

Long-Term Care Insurance

Background

Relatively few older persons have private insurance that covers the cost of *long-term care*. Many common long-term care needs (e.g., bathing, dressing, and household chores) do not require skilled help and therefore are not generally covered by private health insurance policies or Medicare.

But without private insurance or public program coverage, the high cost of long-term care is unaffordable for most Americans. The average cost of a nursing home stay is more than \$67,000 per year and exceeds \$100,000 in some urban areas.¹ The base rate for assisted living facilities is over \$35,000 per year.² Hourly home care agency rates average \$37 for a licensed practical nurse and \$19 for a home health aide.³

As an alternative to public program coverage and direct payments for services, a market for private long-term care insurance (LTCI) has developed in recent years. However, its overall role is still limited: private insurance currently pays for about 7 percent of all long-term care costs.⁴

Who Buys Long-Term Care Insurance?

By 2005, roughly 7 million LTCI policies were in force in the United States.⁵ Most policies sold today (90 percent) cover services received in a range of settings, including institutions and at home. Typically, policies reimburse the insured for long-term care expenses up to a fixed amount, such as \$100 or \$150 per day.

To receive benefits, the insured must meet the policy's disability criteria. Nearly all policies define disability as either severe cognitive impairment or the need for help in performing at least two "activities of daily living" such as bathing and dressing.

In 2005, the typical purchaser was age 61 and had fairly substantial income and assets. Nearly half (49 percent) of purchasers had

incomes over \$75,000 per year and more than three-fourths (76 percent) had over \$100,000 in liquid assets. By comparison, only 30 percent of the general population age 50 and older had liquid assets in excess of \$100,000.⁶

Cost of Long-Term Care Insurance

The cost of LTCI is the reason that most people give for not purchasing it.⁷ Factors that affect the policy's premium include the individual's age at time of purchase, the amount of coverage, the length of any waiting period before benefits are paid, the stringency of benefit triggers, whether policyholders can retain a partial benefit if they let their policy lapse for any reason, including inability to pay ("nonforfeiture benefit"), and whether the policy's benefits are adjusted for inflation.

Table 1 shows the average annual premium for policies in 2005. On average, these policies provided a daily benefit of \$143, 5.5 years of coverage in home and institutional settings, and included some form of automatic inflation protection.

Table 1: Average Annual Premiums, 2005

Ages	Premium
All	\$1,973
55-64	\$1,877
65-69	\$2,003
70-74	\$2,341
75+	\$2,604

Source: National Clearinghouse for Long-Term Care Information

Private LTCI is priced differently from most other types of insurance. While health and life insurance policy premiums generally increase with age, most LTCI policies offer the purchaser a premium that will not increase as a result of individual circumstances, such as age or health condition. Insurance companies can, however, increase premiums for entire *classes* of individuals (e.g., all policy-holders age 75 or older) based on their experience in paying benefits.

Premium Rate Stability

An important issue for consumers is whether premiums will increase beyond what they can afford. In August 2000 the National Association of Insurance Commissioners (NAIC) adopted standards designed to help protect consumers whose premiums increased beyond a certain threshold. To date, 24 states have adopted this provision (see Table 2).⁸

Table 2: States That Have Adopted NAIC Premium Rate Stability Provisions

Arizona	Maryland	Pennsylvania
Colorado	Minnesota	South Dakota
Florida	Missouri	Tennessee
Idaho	New Mexico	Texas
Illinois	North Carolina	Utah
Iowa	North Dakota	Vermont
Kentucky	Ohio	Virginia
Maine	Oklahoma	Wisconsin

Source: ACLI

Premium stability depends largely on the accuracy of insurers' predictions regarding the cost and number of future claims, the return on investment income, and the number of people who will lapse their policies. If insurers miscalculate, premiums may need to be increased in order to pay claims.

Lapse Rates

There is some evidence that lapse rates for LTCI have been declining. One study reports total lapse rates of approximately 5 percent during 2002 – 2004.⁹ However, this average masks significant variations. During the first year of purchase, some 9 percent of buyers let their policies lapse.¹⁰ Lapse rates in the first year also are substantially higher among policies with lower benefits. For example, 16 percent of policies with a lifetime maximum benefit under \$100,000 were lapsed in the first year, compared to 8 percent of policies with a lifetime benefit over \$250,000.¹¹

Inflation Protection

Inflation protection is an important policy feature because the cost of long-term care has increased significantly over time. An individual who purchases LTCI in his or her 60s may not need benefits for 20 or more years. Without inflation protection, the value of the insurance benefits is likely to erode.

The best protection for buyers, especially those under age 70, is to purchase 5 percent automatic, compounded inflation protection. Even with this protection, a policy will cover, on average, just 70 percent of estimated lifetime nursing home costs. It will, however, cover more than 90 percent of typical home care or assisted living costs.¹² While most purchasers with incomes of \$75,000 or more buy inflation protection (86 percent), fewer than half of buyers with incomes below \$25,000 do so (44 percent).¹³

Tax Treatment

Nearly all policies sold today meet federal standards for favorable tax treatment. Individuals covered by such policies are allowed to deduct their premiums, up to a maximum limit that increases with age. For example, in 2006 someone age 40 or younger could deduct \$280 whereas taxpayers ages 71+ could deduct up to \$3,530. However, to qualify, the taxpayer must itemize deductions and have medical costs in excess of 7.5 percent of "adjusted gross income" – a standard that relatively few taxpayers meet.

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¹ MetLife Mature Market Institute. "The MetLife Market Survey of Nursing Home & Home Care Costs," September 2006.

² MetLife Mature Market Institute. "The MetLife Market Survey of Assisted Living Costs," October 2006.

³ MetLife Mature Market Institute. "The MetLife Market Survey of Nursing Home & Home Care Costs," April 2002 (nurses) and September 2006 (aides).

⁴ Georgetown University. "National Spending for Long-Term Care," February 2007.

⁵ AHIP. "Who Buys Long-Term Care Insurance?" April 2007.

⁶ Ibid.

⁷ Ibid.

⁸ ACLI. E-mail communication with Jerry Golden, May 21, 2007.

⁹ LIMRA International and the Society of Actuaries. "Long-Term Care Insurance Persistency Experience," 2006.

¹⁰ Ibid.

¹¹ Ibid.

¹² Cohen, Marc, *et.al.* "Inflation Protection and Long-Term, Care Insurance: Finding the Gold Standard of Adequacy," AARP: August 2002.

¹³ AHIP. "Who Buys Long-Term Care Insurance?" April 2007.