



Testimony before the
Senate Banking and Insurance Committee:
"Long-Term Care Partnership"

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Good morning. My name is Joel Ario and I am Pennsylvania's Insurance Commissioner. Thank you for the 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 insurance is an insurance policy that is provided by private health insurance companies to help cover major expenses for long-term care. 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. Typically, policies reimburse the consumer for expenses up to a fixed amount, such as \$100 or \$150 per day.

What services are covered, etc?

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 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 per year. It's important to note, however, that a policy purchased 10 years later (at age 75) 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 care 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 and personal assets**

The National Council on Aging suggests:

 - Those persons with at least \$75,000 of assets (excluding home and auto) and a retirement income of at least \$35,000/year should consider LTC insurance.
 - No one should buy a policy if they can't afford the premiums.
 - If you have \$1 million+ in assets you may want to consult insurance specialists or a financial advisor to determine your need for LTC insurance.
- **Consumer Reports** suggest that individuals skip LTC insurance when:
 - An individual's net worth is less than \$200,000 because the individual would soon be eligible for Medicaid should he/she need long-term care.
 - An individual's net worth exceeds \$1.5 million, because the individual could pay for such care.
 - An individual can't afford the premiums or won't be able to do so in the future should a large premium rate increase occur.
- **Personal health or family's medical history** – does the individual have a family history of longevity or chronic disease?
- **Marital status**
 - A single individual may not be able to cover the costs of long-term care and LTC 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 LTC insurance may be the right choice.
- **Retirement planning** – retirement goals, desire to stay independent, and not to burden children.

Not everyone should buy a LTC insurance policy, and purchasing the policy is a person decision.

Who buys long-term care insurance?

In 2005, the typical purchaser of LTC insurance was age 61 and nearly half of those purchasers had incomes over \$75,000 per year and 76 percent had over \$100,000 in liquid assets. (By comparison, only 30% of the general population age 50 and older have liquid assets in excess of \$100,000). The cost of LTC insurance is the reason most people give for not purchasing it. Factors that affect the premium rates include the individual's age at time of purchase, the amount of coverage, the length of waiting periods before benefits are paid, the stringency of benefit triggers, non-forfeiture benefits, and inflation protection.

What is the Pennsylvania Long-Term Care Partnership? Act 40 of 2007

The purpose of the long-term care partnership 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 program was developed to encourage people who might otherwise turn to Medicaid to finance their long-term care to purchase LTC insurance. If people who purchase qualifying policies deplete their insurance benefits, they may then retain a specified amount of assets and still qualify for Medicaid, *provided they meet all other Medicaid eligibility criteria*

The new law contains:

- strong consumer protections, including inflation protection
- a requirement that all long term care policies in Pennsylvania offer comprehensive coverage,
- the ability to exchange existing policies for partnership policies
- an increase in the guarantee fund 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 many people in Pennsylvania have Long Term Care Insurance?

In 2008:

Thirty-seven companies have long term care insurance policies approved for sale in Pennsylvania.

- 167,765 individuals are covered under individual long-term care policies
- 16,774 individuals are covered under individual franchise¹ long-term care policies
- 68,012 individuals are covered under group long term care policies

Nine of these companies have qualified long term care partnership policies approved for sale in Pennsylvania.

- 158 individuals are covered under qualified long term care partnership policies
- It is unknown how many people are converting to partnership policies. Companies have only recently begun offering to exchange existing long term care policies; therefore those results are unknown at this time.
- It is unknown if the Partnership has increased LTC sales. The Department does not have specific information regarding specific increases in LTC sales as a direct result of the introduction of the Partnership. This information will be obtained from the companies in the future.

How many people nationwide have Long Term Care Insurance?

In 2007:

Roughly 7 million individuals are covered under long-term care policies. Fewer than 10% of American 65 years old and over have LTC insurance.

Age at time of Purchase:

- 35-44 (5%)
- 45-54 (24%)
- 55-64 (53%)

Largest LTC companies by market share:

- Genworth is #1 with 1,027,219 lives
- Followed by John Hancock with 823,172 lives

How is this industry regulated? What oversight does the Commonwealth have?

The Insurance Department regulates the requirements which group and individual Long Term Care Insurance must meet. Act 159 of 1996 provides the Department with the

¹ **Franchise Insurance** pertains to individual insurance policy forms sold to individuals who are employees or members of an association. The employer or member's association agrees to collect the premiums (sometimes through payroll deductions), and remits the premium to the insurer on behalf of the entire group of individual participants. Because the coverage is solicited normally at the work site or through the association and the employer or association remits the premium, these economies of marketing result in applicable discounts enjoyed by the purchaser. Pennsylvania Insurance Law defines a Franchise Plan under 40 P.S. 756.4

authority to review group and individual LTC policy forms and the rates charged for individual LTC policies.

Pennsylvania Insurance Law 40 P.S. §§ 991.1101, 1105 and 1112 also enable the Department to promulgate regulations pertaining to LTC policies including rate stability requirements. 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.

However, please note that all requests for rate increases must be submitted to the Department. Along with such requests, companies must submit detailed information about cost trends of claims, inflation as it applies to claims, and claims paid on those policies for a period of up to 30 years. The Department then reviews the information before approving any rate increase.

As part of the review and approval process of a LTC policy rate increase, the Department may require the company to offer mitigation options including offering consumers the option of reducing their daily benefit, increasing the number of days a person receives long term care services before the policy begins to pay for those services, decreasing the maximum benefit period, or dropping any inflation riders which increase the maximum daily benefit over time to offset higher costs associated with inflation. Any such requirements to offer options could be imposed with the specific intent to reduce the level of the rate increases for the consumer.

When large rate increases are actuarially supported, we may require the company to spread the increase out over a number of years as an additional mitigation option. We consistently work toward the goal of only approving the lowest rate that can be actuarially supported by the data submitted by the insurance companies.

So, while the Insurance Department is reluctant to approve rate increases, it will do so only when it is clear that the increase is necessary. Moreover, it is one of the Department's prime objectives to enforce all insurance laws to ensure that (1) the public is adequately protected and treated fairly and (2) insurance companies remain solvent and able to pay their claims.

What is the Department doing about long-term care premium rates?

Concerns in both Pennsylvania and nationally regarding the premium rates and rate increases for LTC policies led the Department to adopt revised LTC regulations in March 2002. The regulations require specific consumer disclosures including an insurer's past LTC policy rate increase history and the possibility for the policy to have future rate increases.

Let me briefly describe the origins of some of the problems with LTC insurance rate increases. When insurers began offering LTC insurance, they made a series of faulty

assumptions about the long term cost of providing the coverage that resulted in underpricing. Regulators initially accepted those assumptions since we did not have any evidence to contest the rates set by insurers, and our authority does not allow us to reject insurer filings without evidence to rebut their proposed rates.

Unfortunately, the mistakes made by insurers became apparent in the late 1990s when insurers began seeking large rate increases on policies that were sold with the expectation that rates would remain stable. This was a serious problem since the industry's primary selling point to younger purchasers for purchasing LTC insurance at an early age was precisely to avoid the much larger premiums that would be charged to those who purchased policies at an older age.

Regulators responded in several ways. First, regulators were forced into the difficult position of either granting large rate increases or letting companies become insolvent. In some cases, the latter choice may be preferable for consumers, especially now that Pennsylvania has raised the limits of LTC coverage under the guaranty fund from \$100,000 to \$300,000. However, in most cases, the better choice will be to grant some portion of the rate increase, perhaps stretching it out over several years. We also required insurers seeking large rate increases to offer options to the policyholder.

What pitfalls, etc. should consumers watch out for?

The following is a checklist of things to be carefully considered by consumers when purchasing LTC coverage:

- * Understand your need for long term care protection and the sources of care available to you.
- * Comparison shop and research the insurance 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.
- * 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.
- * Understand the elimination period you select and the associated costs that you will incur before benefits become 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, make decisions on each of the following long term care insurance policy features and design a policy that best suits your 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. (Tip: Purchase a long term care insurance policy where no hospitalization is required)

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.

Non-forfeiture Benefits - many long term care policies provide a return of some or all premiums (tax-qualified policies 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, the term of your policy cannot be cancelled.