



Testimony before the
House Aging and Older Services Committee:
"Long-Term Care Insurance"

Presented by:
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Good morning. My name is Joel Ario and I am Pennsylvania's Insurance Commissioner. Thank you for this opportunity to talk with you today about long-term care insurance. My goal this afternoon is to address some frequently asked questions about this product, and to offer some helpful tips for consumers to consider when purchasing a long-term care policy.

What is long-term care insurance?

Long-term care (LTC) insurance is an insurance policy that is provided by private health insurance companies to help cover major expenses for long-term care.

Long term care insurance policies have been in existence for several decades. Shortly after Medicare was enacted in 1965, long term care insurance was introduced. Long term care insurance policies were similar to that of Medicare's requirements, however, they limited the coverage to individuals who needed to be placed in a Medicare-certified facility after spending time in a hospital. While originally LTC policies covered the cost of skilled nursing home care, offered limited benefits for home care and paid nothing for assisted living, most policies sold today also cover the costs of home-care services as well as assisted-living facilities. Even so, individuals with older LTC policies may find that their policies are less flexible than newer policies and do not cover the type of or extent of care they may get in a LTC facility today.

Today's long-term care insurance covers both facility-based care and home care. The majority of policies available to consumers pay up to a set dollar amount per day or up to a percentage of the actual expenses for care. No policy provides blanket coverage for all expenses.

What services are covered, etc?

Long term care insurance will provide assistance for someone who can't perform activities of daily living. Long term care health insurance policies generally cover:

- Assistance with daily activities: bathing, dressing, eating, toileting, continence, transferring.
- Skilled care: at home, adult day care center, assisted living facility, or nursing home.

A LTC policy will include all these services:

- Skilled Nursing Care
- Intermediate Care
- Custodial Care
- Home Health Care
- Adult Day Care

Most policies offer basic features such as:

- A daily benefit ranging from \$50 to \$250 per day.

- An elimination period (period before benefits begin) typically ranging from zero to 180 days.
- A maximum benefit period (pay-out period) ranging from one year to lifetime.

For example: You might select a plan that pays \$150 per day, benefits to begin after 30 days and a benefit pay-out period of three years.

Who does long-term care insurance make sense for?

Most financial planners suggest that individuals buy a LTC policy in their mid-50s or early 60s. The idea is to buy a policy before it is needed.

Age affects the cost of the long term care insurance policy. Younger people with good health have more attractive rates.

Based on 2007 figures from the American Association for Long-Term Care Insurance, the average price for a comprehensive long-term care insurance policy with a 100% home care benefit plus skilled care coverage, 90-day elimination period, and compound inflation protection option purchased at age 55 was \$1,075 per year.

The premium, discounted for preferred health status, provides a \$100 maximum daily benefit with a three-year benefit period.

The same coverage obtained for an individual with standard health at age 65 was \$1,923. It's important to note, however, that a policy purchased 10 years later with the identical \$100 maximum daily benefit would buy considerably less in terms of healthcare services and associated costs.

There is no one rule to determine who should buy Long Term Health Insurance. The decision is based on an individual's long term care needs and several factors:

- **Age -- mid 50's or early 60's**
As a person ages, there is an increased risk for health issues that may make the individual ineligible for long term care insurance.
- **Income & personal assets**
The National Council on Aging suggests:
 - Those persons with at least \$75,000 of assets (excluding home & auto) and a retirement income of at least \$35,000/year should consider Long Term Care insurance.
 - No one should buy a policy if they can't afford the premiums.
 - If you have \$1million+ in assets you may want to consult insurance specialists or a financial advisor to determine if you need insurance coverage.

Consumer Reports suggests that individuals skip long-term care coverage when:

- An individual's net worth is less than \$200,000, because they would soon be eligible for Medicaid should you need long-term care.
 - An individual's net worth exceeds \$1.5 million, because you can afford to pay for that care yourself.
 - An individual can't afford the premiums, or won't be able to do so in the future should a sharp increase in premiums occur.
- **Personal health or family's medical history.**
Does the individual have a family history of longevity or a chronic disease?
 - **Marital status**
A single individual may not be able to cover the cost of long term care, and long term care insurance may be the right choice.
Married individuals may be unable to cover the costs for long term care without being a financial burden to their spouse and long term health insurance may be right for you.
 - **Retirement planning:** retirement goals, desire to stay independent, and not to burden children.

Not everyone should buy a long-term care insurance policy, and purchasing the policy is a personal decision.

Act 40 of 2007 - Pennsylvania Long-Term Care Partnership.

This act established the Pennsylvania Long-Term Care Partnership. Long-term care insurance helps individuals prepare for future long-term care needs. Qualified Partnership Policies provide an additional level of protection.

The purpose of the program is to reduce future Medicaid costs for long-term care by delaying or eliminating dependence on Medicaid by providing incentives for individuals to ensure against the potentially substantial costs that arise upon the need for long-term care.

The new law contains:

- strong consumer protections,
- a requirement that all long term care policies in Pennsylvania offer comprehensive coverage,
- the ability to exchange existing policies for partnership policies
- an increase from \$100,000 to \$300,000 in guarantee fund limits to protect consumers against loss if an insurance company becomes insolvent.

The Long Term Care Partnership encourages Pennsylvanians to purchase long term care insurance by providing asset coverage equal to the benefits paid by the policy.

For example, a person whose qualifying policy paid for \$100,000 of care would be entitled to keep \$100,000 in assets if they need to apply for Medical Assistance in the future.

How is the Long Term Care Insurance industry regulated? What oversight does the Commonwealth have?

Insurance Department regulates the requirements which group and individual Long Term Care insurance must meet. Act 159 of 1996 provides the Department with the authority to review group and individual LTC policy forms and the rates charged for individual LTC policies.

Pennsylvania Insurance Law 40 P.S. s 991.1101, 1105 and 1112 also enable the Department to promulgate regulations pertaining to LTC policies as well as marketing and producer oversight.

What pitfalls, etc. should consumers watch out for?

Not understanding your need for long term care protection and the sources of care available to you.

Failure to comparison shop and research the Company

Beware of excessively low-priced policies and make sure you can afford to pay the premiums every year. Remember that companies can increase premiums in the future, though rate regulation has been strengthened to make the need for increases less likely with new policies.

Don't underestimate your life expectancy. Consider the proper amount of coverage to the extent you can afford it.

Consider what inflation will do to your benefit over a long period of time and consider inflation protection that is available to maintain your coverage.

Policy definitions dictate which type of care the insured is eligible for and where and by whom it can be administered – read them carefully and be sure to understand them before you purchase any coverage.

Understand what you are purchasing – ask questions or seek professional assistance before you purchase.

Consider what elimination periods to select and the associated costs that you will incur before benefits are payable.

Understand the benefit triggers that are required to be satisfied before you are able to access the benefit coverage.

Understand the difference between a tax-qualified long-term care policy and a non-tax qualified policy.

Understand that only tax-qualified long-term care policies will qualify as long-term care partnership policies.

When purchasing long term care insurance, individuals must make decisions on each of the following long term care insurance policy features. Individuals should design a policy to best suits their needs and budget.

Daily/Monthly Benefit Limit - most long term care insurance pays benefits by the day or month. The benefits usually range from \$50 to \$250 per day, or \$1,500 to \$7,500 per month.

Benefit Period - long term care insurance allows the insured to choose the benefit length. It is usually 2,3 or 5 years for at home nursing assistance or a lifetime benefit for long term nursing home assistance.

Home Health Coverage - most qualified long term care insurance policies will cover home health assistance, or assistance received in assisted living facilities or adult daycare center.

When Benefits Start - most policies include an elimination period or waiting period before benefit payments begin. Waiting periods can range from 30 to 365 days from the time the assistance begins. Some policies require a second elimination period for a second stay. The waiting period should be no longer than six months and should match your emergency savings to cover costs while waiting during the elimination period.

Inflation Protection - this option increases your daily benefit to keep pace with rising health care costs. Without inflation protection, you would be forced to pay the extra health care costs personally.

(Tip: Inflation protection is one of the most costly, yet most valuable additions to your insurance policy)

Cash Value - some life insurance policies combine the benefits of cash value and death benefit along with long term care insurance protection. Traditional long term care insurance, like automobile insurance, does not provide a cash value benefit.

Waiver of Premium - some long term care allows you to stop paying future premiums once the policyholder is on a claim.

Nonforfeiture Benefits - many long term care policies provide a return of some or all premiums (tax-qualified polices can not offer a full return), or the chance to acquire a reduced paid-up policy if you drop the policy.

Renewable - virtually all personal insurance policies are guaranteed renewable. As long as you pay the premium on time, your policy cannot be cancelled.