

Long-Term Care Insurance

Long-term care insurance (LTCI) plays a limited role in paying for overall long-term care spending. The high cost of LTCI premiums keeps most people from purchasing it. Yet, for those who own LTCI and receive benefits, the policies pay for a significant portion of care received.

Paying for Long-Term Care

Relatively few older persons have private insurance that covers the cost of *long-term care*. But without private insurance or public program coverage, the high cost of long-term care is unaffordable for most Americans.

The average private pay cost of a nursing home stay is about \$70,000 per year and exceeds \$100,000 in some states. The base rate for assisted living facilities averages \$34,000 per year. Hourly home care agency rates average \$46 for a Medicare-certified home health aide and \$19 for a licensed non-Medicare-certified home health aide.¹

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. Despite recent growth, its overall role is still limited: private insurance currently pays for about 7 percent of all long-term care costs.²

However, for those who own private LTCI and are receiving paid care, one study finds that these benefits pay a significant part of care (between 60 and 75 percent) at any given time.³

Who Buys Long-Term Care Insurance?

In 2005, roughly 7 million LTCI policies were in force in the United States.⁴ Most policies sold today (90 percent) cover services received in a range of settings, including nursing homes, assisted living facilities, and in the home. Typically, policies reimburse the insured for long-term care expenses up to a fixed amount, such as \$100 or \$150 per day.

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 \$100,000.⁵

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.

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According to a study that tracked selected LTCI claims between 2003 and 2007, the majority (at least 73 percent) of surveyed LTCI claims were for paid care at home or in an assisted living facility. The remaining claims were for care in a nursing home.⁶ A review of claims data show that the majority (61 percent) of new claims were for individuals aged 80 and over, and nearly two-thirds of claims (65 percent) were paid to women.⁷

Cost of Long-Term Care Insurance

The high cost of LTCI is the reason that most people give for not purchasing it.⁸ Factors that affect the policy's premium include the individual's age at time of purchase, the amount and length 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, by age at time of purchase, for policies sold by 3 leading LTC insurance carriers (Genworth, MetLife, and J. Hancock) in 2008.

Age	Premium
40	\$2,050
50	\$2,306
60	\$3,109
70	\$6,007

Source: Based on premium quotes reported in a 2009 Kaiser report "Closing the Long-Term Care Funding Gap: The Challenge of Private Long-Term Care Insurance".

These policies provided a daily benefit of \$150, 5 years of coverage in home and institutional settings, and included

5 percent automatic compound inflation protection and a 90-day elimination period.

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 from excessive or unjustifiable premiums increases.

To date, 36 states have adopted this provision (see Table 2).⁹

Arkansas	Kentucky	Ohio
Arizona	Louisiana	Oklahoma
California	Maine	Oregon
Colorado	Maryland	Pennsylvania
Delaware	Minnesota	Rhode Island
Dist. Columbia	Missouri	South Dakota
Florida	Montana	Tennessee
Georgia	New Hampshire	Texas
Idaho	New Jersey	Utah
Illinois	New Mexico	Vermont
Iowa	North Carolina	Virginia
Kansas	North Dakota	Wisconsin

Source: NAIC (2009)

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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 or if returns on investments are lower than expected, premiums may need to be increased in order to pay claims.

Given the decline in long-term interest rates as a result of the current economic recession, premium adjustments may be likely in the future. According to the American Association of Long-Term Care Insurance (AALTCI), every 1 percent decline in long-term interest rates could lead to a 10–15 percent increase in LTCI premiums.¹⁰

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 2002–2004.¹¹

However, this average masks significant variations. During the first year of purchase, some 9 percent of buyers let their policies lapse.¹² 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 \$250,000.¹³

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.¹⁴

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). Younger buyers—those under 55 years old—are also more likely to purchase inflation protection (87 percent) than older buyers. Only 39 percent of age 70–74 buyers and 19 percent of age 75 and over buyers purchased inflation protection.¹⁵

Tax Treatment

Nearly all policies sold today meet federal standards, specified by the Health Insurance Portability and Accountability Act (HIPAA) of 1996, 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 2009 someone age 40 or younger could deduct \$320 whereas taxpayers ages 71+ could deduct up to \$3,980.

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.¹⁶

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¹ Genworth Financial, “Genworth 2009 Cost of Care Survey,” April 2009.

² AARP Public Policy Institute calculations based on CMS, National Health Expenditure Data, 2007 and Brian Burwell, Kate Sredl, and Steve Eiken, “Medicaid Long Term Care Expenditures FY 2007,” Thomson Reuters, 2008.

³ ASPE, “Private Long-Term Care Insurance: Following an Admission Cohort over 28 Months to Track Claim Experience, Service Use and Transitions”, April 2008.

⁴ AHIP, “Who Buys Long-Term Care Insurance?” April 2007.

⁵ Ibid.

⁶ ASPE (2008). The survey tracked, over 28 months, 1,474 individuals with LTCI who notified their insurance company that they were receiving, or intended to receive, paid services for which they had, or planned to, file a claim. Thus, these results may not be representative of all LTCI policy holder experience.

⁷ AALTCI, “Long-Term Care Insurance Sales Strategies,” Volume 11, No. 1, Summer 2009.

⁸ AHIP, “Who Buys Long-Term Care Insurance?” April 2007.

⁹ NAIC, Compendium of State laws on Insurance Topics, Updated February, 2009.

¹⁰ AALTCI, “Long Term Care Insurance Sourcebook,” 2009.

¹¹ LIMRA International and the Society of Actuaries, “Long-Term Care Insurance Persistency Experience,” 2006.

¹² Ibid.

¹³ Ibid.

¹⁴ Cohen, Marc, *et al.*, “Inflation Protection and Long-Term, Care Insurance: Finding the Gold Standard of Adequacy,” AARP: August 2002.

¹⁵ AHIP, “Who Buys Long-Term Care Insurance?” April 2007.

¹⁶ IRS Bulletin 2008-45, November, 2008.

Fact Sheet 159, July, 2009

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