

# Private long-term care insurance

Although most Americans have insurance to protect against the risk of extensive medical costs, most do not have insurance to protect against the risk of extensive long-term care costs. To fill this gap, a growing number of people are buying private long-term care insurance. By the end of 2001, a total of 8.3 million long-term care insurance policies had been purchased, up from 5.0 million five years earlier (see Figure 1). The Health Insurance Association of America (HIAA) estimates that about 7 in 10 of these policies were still in force in 2001, or about 5.8 million policies.<sup>1</sup>

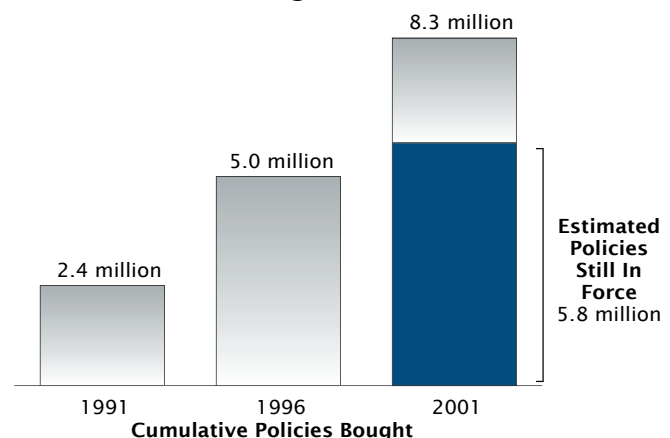
## What is a Long-Term Care Insurance Policy?

Long-term care insurance policies cover some or all of the services needed by people who cannot perform basic life tasks on their own. These may include personal care for needs like bathing, eating, and dressing; homemaker services for chores like cleaning, shopping, or cooking; physical, occupational, or other therapies to restore or maintain function; and respite care to relieve family caregivers. Policies sold today cover these services in some or all of a variety of settings, including nursing homes, assisted living facilities, and at home.

To qualify for benefits, policyholders must satisfy the policy's benefit "trigger"—in most current policies, an inability to perform a specified number of activities of daily living (ADLs), such as bathing and dressing. Policies that qualify for federal tax preferences trigger benefits when the insured person is unable to perform two of five ADLs specified by the policy (out of six possible ADLs) without substantial assistance, or requires substantial supervision because of cognitive impairments.<sup>2</sup> The six possible ADLs for tax-qualified policies are: bathing, dressing, using the toilet, continence, moving in and out of a bed or chair, and eating. Most policies sold today are tax-qualified, but some older policies, as well as policies that are not tax-qualified, may use different eligibility triggers.<sup>3</sup>

Most policies begin to pay benefits only after an "elimination period"—that is, a specified period of time (such as 90 days) after the triggering criteria are met. After the elimination period, policies may pay benefits for a predetermined period (such as three or four years) or an unlimited time. Some policies provide a maximum dollar amount of benefits rather than a maximum period of time.

Figure 1  
Long-Term Care Insurance Policies  
Ever Bought and In Force



SOURCE: S. Coronel, Long-Term Care Insurance in 2000-2001 (Washington, DC: Health Insurance Association of America, 2003).

Policies typically specify the maximum dollar amounts they will pay per day, week, or month for specific services—for example, up to \$100 per day for institutional or home-based services. Depending upon the terms of the policy, these dollar limits may increase to guard against the effects of inflation.

## How is Long-Term Care Insurance Purchased?

The majority of long-term care insurance policies are purchased by individuals from brokers, agents, or associations. An individual's ability to purchase a policy depends on satisfaction of an insurer's risk or "underwriting" criteria—for example, a determination that the applicant is not currently or soon likely to need covered services. In 2001, 24 percent of policies were purchased through employers; employers typically do not contribute toward the premiums for these policies.<sup>4</sup> Underwriting requirements are sometimes less restrictive for policies offered through employers.<sup>5</sup> In 2002, the federal government began offering long-term care insurance for employees, retirees and certain family members—about 20 million people in all.<sup>6</sup> As of February 13, 2003, 265,000 people had applied for coverage and more than 215,000 were expected to pass the underwriting screen and enroll.<sup>7</sup>

Private long-term care insurance is priced based on the assumption that a person will hold the same policy over several years, perhaps decades, before they may need long-term care.<sup>8</sup> In general, premiums are set with the expectation that they will remain the same in the future (although prices can increase under some circumstances). Under most policies, the benefits are fixed at the time of purchase. To change benefits later on, a person usually must buy a new policy, which will be priced according to their current age and may require underwriting.

The price of a long-term care insurance policy depends on its specific terms regarding scope and level of benefits, duration of the benefit period, length of the elimination period, and restrictiveness of the benefit trigger. Premiums also depend on whether the policy

increases benefit levels over time (inflation protection) and whether it provides some benefit if a policyholder stops paying premiums (nonforfeiture protection). A common type of nonforfeiture benefit is one that enables the person to receive the same type of benefits as they would if the policy were still in force, but for a shorter period of time.<sup>9</sup>

Prices also vary considerably with the age of the buyer when he or she first purchases the policy. For example, in 2001, for a policy providing a \$100 daily benefit for four years following a 20-day elimination period, the average annual premium for people age 65 was 2.5 times as much as it was for people age 50—\$996 compared with \$401 (see Figure 2). For people age 55 and older who bought individual long-term care insurance policies directly (that is, not through an employer) in 2000, the average premium was \$1,677.<sup>10</sup>

Although policies are sold as if premiums will remain the same over time, insurers reserve the right to increase premiums. State law may prohibit premium increases targeted to individual policyholders, but insurance companies are allowed to raise rates for all policyholders who bought the same policy if the premium is estimated to be inadequate to pay existing or future claims. HIAA reports that a majority of their member companies have not had to raise premiums.<sup>11</sup> However, policyholders cannot count on stable premiums.<sup>12</sup>

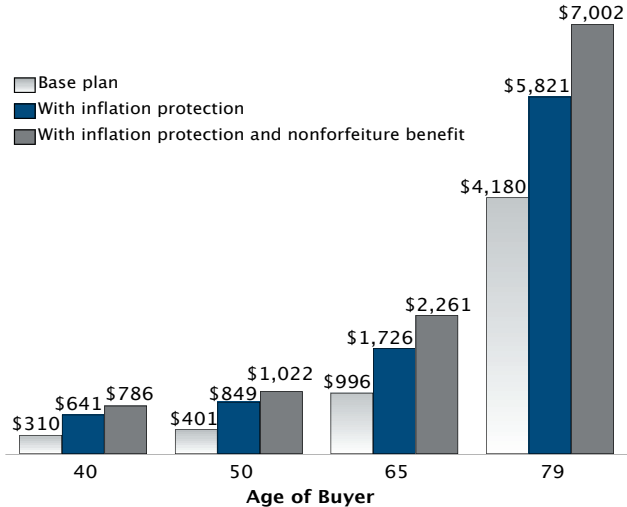
### What are the Policy Issues?

Considerable variation in the price and benefits of long-term care insurance policies present consumers with a tradeoff: they can have lower premiums on the one hand or broader protection on the other. Individuals may have difficulty deciding what policy design to choose (if any), especially in view of the various ways in which benefits can be designed and the long period likely to elapse between the initial purchase of a policy and the time when benefits may be needed. Policy initiatives aimed at improving and expanding insurance protection therefore raise a number of questions:

*Are marketing practices and regulatory arrangements sufficient to adequately inform and protect consumers in a complicated market?* The National Association of Insurance Commissioners (NAIC) has developed a model regulation to address these issues, but not all agree that its provisions offer sufficient protection and these provisions have not been adopted by all states.<sup>13</sup>

*Are all policy designs appropriate for all potential buyers?* For people with low incomes, both the value of the benefits and the challenge of sustaining premium payments over many years are of concern. Trying to address this concern, the NAIC model regulation requires insurers to analyze the suitability of long-term care insurance for prospective buyers based on their ability to pay for it.

Figure 2  
 Average Annual Premiums for Long-Term Care Insurance (2001)



NOTE: Base plan provides \$100 daily benefit for four years after a 20-day elimination period. Inflation protection increases benefit payments by 5% each year, compounded annually. Average premiums are based on data from eleven leading insurance companies, which represented 80% of all policies sold in 2001.  
 SOURCE: S. Coronel, *Long-Term Care Insurance in 2000-2001* (Washington, DC: Health Insurance Association of America, 2003).

*Are additional tax subsidies for current long-term care insurance products appropriate?* Proposals to expand preferred tax treatment for long-term care insurance are on the political agenda. Understanding who will (and will not) benefit from subsidies—and the kinds of products they will be supporting—is essential to constructive policy action.

### Notes

- <sup>1</sup> S. Coronel, *Long-Term Care Insurance in 2000-2001* (Washington, DC: Health Insurance Association of America, 2003).
- <sup>2</sup> National Association of Insurance Commissioners (NAIC), *A Shopper's Guide to Long-Term Care Insurance* (Kansas City, MO: NAIC, 1999).
- <sup>3</sup> S. Lewis, J. Wilkin, and M. Merlis, *Regulation of Private Long-Term Care Insurance: Implementation Experience and Key Issues* (Washington, DC: The Henry J. Kaiser Family Foundation, 2003).
- <sup>4</sup> Coronel.
- <sup>5</sup> B. Stucki and J. Mulvey, *Can Aging Baby Boomers Avoid the Nursing Home? Long-Term Care Insurance for "Aging in Place"* (Washington, DC: American Council of Life Insurers, 2000).
- <sup>6</sup> U.S. Office of Personnel Management, "Who Can Apply for this Insurance," available at <http://www.opm.gov/insure/ltc/index.asp>, retrieved on 9 May 2003.
- <sup>7</sup> Long Term Care Partners, LLC, *Federal Long Term Care Insurance Program Announces Open Season Preliminary Results*, Press Release, 13 February 2003, available at <http://www.opm.gov/insure/ltc/2003archive.asp>.
- <sup>8</sup> Lewis et al.
- <sup>9</sup> Coronel.
- <sup>10</sup> Lifeplans, Inc., *Who Buys Long-Term Care Insurance in 2000? A Decade of Study of Buyers and Nonbuyers* (Washington, DC: Health Insurance Association of America, 2000).
- <sup>11</sup> S. Coronel, presentation at the 2003 Joint Conference of the National Council on the Aging and the American Society on Aging, Chicago, IL, 13 March 2003).
- <sup>12</sup> See *Milkman v. Conseco Senior Health Insurance Company*, case no. 03775 (PA, 2000); and *Hanson v. Acceleration Life et al.*, case no. A3:97-152 (ND, 1999).
- <sup>13</sup> NAIC, *Long-Term Care Insurance Model Regulation* (Kansas City, MO: NAIC, 2000).



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