), for example, clarified the ambiguity over the tax status of LTCI policies which some felt had hampered sales. As a result, premiums for HIPAA-defined tax-qualified policies are partially deductible subject to IRS rules governing the deductibility of medical expenses, and benefits paid by these policies are generally not considered income for purposes of calculating federal income tax. Around 90 percent of policies in force today are tax-qualified; tax-qualified status was “grandfathered” to nearly all policies sold before 1996.¹⁶

The Deficit Reduction Act (DRA) of 2005 also played a role in making LTCI policies more attractive to potential buyers by authorizing expansion of the Long-Term Care Insurance Partnership Program. Begun as a demonstration funded by the Robert Wood Johnson Foundation in four states in the late 1980s, the Partnership Program essentially allows individuals who receive benefits under a qualified policy to protect an equivalent amount of assets in the event they subsequently qualify for Medicaid. Thus, an individual who used \$150,000 worth of benefits under an LTCI policy would be able to shield \$150,000 in assets from Medicaid’s spend-down requirements. Other states were interested in starting Partnership programs, but the Omnibus Budget Reconciliation Act of 1993 required new programs to subject policyholder’s assets to estate recovery after death. Not surprisingly, this provision had a chilling effect on program expansion. The DRA, however, lifted this rule, allowing participants to preserve assets after death. The Partnership Program now operates in 40 states; just over 228,000 policies were in force as of June 30, 2010.¹⁷

States are responsible for regulating LTCI policies and most have adopted all or portions of the National Association of Insurance Commissioners (NAIC) Long-Term Care Insurance Model Act and Model Regulation. Key NAIC standards, such as those related to the conditions that “trigger” benefits, were incorporated into HIPAA’s definition of tax-qualified policies. NAIC continues to monitor market

Sales of Individual Long-Term Care Insurance Policies in 2009

In 2009, a total of 225,000 individual policies* were sold in the United States with an annualized premium total of \$480 million. Key characteristics of these sales include the following:

- Over 90% of policies were comprehensive; 1.1% were facility only and only 5.4% covered only home care.
- 75% of sales were to people aged 50 to 69; the average age at issue was 59
- The average annual premium was \$2,282
- The average benefit period was 4.2 years
- The average maximum daily benefit was \$150
- The average facility elimination period was 82.3 days; 72% of sales had a 90 to 100 day elimination period **
- 58% of purchasers were women
- 65% of applicants were issued a policy; 20% were declined; 15% of applications were withdrawn or otherwise did not execute a contract

* Includes only policies paid on an annual premium basis.

** An elimination period refers to the amount of time a beneficiary has to wait after qualifying for coverage (for example, due to disability) before the insurance policy will start paying benefits.

Source: Claude Thau, Dawn Helwig, and Allen Schmitz, “2010 Individual Long-Term Care Survey,” *Broker World*, July 2010.

practices and provides guidance to states with periodic updates to both the Model Act and Model Regulation. Areas of consumer protection that have been addressed by the NAIC in recent years include rate stability, suitability, loss ratio requirements, and consumer disclosures.¹⁸

THE FUTURE OF LTCI

Why haven't sales of long-term care insurance been more robust? Only about 7 percent of those over age 50—the primary target population for LTCI—have purchased a policy. Multiple factors may play a role. Unaffordable premiums are often cited as the primary reason why more Americans don't purchase LTCI. Yet, as Stevenson and colleagues point out, the concept of affordability is not particularly useful without considering the value of the product in relation to its cost.¹⁹ If purchasers don't see value in LTCI, it may be because they underestimate their risk of needing LTSS, underestimate the cost of nursing home care and in-home supports, mistakenly believe that Medicare or other private insurance will cover the cost of LTSS, have few assets to protect, and/or are comfortable relying on Medicaid to meet their LTSS needs. Premiums for LTCI plans do rise with age at purchase, but competing priorities, such as mortgages and education expenses, may deter younger purchasers. Some may also be worried about the stability of the marketplace. Several large insurers have left the market recently, and others have raised rates significantly, especially for individual policies.²⁰

From an insurer's perspective, LTCI has its own set of challenges. Pricing has been particularly problematic as insurers' assumptions about investment returns and lapse rates have not held up. Underwriting a product that will not be used for 20 to 30 years, a time frame that may see considerable medical advances, also poses challenges. And in the short term, the passage of the CLASS Act may put a damper on sales as individuals wait to see how this voluntary insurance program evolves. On the other hand, CLASS implementation could spur sales of LTCI as individuals become more aware of their risks of needing LTSS.

SESSION

This Forum session will provide an update on the state of the LTCI marketplace and explore the role that these plans may play in future financing of LTSS. **Marc Cohen, PhD**, president of LifePlans, Inc., will

provide a general overview of the LTCI market, recent industry experiences in sales, new product development, and critical challenges facing the industry. **Steve Sperka, MBA**, vice president for Long-Term Care, Northwestern Mutual Life, and **Paul Forte, PhD**, chief executive officer of Long Term Care Partners, LLC, will discuss the challenges and opportunities associated with achieving growth and stability in the individual and group segments of the LTCI market, respectively. (Long Term Care Partners operates the Federal Long-Term Care Insurance Program for federal employees and retirees.) **Mary Beth Senkewicz, JD**, deputy commissioner, Life and Health, Florida Office of Insurance Regulation, will comment on consumer protection and other regulatory issues associated with LTCI.

KEY QUESTIONS

- How have LTCI products evolved over the past five to ten years? Who is buying LTCI, and what coverage are they purchasing? What kinds of new products are on the horizon?
- What accounts for the low demand for LTCI? Have the reasons for non-purchase changed much over the past five to ten years?
- What lessons may be learned from the experience of the Federal Long-Term Care Insurance Program for employer-sponsored insurance?
- Why have some companies left the market? What accounts for the success of others?
- What challenges do states face in regulating LTCI? Are consumer protections adequate in most states?
- How much of future LTSS expenditures is LTCI likely to cover?
- What impact has the Partnership Program had on sales of LTCI? Do insurers view the Partnership Program as the primary vehicle for future market penetration? Will states continue to support, and honor, the Program in the face of rising costs for Medicaid and constrained state budgets?
- How will insurers respond to the CLASS Act?

ENDNOTES

1. For more information on the CLASS Act, see Carol V. O'Shaughnessy, "The Community Living Assistance Services and Supports (CLASS) Act: Major Legislative Provisions," National Health Policy Forum, The Basics, June 9, 2010, available at www.nhpf.org/library/details.cfm/2790.

2. Carol V. O'Shaughnessy, "National Spending for Long-Term Services and Supports (LTSS)," National Health Policy Forum, The Basics, March 15, 2011; available at www.nhpf.org/library/details.cfm/2783.
3. H. Stephen Kaye, Charlene Harrington, and Mitchell P. LaPlante, "Long-Term Care: Who Gets It, Who Provides It, Who Pays, and How Much?" *Health Affairs*, 29, no. 1 (January 2010):11-21; available with subscription at <http://content.healthaffairs.org/cgi/reprint/29/1/11>.
4. MetLife Mature Market Institute, *The 2010 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs*, (New York: Metropolitan Life Insurance Company, October 2010).
5. Peter Kemper, Harriet L. Komisar, and Lisa Alecxih, "Long-Term Care Over an Uncertain Future: What Can Current Retirees Expect?" *Inquiry*, 42, no. 4 (Winter 2005-2006): pp. 335-350, available with subscription at www.inquiryjournalonline.org/doi/abs/10.5034/inquiryjrn1_42.4.335?journalCode=inqr.
6. Kaye, Harrington, and LaPlante, "Long-Term Care: Who Gets It, Who Provides It, Who Pays, and How Much?"
7. O'Shaughnessy, "National Spending for Long-Term Services and Supports (LTSS)."
8. Kaye, Harrington, and LaPlante, "Long-Term Care: Who Gets It, Who Provides It, Who Pays, and How Much?"
9. MetLife Mature Market Institute, *The 2010 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs*.
10. Kemper, Komisar, and Alecxih, "Long-Term Care Over an Uncertain Future: What Can Current Retirees Expect?"
11. After meeting asset and income eligibility requirements, nursing home residents whose care is financed by Medicaid are required to contribute their income, less a small personal needs allowance, to the cost of their care. Medicaid allows spouses living in the community to retain possession of a house and modest living expenses.
12. David G. Stevenson *et al.*, "The Complementarity of Public and Private Long-Term Care Coverage," *Health Affairs*, 29, no. 1 (January 2010): pp. 96-101, available with subscription at <http://content.healthaffairs.org/content/29/1/96.short>.
13. "In force" refer to those policies on which premiums are being paid. The total number of policies sold will be larger as some policies will have lapsed over time.
14. Douglas Bates, Vice President, Northwestern Mutual Life, e-mail communication with the author, February 28, 2010.
15. Claude Tau, Dawn Helwig, and Allen Schmitz, "2010 Individual Long Term Care Insurance Survey," *Broker World*, July 2010.
16. Wall Street Instructors, "Long-Term Care Policy Design," 2009, available at www.wallstreetinstructors.com/ce/continuing_education/ltc8/id17.htm.
17. Data available from the Long-Term Care Partnership Program technical assistance website at www.dehpg.net/lcpartnership/reports/F1_US_20100630.PDF.

18. Mary Beth Senkewicz, "Long-Term Care Insurance: An Evolving Industry," testimony on behalf of The National Association of Insurance Commissioners before the Senate Special Committee on Aging and the Senate Committee on Homeland Security and Government Affairs, Subcommittee on Oversight of Government Management, October 14, 2009, available at <http://aging.senate.gov/events/hr216ms.pdf>.
19. Stevenson *et al.*, "The Complementarity of Public and Private Long-Term Care Coverage."
20. Rebecca Vesely, "Heading for the Exit: Turmoil hits long-term-care insurance companies," *Modern Healthcare*, 40, issue 48 (November 2010): p. 32, available at www.modernhealthcare.com/article/20101129/MAGAZINE/101129993.