

Consumer Concerns for Older Americans

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SPOTLIGHT ON LONG-TERM CARE INSURANCE: A PRIVATE SAFETY NET?

As they plan for the time when they may need long-term care, consumers are likely to face some difficult and uncomfortable questions. *What would I do if I were no longer able to care for myself? Would someone in my family take care of me, or would I seek care elsewhere? And how would caregivers get paid?*

Not everyone will need long-term care. The Congressional Budget Office estimates that only nine of every 20 people who turn 65 in 2010 will ever need the more intensive care usually provided in a nursing home. Most of those stays will be fairly short, and fewer than one in 10 will need such care for more than five years. Still, a substantial number of Americans need some sort of long-term care. For example, in 2006 about 9 million of the 37 million people over the age of 65 received some long-term care services, according to the U.S. Administration on Aging. Planning to have money if and when the need for a nursing home or other long-term care arrives is like planning for any other contingency – but probably more complicated. It entails taking stock of personal finances and of one's family and community support.

To pay for long-term care, consumers tap various sources. Medicaid, the large government medical assistance program for the poor and elderly, provides a social safety net that pays for care for more than half of all nursing home residents. Those individuals must meet guidelines for income and assets. Those not eligible for Medicaid face the prospect of paying for care out of some combination of savings, retirement income or private insurance. However, private long-term care insurance remains out of the reach of most seniors. A recent paper in the *Journal of Public Economics* found that premiums on available policies are too high and benefits usually fall short of covering consumers' needs.¹ The *Wall Street Journal* recently described private long-term care policies as “among the most complex – and expensive – forms of coverage” on the market.

For some unwary purchasers private long-term care insurance may duplicate coverage already available from Medicaid. That wouldn't be surprising, because some of the biggest boosters of private coverage are federal and state governments anxious to cut spending in the \$300-billion Medicaid program. Mass mailings from government agencies and officials have urged consumers to consider private long-term care insurance. Special partnership programs in some states have encouraged long-term care

¹ See *Journal of Public Economics*, No. 91, 2007.

insurance sales by promising buyers complicated estate planning and asset preservation benefits.

This newsletter aims to prepare advocates for the challenging task of helping seniors frame questions about long-term care insurance that go beyond fear of the unknown or denial of the inevitable. In particular, it attempts to identify issues to keep in focus during the often confusing and uncertain process of exploring long-term care payment options. Most of all, it aims to empower seniors to make choices based on realistic views of their resources and life circumstances while also taking into consideration their feelings, values and personal preferences.

Some Basics

What is long-term care? Long-term care refers to the work of caring for those unable to care for themselves due to aging, physical problems or mental incapacity. Frequently, the need for long-term care is measured by a recipient's inability to perform various "activities of daily living:" bathing, dressing, eating, getting from bed to a chair, remaining continent, using a toilet and walking. Others need long-term care because they suffer cognitive impairment, such as Alzheimer's disease or some other form of dementia, or a chronic illness such as Parkinson's disease, multiple sclerosis or diabetes.

In our society, long-term care sometimes comes at home from unpaid providers, often family members. However, much long-term care comes from paid providers. Paid long-term care services are delivered in the home, through community programs, in assisted living facilities or in nursing homes, which as of 2006 had 1.4 million residents over 65 years old. Total payments for long-term care were \$207 billion in 2005, with 49 percent, or \$101 billion, paid by Medicaid, according to the Administration on Aging. Most of the balance was paid by Medicare (\$42 billion) and by consumers themselves (\$37 billion). Only 7 percent, or \$15 billion, was paid by various insurers.

What is long-term care insurance? Long-term care insurance pays for skilled and personal care, typically when an insured person can no longer perform at least two activities of daily living. About half of all long-term insurance claims and more than half of benefit payments went to provide care for victims of dementia, stroke and nervous system disorders. Long-term care insurance policies usually don't cover care for those incapacitated by mental illness, alcohol or drug addiction, attempted suicide or war-related illnesses.

States regulate long-term care insurance. They license insurers and agents, review premiums and company finances, and some may set minimum benefit and payment standards and approve advertising and contract terms. Policy language and interpretations by regulators vary between states. Consumers should make sure they are familiar with the rules in their state and consider what access they will have to enforcement and complaints procedures if they should move to or retire in another state.

Some Choices

To buy or not to buy: a decision rife with complexity and uncertainty. Some sales pitches make it sound like the decision to purchase long-term care insurance is a no-brainer. If you may need to pay for care, you will need insurance, right? But Consumer Reports warned in 2003 that long-term care insurance doesn't make sense for consumers who are too poor or too wealthy. "For most people, long-term-care insurance is too risky and too expensive," the magazine concluded, adding that only those with assets in a range between \$200,000 and \$1.5 million were likely to benefit from holding long-term care insurance.

Low- and moderate-income seniors are unlikely to be able to afford long-term care insurance. While no benchmark can capture the financial and personal complexity of the long-term care insurance decision, experts suggest that consumers spend no more than about 5 percent of their income on premiums. In reality, many people with low or moderate incomes and relatively modest accumulated wealth will sooner or later rely upon Medicaid to pay for care needed for more than a few months.

At the other end of the income spectrum, wealthier consumers who buy long-term care insurance to preserve assets to pass on to their heirs must chart a careful financial, legal and personal course. Before deciding to buy, they should take the time to seek the advice of a financial planner (preferably one paid a fee and not working for a commission from the sale of insurance or investment products). While finding knowledgeable and disinterested advice may be difficult, a good starting point is each state's federally funded Health Insurance Assistance Program (SHIP).

Shopping for a policy: no easy task. Consumers who conclude that long-term care insurance may benefit them still face the daunting task of shopping for a policy, including making a series of judgment calls about:

Cost of care. Questions to answer include:

- How likely are they to need long-term care? That varies with age, health, life expectancy, gender, marital status and family background.
- How long will they need long-term care? Half of all nursing home residents receive care for less than a year, according to the Administration on Aging.
- How much will they be asked to pay for long-term care? Prices vary considerably from market to market and among regions and according to the venue for service: at home, in adult day care, in assisted living or in a nursing home. For example, the annual cost for a private room in a nursing home ranged from \$197,000 in Alaska, to about \$44,000 in rural Louisiana and Missouri, according to a 2007 survey by Genworth Financial. The average hourly rate for home health aide services ranged from \$48.75 in Alaska to \$15.35 in Baltimore.

Once a consumer has estimated the cost and quantity of the long-term care they are likely to need, they must then decide what level of coverage to buy, and at what price.

Coverage options. Insurers offer a range of potential coverage (and a range of possible premiums) that need to be considered carefully. Important variables include:

- Maximum daily benefit.
- Whether the payment will be a reimbursement for services or a set amount.
- Maximum duration (this should be at least one year) and amount for payments.
- Types of care covered: While some policies pay for services delivered at home or in community facilities, others pay for stays in nursing facilities (policies may require that facilities hold certain licenses or meet other criteria). Comprehensive policies cover nursing facility and home care.
- Coverage triggers: Typically, benefit payments are triggered when a policyholder is unable to perform two activities of daily life or diagnosed with a chronic disease or cognitive impairment.
- Inflation protection: Experts say the cost of care is almost certain to rise, so that inflation protection that locks in premiums but increases benefit levels by at least 5 percent annually is extremely important!
- “Elimination period” or waiting period between when the need for services starts and benefit payments begin: This limits coverage in a manner similar to a deductible on an auto or property insurance policy. Policyholders can expect to pay out of pocket for services received during the elimination period.
- Tax status or “qualification” of the policy: Benefits payments on long-term care insurance policies that meet Internal Revenue Service standards are not taxable as income. A portion of the premiums paid on such tax-qualified policies may also be deductible.
- Asset protection: Some states allow purchasers of long-term care insurance who exhaust their coverage to become eligible for Medicaid while retaining some assets above otherwise applicable limits. This asset protection feature could benefit some consumers attempting to carry out estate planning to pass along assets to their heirs.

Further Considerations

The private long-term care insurance industry continues to evolve. So consumers must look carefully at the condition and history of any company they are considering, while keeping an eye on financial or political developments that may affect policy costs and coverage and the availability of the Medicaid safety net.

Premiums and unexpected premium hikes. The premiums consumers pay for long-term care insurance, like other forms of insurance, vary inversely with the level of coverage promised and the insurance company's estimation of the risk that the policyholder will soon file a claim. Consumers need to consider carefully the affordability of premiums, and keep in mind that insurance companies have frequently increased the premiums on existing long-term care insurance policies. Consumers should review policies to see under what conditions a company can cancel coverage or hike premiums. Consumers should also check whether an insurance company has a history of raising premiums on existing policies and whether regulators in their states have been willing to approve such hikes.

Collecting: the hidden challenge. When considering the purchase of a long-term care insurance policy, a consumer must keep in mind the importance of finding a provider that will pay, in a timely manner, benefits on all legitimate claims. A consumer should check on the financial condition of the company underwriting a long-term care insurance policy. Companies that rate the financial health of insurers include Moody's Investors Service, Standard and Poor's, Fitch Ratings, A.M. Best, and Weiss Ratings.

Consumers have another worry. "Some long-term-care insurers have developed procedures that make it difficult – if not impossible – for policyholders to get paid," the New York Times reported in March 26, 2007. In California, one out of every four long-term care insurance claims filed in 2005 was denied, the Times reported. Claim denial complaints lodged with state regulators by long-term care insurance policyholders rose 74 percent from 2003 to 2006. More than 70 percent of those denials were overturned by regulators after the complaints were filed, according to the National Association of Insurance Commissioners. These statistics highlight the vulnerability of long-term care insurance policyholders who are likely to be coping with physical and mental infirmities when they encounter an insurance company that refuses to pay a legitimate claim for benefits. While no system of government or private insurance will be free from disputes, long-term care insurance policyholders need rules and enforcement resources to ensure that they can overcome bureaucratic or profit-motivated resistance that delays urgently needed payments.

Long-term care insurance and the campaign to scale back Medicaid. Medicaid remains an important safety net for the nation's poor and elderly consumers. Despite limits on the income and assets of recipients, the portion of the federal budget spent on Medicaid has risen from 2 percent in 1975 to 7 percent in 2008. In the 1980s, concern about the growth in Medicaid spending gave birth to partnership programs, which allow some states to provide incentives to consumers to buy private long-term care insurance. Special policies issued as part of state partnership programs increase the value of the assets that seniors are allowed to retain when they qualify for Medicaid. These programs aim to encourage more middle-income seniors to buy long-term care insurance to reduce net spending on Medicaid.

So far, the program hasn't worked out as planned. A 2007 study by the Government Accountability Office assessed the results in the four states – California,

Connecticut, Indiana and New York – that established partnership programs in the 1980s and concluded that the scheme is “unlikely to result in savings for Medicaid and may result in increased Medicaid spending.” A law passed in 2005 sought to encourage more states to establish partnership programs. As of April 2008, at least eight additional states had moved to set up partnership programs and as many as 18 others had taken initial steps or were seriously considering such programs, according to National Underwriter, an insurance industry publication.

While partnership programs may not achieve their policy goals, they may offer middle-income seniors new options to protect assets and pass them along to heirs. However, like other long-term insurance choices, purchase of a partnership policy should be reviewed carefully to assess whether such a policy is appropriate to an individual consumer’s personal and financial situation.

Conclusion

The prospect of relying on others for long-term care – either at home or in a nursing facility – may be off-putting to many seniors, and deciding how to pay for that care may force them to confront some difficult choices. On the one hand, Medicaid offers a critical safety net to millions of seniors who need long-term care. On the other hand, the insurance industry and government promote long-term care insurance in presentations bolstered by lots of data and strong emotional appeals. But private long-term care insurance comes with high costs and what an analyst recently described as a “bewildering” list of coverage options.

Most seniors lack private long-term care insurance. Those with limited resources probably can’t afford it. More affluent seniors may find they can develop more effective financial strategies to preserve personal wealth and provide for long-term care if needed. Others may never reach the point of considering long-term care insurance.

Those who tackle the long-term care insurance decision head on are likely to find themselves sorting through a host of financial and personal issues. In the end, it’s a judgment call that involves lots of numbers. Advocates need to help consumers weigh the facts and their feelings – especially as they seek to gather information and make choices. Advocates also can stand with consumers as they seek to avoid being unduly influenced by the sales pitches of commission-driven agents and not-too-subtle prods from government agencies and officials anxious to cut Medicaid spending.

Advocates need to help seniors keep in mind their own interests, and seek out disinterested and thoughtful advice from knowledgeable experts. A good starting point is the Health Insurance Assistance Program in your state. In addition, consumer advocacy organizations, fee-for-service financial advisers, accountants, lawyers or other experts all may have something helpful to say. Advocates also need to remind consumers to consider a private insurer’s financial health and history of raising premiums and resisting payment of legitimate claims. Many seniors are likely to conclude that private long-term care insurance remains out of reach, or costs too much

for the benefits it provides. Those who opt for long-term care insurance will have to work hard to evaluate their options and avoid over-paying.

For More Information

- The U.S. Department of Health and Human Services' National Clearinghouse for Long-Term Care Information at <http://www.medicare.gov/LongTermCare/Static/Home.asp> offers various consumer tools, including interactive calculators of the likely benefits and cost of long-term care insurance to an individual consumer.
- Contact information for the health insurance assistance program in each state can be found at www.medicare.gov/contacts/Static/SHIPs.asp or at www.shiptalk.org.
- "Taking Care of Tomorrow: A Consumer's Guide to Long-Term Care," detailed look at long-term care by California's Health Insurance Counseling and Advocacy Program, can be found at http://www.aging.ca.gov/publications/hicap/hicap_TCOT_main.asp.
- "A Shopper's Guide to Long-Term Care Insurance" by the National Association of Insurance Commissioners is posted at various sites on the Internet, including http://www.oregoninsurance.org/publications/consumer/naic_long-term.pdf.
- A 2003 Consumer Reports review of long-term care insurance can be found at <http://www.consumerreports.org/cro/money/insurance/longterm-care-insurance-1103/overview/index.htm?resultPageIndex=1&resultIndex=1&searchTerm=long-term%20care%20insurance>.

This publication was supported in part by a grant, number 90AP2647, from the Administration on Aging, Department of Health and Human Services, Washington, D.C. Grantees undertaking projects under government sponsorship are encouraged to express freely their findings and conclusions. Points of views or opinions do not, therefore, necessarily represent official Administration on Aging policy. June 2008