AMERICAN COUNCIL OF LIFE INSURERS

# LONG-TERM CARE INSURANCE

## A Plan for the Road Ahead

### A GUIDE TO UNDERSTANDING LONG-TERM CARE INSURANCE



American Council of Life Insurers
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# INTRODUCTION

Long-term care is deeply personal. That's because many of us will help loved ones as they transition from living independently to needing assistance later in their lives. And most of us will require some sort of long-term care ourselves, whether it's occasional in-home help or help in an assisted living facility or nursing home. In fact, someone turning age 65 today has almost a 70 percent chance of needing some type of long-term care services and supports in their later years.



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While no one can predict what the future will hold, long-term care insurance helps people prepare for the road ahead. This guide explains long-term care insurance, including, how it works, the types of policies available, and policy pricing. Understanding long-term care insurance equips policymakers, and others working to support families and caregivers, with the knowledge needed to meet Americans' growing long-term care needs.

Note: This guide contains links to additional resources and articles. View the report in full and access all links at acli.com.

# ADDRESSING AMERICANS' LONG-TERM CARE NEEDS



More and more Americans recognize the need to save for retirement. But too few are addressing their potential long-term care (LTC) needs, which is a major threat to their financial and retirement security. LTC insurance protects retirement savings by helping policyholders afford the growing cost of this essential form of care.

- **Almost 70 percent** of Americans age 65 and over will require LTC services at some point in their lives.
- American men who turn 65 in the next few years will spend, on average, **$142,000** on LTC needs, such as help with bathing and eating, and can expect to need an average **2.3 years of care.**
- American women who turn 65 in the next few years will spend even more, **$176,000**, and can expect to need an **average 3.2 years of LTC.**
- An unexpected need for LTC can wipe out a lifetime of retirement savings. It also places pressures on family members who may need to take time away from work, and therefore lose essential earnings and retirement savings, to care for a family member.



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**LTC insurance can cover the costs of LTC services and protect lifetime savings.** It helps people to maintain financial independence and the dignity of choice by covering a wide range of services in a variety of settings.

- LTC insurance **helps cover the costs of a nursing home, assisted living, or at-home care.** It is available in a range of prices and benefits based on the insurance company, an applicant's age, gender, health, and other factors.
- The coronavirus pandemic has highlighted the benefits and popularity of at-home care. Though home care can be expensive at approximately $5,000/month, LTC insurance can defray all or part of the cost.
- About **4.9 million LTC insurance policies** protected American families in 2021.
- LTC insurers paid out more than **$10.9 billion in total LTC insurance claims** in 2021 alone.

**$10.9B**

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**One distinguishing feature of private LTC insurance is that an individual who obtains coverage will always have it so long as premium payments are made.**

- A policyholder never has to worry that declining health will lead to policy cancellation or an increase in premiums. If premium increases are ever necessary, they would be imposed on all policyholders within the same group of policyholders or "class of business."
- Private LTC insurance is portable. Policyholders do not lose coverage if they purchase coverage in one state and relocate to another, as seniors often do in retirement.
- People who have LTC insurance report less stress and lower out-of-pocket costs.
- Companies that offer LTC insurance must be licensed with the ability to make good on promised benefits. All policies are approved by state insurance regulators before they are sold. A simple Internet search will yield lists of companies offering coverage, such as one from the American Association of Long-Term Care Insurance.

People who have LTC insurance report less stress and lower out-of-pocket costs.

# LONG-TERM CARE INSURANCE BASICS: BENEFITS, PRICING, AND RESERVING



Long-term care (LTC) insurance is a form of financial protection that helps people pay for LTC services. LTC insurance covers a wide range of services in a variety of settings — at home, in an assisted living facility, or in a nursing home. It enables people to maintain financial independence and the dignity of choice if they become chronically ill.

Under most LTC insurance policies, benefits are paid when the policyholder is unable to perform two or more activities of daily living such as eating, dressing, bathing, toileting, transferring or moving around, or when they become cognitively impaired. People who have LTC insurance report less stress and lower out-of-pocket costs than those who don't.

## BENEFITS

Unlike a life insurance policy, where benefits are available in a lump sum, benefits from LTC insurance policies ordinarily are paid monthly, based on a pre-set maximum benefit stated in the policy, such as $100, $200, or $300 per day. The daily benefit amount can increase if inflation protection is purchased, which automatically boosts benefits to keep up with the rising costs of care.

Typically, LTC insurance benefits begin between 60 and 180 days after the policyholder becomes chronically ill. This "elimination period" is stated in the policy. During this period, the consumer pays expenses out of pocket. A shorter elimination period costs more than a longer elimination period. Once the elimination period ends, LTC insurers pay benefits for the duration of the benefit period stated in the policy and for as long as the policyholder is physically or cognitively qualified. A benefit period typically ranges anywhere between two and five years. Once a benefit period ends, the policy no longer pays benefits. A shorter benefit period will cost less than a longer benefit period.

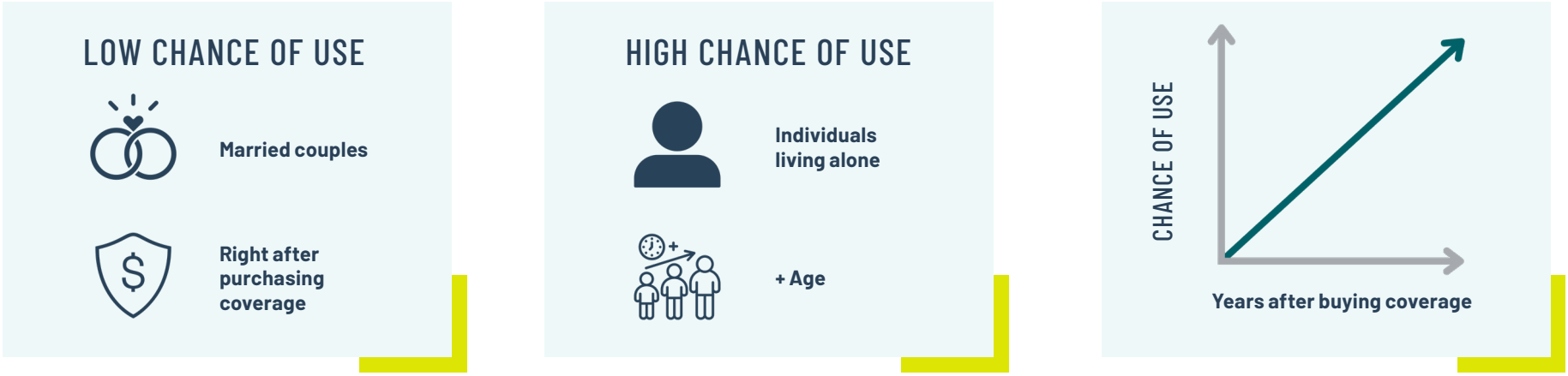
# PRICING

Like other insurance products, LTC insurance pricing is based, among other things, on the likelihood that the policyholder will use benefits. The likelihood of using benefits is not the same for everyone:

- An older person is more likely to use benefits than a younger person;
- A person in poor health is more likely to use benefits than a person in good health; and
- A person living alone is more likely to use benefits than a person who does not live alone.

The process of establishing a policyholder's likelihood of using benefits is called underwriting. When underwriting a policy, LTC insurers take a holistic view of a variety of factors, including a person's age, health history and lifestyle. The likelihood that a policyholder will use benefits is lower just after buying coverage but increases over time.

## CHANCE OF USING BENEFITS




In addition to determining the likelihood of using benefits, insurers consider other factors when pricing a policy, including the amount, timing and duration of benefits allowed under the policy.

## RESERVE ACCOUNT

LTC insurance is priced as a level premium product. This means that, unlike the likelihood of using benefits, premiums are not expected to increase over time.

In the early years of the policy, the premium collected is more than what is expected to pay claims. Insurers must set aside this excess in a reserve account, which is used in later years when the amount expected to be paid in claims exceeds premiums collected.

The reserve account is collectively held for all policyholders but is only used to pay for the benefits of those who both continuously pay their policy premiums and become chronically ill.




## PEACE OF MIND, SECURITY, AND INDEPENDENCE

Vernon Duckett and his wife, Helen, purchased a long-term care policy in their sixties. When Helen was diagnosed with Alzheimer's disease in her seventies, their long-term care policy paid for an adult daycare center for a few hours a day, and later, after the disease had progressed, a private nursing home. Vernon calls their long-term care insurance a "blessing" because it allowed him to afford the best possible care for his wife before she died at age 82. "This long-term care policy has given me peace of mind, security, and independence," he says. Long-term care insurance is a valuable and prudent tool for people preparing for the potential cost of long-term care.

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Vernon Duckett

# LONG-TERM CARE INSURANCE BASICS: PREMIUM RATE INCREASES



While long-term care (LTC) insurance is priced with the intent that premiums will remain level, rate increases are sometimes needed to ensure benefits will be available when claims are made.

## SETTING PREMIUMS

Like all insurance products, premiums for LTC products must be actuarially sound. This means that premiums, plus the reserve account, must be sufficient to cover benefits and expenses.



Premiums and the reserve account **FUND** future benefits and expenses.

LTC policies can have a life of 30, 40, even 50 years. When a policy is initially priced, a level premium is determined based on actuarial assumptions regarding mortality, the number of people expected to maintain their policies, the number of people who use LTC benefits, and interest earnings, among other assumptions. When many policies were initially sold in the 1970s, data on which assumptions were based was limited. For example, assumptions on the lapse rate, which is the likelihood a person will drop their policy before needing LTC benefits, has been much lower than original data indicated. This demonstrates how much people value LTC insurance but also means that more people will use LTC benefits than expected.

**LTC policies can have a life of 30, 40, even 50 years.**



Expected future benefits **OUTWEIGH** expected future premiums and the reserve account. There will not be enough money to fund benefit payments.

As a result, insurers have had to modify assumptions over the years to align with actual experience. When an insurer's assumptions are not in line with actual experience, premiums need to increase to ensure all policyholder claims can be paid.



Premium rate increases **RESTORE** balance. There's now enough money to fund benefit payments.

Fortunately, as experience develops and prediction technology improves, insurers are able to more accurately price new policies, making rate increase to them far less likely, and of a lesser magnitude. Moreover, some LTC policies, especially those combined with life insurance, have a guaranteed premium amount that cannot increase.

## PROTECTING RETIREMENT SAVINGS

LTC insurance protects families from the catastrophic costs of LTC. Felipe and Lissete Montes de Oca purchased LTC insurance to help ensure the financial security of their two young sons. Their decision to purchase LTC insurance protected their family when Felipe developed leukemia. Felipe required aggressive medical treatments and expensive round-the-clock care. Fortunately, their LTC insurance paid for Felipe's LTC. They did not need to tap into their savings or retirement funds.

For the Montes de Oca family, and many others, LTC insurance contributes to a secure financial future despite life's challenges.

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Lissete and her sons, Felipe, Jr. and Lucas

# LONG-TERM CARE INSURANCE COMBINATION PRODUCTS



Many people today are turning to "combination products," also known as "hybrid products," to provide life insurance death benefits to loved ones while also preparing for possible long-term care (LTC) needs. LTC coverage is provided through the addition of a "rider" to the life insurance policy or annuity.

Life insurance-based combination products allow policyholders to accelerate and access some, or all, of the policy's death benefit to help pay for LTC costs. If LTC services are not needed, the policy's death benefit is paid to beneficiaries when the policyholder dies. LTC rider premiums can be paid as part of the life insurance premium, or separately, depending on the product. Many combination products have guaranteed premiums — so policyholders will never face a future premium rate increase. Combination products are varied and flexible, allowing consumers to personalize coverage to address their individual circumstances.

## BENEFIT TRIGGERS AND KEY FEATURES

To access LTC benefits in a combination product, a physician must certify a policyholder is chronically ill, which means the policyholder is unable to perform two or more activities of daily living — or suffers severe cognitive impairment. Benefits typically begin at least 90 days after the policyholder becomes chronically ill. Also:

- Benefits are tax free, subject to IRS limits; and
- Combination products are regulated similar to traditional LTC policies and are afforded strict consumer protection oversight.

## BENEFIT AMOUNT

The maximum monthly LTC benefit in a combination product is based on what the policyholder chooses at the time of purchase.

- A LTC benefit amount is typically determined by either a percentage, usually two to four percent of the death benefit, and is paid over a two to three-year period.
- Using the LTC benefits in a combination product reduces the policy's account value and/or death benefit.

## LTC RIDER OPTIONS

Combination products can be tailored to a policyholder in many ways. In addition to early access to the death benefit to pay for LTC, they might also offer:

- Cash value access rider — the cash value in the life insurance portion of the policy can be spent on LTC services, up to a specified amount.
- Inflation rider — the LTC benefit increases in the future to account for the rising costs of LTC services.
- Reimbursement plan rider — reimburses actual LTC costs as opposed to a pre-set benefit amount.
- Indemnity plan rider — monthly LTC benefits are paid without regard for actual LTC expenses.
- Extension of benefit rider — LTC benefit payments continue for a pre-determined duration, even after the death benefit has been spent.
- Spousal benefit rider — LTC benefits are made available to the policyholder's spouse, if needed.





## TAILORED TO FIT THE NEED

People have numerous choices to customize combination products for their own needs. Here's a hypothetical example:



**Janis buys a $200,000 life insurance policy along with a LTC rider that lets her access 2.5 percent of the death benefit to pay for LTC services, if needed.**




**Janis needs LTC services for 24 months.**

**Under this policy, Janis receives $5,000 per month for LTC services.**




**In total, $120,000 of Janis' $200,000 death benefit went toward LTC services.**




**When Janis dies, the remaining $80,000 is paid out as a death benefit to the beneficiary.**

## COMBINATION PRODUCTS

Combination products are growing in popularity and make up the majority of LTC insurance sold today, ACLI analysis of NAIC data finds. According to a January 2021 LIMRA study, the number of Americans who said it was very likely they would consider a life combination product if they were shopping for life insurance is 50 percent higher than in 2019. Combination products offer adaptable solutions and financial security as Americans protect their families and prepare for future challenges.

Combination products offer adaptable solutions and financial security as Americans protect their families and prepare for future challenges.

# LONG-TERM CARE INSURANCE: MEDICARE AND MEDICAID

The rising costs of long-term care (LTC) endanger Americans' financial and retirement security. Considering the median cost for a one-year stay in a private nursing home room is $108,408, and the median cost of a home health aide is $61,776 a year, private LTC insurance is an invaluable tool to protect against catastrophic LTC costs.

## ABOUT MEDICARE AND MEDICAID

Medicare is a federal health insurance program primarily for people age 65 and older. Many people mistakenly believe that the program will help cover their LTC costs. However, Medicare only provides skilled nursing home care for a short time following hospitalization. It also limits help at home to those who need skilled nursing care and rehabilitative therapy.

Medicaid is the federal-state health insurance program for low-income individuals. Middle-income individuals may qualify for LTC under Medicaid, but only after spending down most of their financial assets. To be eligible, a household must meet strict Medicaid rules regarding income, assets, and depletion of life savings.

A Penn Wharton projection of Medicaid's LTC expenditures found both nursing home and home health care costs rising 4.7 percent and 6.9 percent above inflation through 2030. This will further burden Medicaid, hindering the program's ability to address other medical needs of low-income individuals.

## A BURDEN RELIEVED

Joe and Theresa Mollicone are a prime example of the benefits of private LTC insurance. Less than six months after they purchased LTC policies, Joe suffered a massive stroke that left him paralyzed on the left side of his body. Their LTC insurance has covered Joe's home care needs. "If we didn't have this insurance, caring for Joe would have depleted all the savings we had," Theresa says. "Now I'm not afraid of running out of money."

Private LTC insurance meets the LTC needs of Americans where Medicaid and Medicare do not.



Theresa Mollicone

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# EXPAND PROTECTION THROUGH PUBLIC-PRIVATE COLLABORATION



Lawmakers throughout the nation recognize Americans' growing need for long-term care (LTC) services. Washington state attempted to address some of these needs with its Washington Cares program. But, as reported by The Seattle Times in January 2022, the program struggled with an array of structural problems. As a result, the payroll tax that would fund the Washington Cares program is now delayed until July 2023 to give lawmakers time to assess widespread concerns.

**Policymakers in Washington and across the nation should leverage the capabilities that exist in the private sector before developing a public LTC program.**

Both public programs and private LTC policies play important roles in providing LTC services. A public LTC program that is structured to integrate with private LTC solutions means more consumers will get the personalized coverage they need. For example, Washington Cares allowed consumers to permanently opt out of the program and the associated payroll tax if they obtained private coverage, which typically has far more robust benefits. Tens of thousands sought and obtained the tax exemption by buying private policies.

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However, before the program was paused, the Washington Cares exemption did not require periodic proof of private coverage to maintain the exemption. This means that consumers can acquire private insurance to qualify for the permanent exemption, but then drop their private policy, leaving them with no LTC coverage, public or private. A solution to this problem is an ongoing integration of Washington Cares with the private sector to require recurring proof that those who obtained an exemption keep their private LTC coverage to remain eligible for the exemption.

**Individuals should be educated about LTC and encouraged to plan for their own LTC needs.**

Benefits provided under Washington Cares are modest. Cost of care research shows that in Washington state, a year of home care costs over $75,000; an assisted living facility costs about $72,000; and a semi-private nursing home costs more than $113,000. With LTC needs averaging two to three years, Washington Cares' maximum benefit of $36,500 is only a partial solution. Without knowing the true cost of care, many state taxpayers could mistakenly think the program would address all their potential LTC needs. In addition, under the plan as currently structured, Washingtonians who pay into the program will lose coverage if they relocate out of state. The lack of portability in the program means retired workers who move outside Washington would get nothing in return for their tax dollars. States should empower consumers, prioritizing education for their residents about state program limits and the true cost of LTC.

Fortunately, important lessons are being learned in Washington. While Washington Cares has been paused, lawmakers have consulted with the private industry and several improvements have been made. For example, now near-retirees earn partial benefits for each year they work, and workers who live out of state, military spouses, workers on non-immigrant visas, and veterans with 70 percent+ disability can all opt out if they choose. Even more improvements are currently being considered. LTC insurers stand ready to partner with lawmakers to help consumers in Washington, and across the nation, receive LTC when they need it.

**States should empower consumers, prioritizing education for their residents about state program limits and the true cost of LTC.**



# LONG-TERM CARE INSURANCE BUILDS AMERICANS' FINANCIAL SECURITY

Insurers stand ready to partner with federal and state governments to address long-term care (LTC) challenges. Here's what you need to know about the challenges facing Americans' long-term financial security.

## American families need LTC services

- American men who turn 65 in the next few years will spend, on average, $142,000 on LTC needs such as help with bathing and eating.
- At $176,000, the average amount is even higher for women.
- American men who turn 65 between 2020 and 2024 will require about 2.3 years of LTC.
- Women will need an average 3.2 years of LTC.
- The number of adults ages 85 and older, the group most often needing help with basic personal care, will nearly quadruple between 2000 and 2040.

## The cost of LTC is rising

- Home health care aide hourly costs have increased annually 5.92 percent on average over the past five years; assisted living facility costs have increased annually 4.40 percent on average; nursing home private room costs have increased 3.25 percent annually on average.
- Home health care aides cost $27 hourly in 2021; assisted living facilities cost $4,500 monthly in 2021; nursing home private rooms cost $8,910 monthly in 2021.

## Neither Medicare nor Medicaid solve America's LTC challenges

- Middle-income Americans cannot access Medicaid unless they spend down their assets to about $2,000.
- With 10,000 Baby Boomers reach age 65 daily, Medicaid — which is already struggling financially in most states — cannot absorb increasing demand.
- The waiting list for home-based Medicaid assistance is three years on average.

## Government programs alone cannot meet America's LTC needs

- Under pressure from taxpayers angered by a Medicare surtax to finance chronic LTC, Congress repealed the Medicare Catastrophic Act.
- Health care form, which included a major LTC initiative, failed in the Clinton administration.
- The CLASS Act, a major LTC initiative included in the Obama administration's Affordable Care Act, was repealed by Congress because of LTC solvency concerns.
- With concerns mounting over Washington Cares, the first state-based LTC program, Governor Jay Inslee postponed its start.