S. HRG. 107–494

OFFERING RETIREMENT SECURITY TO THE FEDERAL FAMILY: A NEW LONG-TERM CARE INITIATIVE

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

WASHINGTON, DC

APRIL 10, 2002

Serial No. 107–23

Printed for the use of the Special Committee on Aging

U.S. GOVERNMENT PRINTING OFFICE

80–169 PDF WASHINGTON : 2002

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

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OFFERING RETIREMENT SECURITY TO THE FEDERAL FAMILY: A NEW LONG-TERM CARE INITIATIVE

WEDNESDAY, APRIL 10, 2002

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The committee met, pursuant to notice, at 9:35 a.m., in room SD–628, Dirksen Senate Office Building, Hon. John Breaux (chairman of the committee) presiding.

Present: Senator Breaux.

OPENING STATEMENT OF SENATOR JOHN BREAUX, CHAIRMAN

The CHAIRMAN. The committee will please come to order. Our guests, if they will, please take their seats, and our witnesses, their positions at the table.

Good morning to everyone. Thank you very much for being with us this morning in the Special Committee on Aging.

Today's hearing of our Aging Committee marks the 10th hearing that the Aging Committee has held on long-term care during this Congress. Our previous hearings have addressed the broken nature of our long-term care system in this country. It is clear that Medicaid costs are skyrocketing in a system that is both inflexible and biased towards institutional care. However, today's hearing offers us an opportunity to look at one of the potential solutions for our long-term care crisis in America.

In the fall of the year 2000, Congress passed and President Clinton signed into law the Long-Term Care Security Act. This legislation charged the Office of Personnel Management, OPM, with establishing a new long-term care insurance program for all of our Nation's Federal employees. Like many aspects of Government, where things move very slowly, I am pleased to report that this program is already up and running. The program is significant because the Federal Government is the Nation's largest employer. If the new Federal long-term care insurance program is successful and proves to be popular, then it will serve as a model for other companies and other employers. The old adage of "Lead by example" definitely applies here.

As you will hear from our witnesses today, people are more likely to buy the long-term care insurance and might at a younger age if they are offered it by their employer. Since most people don't know that the Government won't pay for their long-term care needs, the consumer education that employers offer to their employees about long-term care is critical toward educating the public about this problem.

As 60 percent of those reaching 65 will need long-term care, the 77 million baby boomers will literally break both State and Federal budgets unless they take personal responsibility for their care and purchase long-term care insurance.

Financial planners now recommend that, in addition to having 401(k) plans and IRAs to plan for retirement, people should also have long-term care insurance. This will protect their assets, offer choices of care, and provide peace of mind for the entire family.

My wife and I plan to meet very soon with some of the insurance agencies to discuss which type of plan is best for us.

I look forward to hearing from our witnesses today about the status of long-term care insurance and also to hear about the specifics of the new Federal long-term care insurance program.

We are pleased to have as our panel of witnesses Mr. Bert Scott, who is President of TIAA-CREF Life Insurance Company of New York; Frolly Boyd, who is Senior Vice President of Group Insurance/Long-Case Pensions with Aetna; and a board member of Americans for Long-Term Care Security and Mr. Frank Titus, who is Assistant Director for Long-Term Care and Acting Associate Director, Retirement and Insurance, with the Office of Personnel Management; and Mr. Paul Forte, Chief Executive Officer of Long Term Care Partners in Charleston, MA.

Lady and gentlemen, we are pleased to have you here. Mr. Scott, you may begin.

STATEMENT OF BERTRAM SCOTT, PRESIDENT, TIAA-CREF LIFE INSURANCE COMPANY, NEW YORK, NY

Mr. SCOTT. Thank you, Mr. Chairman. Good morning, Mr. Chairman and members of the committee. Before I get started with my formal remarks, I would like to congratulate you on the birth of your first grandson.

The CHAIRMAN. Yes, we are getting into this aging process aggressively and rapidly. [Laughter.]

Mr. SCOTT. My name is Bertram Scott. I am the President of TIAA-CREF Life Company and Executive Vice President of TIAA-CREF. As the world's largest and oldest pension company, our focus has always been to provide our participants with the financial tools to plan for a secure retirement. Therefore, at a time when the largest segment of our population, the boomers, are entering their retirement years, it is all the more important that we address this critical threat that long-term care expense puts on retirement security.

Mr. Chairman, we commend your efforts to bring attention to this threat and your leadership in holding hearings on long-term care insurance, in particular, the new Federal initiative. Today, I hope to provide background on the long-term care insurance market by discussing why it is important for individuals to provide for their retirement security by planning to cover long-term care expenses; industry data on long-term care expenses and the vital role long-term care insurance plays in protecting and preserving retirement assets; the need to further educate consumers about long-term care costs that are not covered by Medicaid; how the Federal initiative will stimulate consumer and employer awareness and interest in long-term care insurance; the potential benefit of additional tax incentives as a complement to enhanced consumer education.

To demonstrate a couple of key points that I will allude to in my testimony, I have brought two ACLI charts that reference attitudes and behaviors of long-term care policy holders. The pie chart illustrates the importance long-term care policy owners placed on owning a policy when preparing for their own retirement. An astonishing 98 percent found it to be an important part of their planning, with a full 70 percent saying it was very important.

The bar graph shows the importance policy holders place on insurance to cover long-term care expenses as compared to those relying on personal savings. It illustrates that 86 percent of those who place a high importance on long-term care planning rely on their long-term care policies to cover their expense; whereas, those who do not consider it important will rely on their personal savings.

TIAA-CREF began providing long-term care insurance to its participants over a decade ago in recognition of this emerging need. Our position is heralded by support from the American Council of Life Insurance and the Health Insurance Association of America. They are focusing on the critical need for consumer education about long-term expenses and tax incentives for individuals to invest in their retirement security by purchasing long-term care insurance.

The industry is encouraged that Congress made long-term care insurance available to 20 million eligible Federal workers and their families. This initiative serves to educate many Americans on long-term care and the importance of planning ahead to protect against the catastrophic cost of extended care.

One of the greatest risks to individual savings is the unanticipated cost of long-term care. Unfortunately, many people underestimate the cost and are shocked and unprepared when it hits home. Although 67 percent of Americans recognize that the cost of long-term care is the greatest threat to retirement security, only 35 percent have planned for it. A recent ACLI study shows a link between retirement plan and long-term care education. It found that when employers provided potential enrollees with education about long-term care policies, employees were much more likely to enroll for group coverage. What is more, those who considered coverage tended to be much younger, thus filling a gap for employees under 60 who otherwise would not consider coverage. The report concluded that employer-sponsored education about long-term care led employees to consider it as an integral part of retirement planning.

Despite the encouraging data among policy holders, they still only comprise 10 percent or about 6 million of the elderly, with even fewer younger owners. The reason may be the decision to buy long-term care is difficult. There are many choices. There is also the misperception that the cost of coverage is too expensive.

The reality is that long-term care insurance is the most economical solution when compared against the actual cost of service. According to the U.S. Department of Labor, the national cost of nursing home care averages $56,000 a year and is expected to rise to

$190,000 in 30 years. The industry has adapted to meet the escalating cost of long-term care. As a result, the face of long-term care insurance has changed significantly over the past 10 years. Insurers now offer comprehensive coverage with fewer restrictions. Consumers are buying richer coverage, including inflation protection, resulting in higher average premiums. Premiums have risen from 1995 from $1,500 to $1,700 in 2000, but today's policies are of more value—you get more value for your dollar—than they were 5 to 10 years ago.

There are also significant cost differences over a 10- to 30-year period between total premiums paid if purchased at age 45 versus 55 or 65. Lower premiums and a higher likelihood of qualifying for coverage at a younger age should be weighted against higher premiums paid over a shorter period of time if purchased at an older age. Some helpful considerations when deciding whether to buy long-term care is an individual's assets and retirement income, their ability to pay premiums without adversely affecting lifestyle, and their ability to absorb possible premium increases without causing hardship.

Increasingly, a 2001 ACLI study found that 70 percent of long-term policy owners recognize the importance of planning for long-term expense. The percentage is higher among less affluent owners. Why? I believe because long-term care insurance best serves moderate-income individuals and couples. This is illustrated in a recent HIAA study. It shows that long-term care insurance purchasers had a median income of $42,500 in 2000 and 70 percent of that group had liquid assets of more than $100,000. While the income and assets of the average buyer is on the rise, the average age for individual buyers is lowering, according to industry studies, dropping from 69 to 67. The average age of purchasers in the group market is even lower, at approximately 43.

As I mentioned earlier, only 10 percent of our elderly have long-term care insurance coverage. Perhaps this is because there is a common misperception that the Federal Government covers long-term care costs for all Americans through Medicaid. In reality, most long-term care services are paid out-of-pocket or provided informally by family and friends. The more affluent individuals have the means to self-insure for long-term care insurance.

Regardless, many boomers, the age that will double the number of elderly over the next 30 years, still believe that the Government will take care of their long-term care needs. This misperception will potentially result in burdens on the Federal Government and States that will be impossible to meet over the next 20 to 30 years.

The industry believes that education is the key to correcting this misperception and encouraging the purchase of long-term care insurance to address long-term care expenses. We also believe that the new Federal initiative will complement our efforts to educate the general public, raising awareness about the high cost of long-term care, and emphasize that the Government does not pay for care for the vast majority of the population. It will reinforce the message that individuals must take responsibility to protect themselves from the higher cost of long-term services. The message should be clear: The Government will not pay for long-term care expenses for most Americans.

We are optimistic that the example set by the Federal long-term care program will encourage more employers to offer long-term care insurance as a voluntary employee benefit. There is one final benefit of the Federal initiative that cannot be overlooked. In the process of providing long-term care insurance materials to policymakers and congressional staff, we believe that policymakers will become sensitized to the need for long-term care insurance. As a result, we hope that your colleagues will join you in supporting legislation that provides a Federal above-the-line tax deduction for the purchase of long-term care insurance as well as a tax credit for individuals and their caregivers.

Thank you for inviting me to testify today. We applaud your leadership in encouraging all Americans to use long-term care insurance as a vital planning tool for safeguarding their retirement security.

[The prepared statement of Mr. Scott follows:]

Bertram Scott

Executive Vice President TIAA-CREF and President

TIAA-CREF Life Insurance Company

Before the

Senate Special Committee on Aging Hearing on

Offering Retirement Security to the Federal Family:
A New Long-Term Care Insurance Initiative

April 10, 2002

INTRODUCTION

Good morning, Mr. Chairman and distinguished members of the Committee. My name is Bertram Scott. I am testifying today as the Executive Vice President TIAA-CREF and President, TIAA-CREF Life Insurance Company. I am pleased to respond to the Committee's request for background on private long-term care insurance in today's marketplace. My statement will provide you with a historical and factual context as you examine the new Federal long-term care initiative. I will approach my discussion of private long-term care insurance through TIAA-CREF's perspective of retirement security and asset protection. We believe that long-term care insurance provides a viable and affordable means towards accomplishing retirement security goals and that an above-the-line tax deduction would provide an incentive to purchase long-term care insurance.

We were encouraged when Congress established the Federal long-term care insurance program and in so doing made significant progress in promoting retirement security for the Federal workforce, their families, and retirees. We believe that a successful Federal program will serve several purposes. It will provide additional retirement security for the Federal "family" while serving as example to private employers to encourage them to make long-term care insurance available to their employees. More importantly, it will change public perceptions about the government's role in paying for long-term care and the need for individuals to take personal responsibility for long-term care expenses.

In addition to examining the new Federal program, the Committee has heard from a wide range of witnesses on the increasing financial burdens of long-term care. Recently, Governors expressed their concerns over the increasing drain that long-term care expenses have placed on state resources through the Medicaid system. We applaud your efforts to bring public attention to this national dilemma and join you in supporting legislation that help alleviate this burden by providing incentives for individuals to purchase long-term care insurance through their employers or individually.

About TIAA-CREF

Before I continue, I want to describe where my organization fits into the long-term care insurance market. TIAA-CREF is a leading, national provider of financial services and is the premier pension system for people employed in education and research in the U.S. The system serves over two million participants at 12,000 institutions. TIAA-CREF is also a leading, national financial services organization offering an array of financial products including long-term care insurance. Starting in 1991, TIAA started marketing individually underwritten long-term care (LTC) insurance to participants and employers on a direct marketing basis. TIAA-CREF does not employ commissioned agents or brokers to sell long-term care insurance. Instead, we have a call center staffed with licensed insurance consultants, paid on a salaried basis, to counsel customers on long-term care. Since April 2000, TIAA-CREF Life Insurance Company, a wholly owned subsidiary of TIAA, has been offering long-term care insurance to the general public as well. We primarily sell individual policies with over 80 percent of our policies sold directly to our participants and the general public. Almost all the remaining policies are sold through employer-sponsored plans, with a tiny percentage sold through traditional group policies.

OVERVIEW

Today I will present a comprehensive examination of long-term care insurance products, the industry and the needs it addresses. The topics I will cover include:

- The role that long-term care insurance plays in helping to ensure retirement security and preservation of assets.
- The current state of the long-term care insurance market – a basic primer on long-term care insurance.
- Trends in individual and employer policy markets and the demographics of both.
- What steps need to be taken to grow the market and increase participation
- The role of the States in providing protections and a safety net through Medicaid.
- How the new Federal long-term care program will increase awareness of the need for long-term care insurance and ultimately increase participation.
- The role of HIPAA and NAIC in providing increased protections for consumers.

BACKGROUND

Today, many of our country's elderly are in need of long-term care services. Long-term care is defined as a broad range of services provided to people who need extended care and have lost the capacity to care for themselves as a result of a chronic illness, disability, or cognitive impairment. Long-term care services range from the need for personal care - assistance with daily activities such as bathing, dressing, eating, transferring, and continence - to skilled care – such as care provided by a nurse or physical therapist. Individuals can receive their care in a wide variety of settings, which include nursing homes, assisted living and Alzheimer facilities, adult day health care and in the home.

Most long-term care services are paid for out-of-pocket or provided informally by family members or friends. Medicaid also pays for a significant portion of long-term care for low-income individuals. Unfortunately, many people are misinformed about the qualification requirements and limitations in coverage. With staggering costs that average $153 per day (according to a recent study by MetLife's Mature Market Institute) for nursing home care; the result can be the depletion of hard-earned retirement assets and other investments to pay for care.

The Role Long-Term Care Insurance Plays in Helping to Ensure Retirement Security and Preservation of Assets

One of the greatest risks to an individual's retirement savings is the unanticipated cost of long-term care. Unfortunately, many people underestimate the cost of care, and are often enlightened when the issue hits close to home. According to the U.S. Department of Labor, the national average cost of part-time basic home care today ranges from $12,000 to $16,000 a year, and is estimated to increase to as much as $68,000 a year in thirty years. Nursing home care, which averages $56,000 a year, is expected to cost as much as $190,000 in thirty years. Unfortunately, most Americans have not prepared themselves for the costs of long-term care; with less than 10% of the elderly population owning long-term care insurance, and even fewer among younger people. It is evident that with the high cost of long-term care services, being unprepared poses a real threat to an individual's financial security in retirement.

Long-term care insurance is a product designed to help consumers afford the astronomical cost of care, while offering them a greater choice of providers and services. Ultimately it serves to help protect retirement assets, achieve increased financial independence, and peace of mind.

As the world's largest and oldest private pension company, our focus has always been to provide our customers with the financial tools to plan for a secure retirement. We believe that retirement planning involves more than just asset accumulation - it also includes the protection and preservation of those assets. As part of our discussions with participants, we feel significant consideration should be made on the impact of unexpected health care expenses on retirement assets and income. Individuals confronted with a chronic illness or injury may be compromising their financial security in retirement by not planning ahead for this major expense.

Long-term care insurance represents an integral component in one's overall retirement plan, and TIAA-CREF and the long-term care industry has been committed to educating our customers on the importance of factoring this coverage as part of the retirement planning process.

ACLI Long-Term Care Study Links Purchase of Long-term Care Insurance to Retirement Planning

A 2001 study conducted by ACLI concludes that long-term care insurance is playing an increasingly important role in retirement planning. It cites that 70% of policy owners say that preparing for long-term care expenses is a very important part of retirement planning. Of that group, less affluent policy owners are more likely to say that planning for long-term care is very important to retirement planning more than are those with substantial resources (77% versus 66%, respectively). They also use long-term care insurance to reduce the risk of impoverishment and promote independence in retirement while those with more substantial resources primarily use long-term care insurance to protect their retirement assets.

Long-term care planning is an important link to retirement security, particularly for those under age 65. The ACLI study showed a clear trend that more individuals are purchasing long-term care insurance at a younger age and prior to retirement. Younger owners are motivated to purchase long-term care insurance as a part of a larger financial plan to maintain their current lifestyle while older buyers respond more directly to their perception of an imminent need for health care. Younger buyers also were more likely to cite personal experiences with long-term care and encouragement from others as factors motivating their purchase than those over age 65.

Women are more financially independent today and making greater strides in closing the financial gap with men. However, many women may not have enough saved for retirement. This has significant financial implications for women as they have longer life expectancies than men and are at a greater risk of needing long-term care. Planning ahead with long-term care insurance can help relieve the financial burdens associated with a prolonged illness and minimize any need to draw down money from retirement savings.

In fact, according to ACLI, women are more likely than men to say that long-term care insurance is important in retirement (74% versus 64%, respectively). Women also are more likely to purchase a policy in order to promote their independence, while men view long-term care insurance as a way to protect assets.

Medicaid is a viable alternative to purchasing long-term care insurance for low-income individuals. However, many couples facing this situation can undoubtedly leave the healthy spouse behind (often the woman) with little assets to rely on when all savings are depleted to qualify for benefits.

Source: 2001 ACLI Study: *Making the Retirement Connection: The Growing Importance of Long-Term Care Insurance in Retirement.*

Long-Term Care Insurance Primer: Who buys it and when should it be purchased?

Who Buys Long-Term Care Insurance?

Based on recent buyer and non-buyers studies conducted on long-term care insurance by TIAA-CREF and HIAA, individuals purchasing long-term care insurance have substantially higher average incomes and assets than buyers a decade ago. HIAA reports that buyers had a median income of 42,500 in 2000, an increase in the average income of almost 60% over the past 10 years. Seventy percent of buyers had liquid assets of more than $100,000; up from 40% of buyers that purchased long-term care insurance 10 years ago. TIAA-CREF studies reveal that our buyers have higher average incomes and assets than the industry, as reported by HIAA, with average incomes of $67,000 and average assets of just over $200,000.

The average age for a buyer has declined over the years from 69 to 67 according to HIAA. For TIAA-CREF, the average age purchaser is lower at 63 years old, and may be attributable to the fact that about 15% of our individually underwritten policies are sold on an employer-sponsored basis.

Based on TIAA-CREF and HIAA, slightly more females tend to purchase long-term care insurance (54% vs. 46% as reported by TIAA-CREF). The HIAA study found that most buyers had attended college. Lastly, most buyers are married, probably due to the availability of additional discounts.

Opinions about Long-Term Care and Attitudes Toward Long-Term Care Insurance

TIAA-CREF and HIAA studies demonstrate similar trends among buyers and non-buyers with respect to their attitudes on long-term care and long-term care insurance. Most buyers do not think the government will pay for long-term care services. Buyers were more likely than non-product buyers to have experienced the need for home care or in a nursing facility for more than three months, but usually for a parent, relative or close friend. Compared to non-buyers, buyers were twice as likely to anticipate the need for some extended care lasting 6 months or more. Two-thirds of buyers and non-buyers felt that they themselves would have to bear the cost of long-term care coverage of over six months by tapping into their income or savings or selling some of their assets. Non-buyers were more likely to think that Medicare, Medicaid or their Medigap policy would cover such costs. For non-buyers, the key deterrent to purchasing long-term care insurance is the cost of the premiums, and only one-third of non-buyers surveyed knew that these premiums might be deductible on their federal income taxes.

Trends in Product Purchase

Long-term care insurance coverage has evolved significantly over the past 10 years, with insurers offering more comprehensive coverage and fewer restrictions. More policies today cover both institutional and home care, with average daily benefits for nursing home and home care increasing by 28% and 36% respectively over the past 5 years (HIAA, 2001).

There's also been a growing trend towards the purchase of compound inflation protection, mostly among younger purchasers, as more attention is placed on the need to offset against the increasing cost of care.

Average annual premiums for long-term care insurance have risen over the past 5 years with increasing about 11% from 1995 and 2000 from $1,505 to $1,677, according to HIAA. With policies today offering more value for the dollar and richer coverage, it is clear that policies today are a better buy than they were 5 or 10 years ago.

Typical Long-Term Care Insurance Purchase Scenarios

The following case studies represent a few different profiles of "typical" LTC purchasers in our marketplace. All examples purchased a $150/day benefit, which is the current national average for nursing home care. They have all elected the maximum home health care benefit that provides coverage equal to the nursing home benefit – 100% home health care. For comparative purposes they all elected the inflation option that allows them to buy additional coverage each year. Assets do not include personal residence.

Case Studies:

Case 1 – Linda age 45 is single with $150,000 in her pension plan. Her employer is sponsoring long-term care insurance. Taking advantage of her young age, she has elected the maximum benefit period – unlimited – that will pay for care until death and the shortest elimination period (or deductible) of 30 days.

First year Annual Premium Total is $745.56 (monthly premium payroll deduction is $62.13)

Case 2 – John age 55 with more than $500,000 in assets, has a father with Alzheimer's disease. John elected the longest duration period – unlimited - and the most common elimination period – 90 days. The premium is paid from earned income.

First year Annual Premium is $1,035

Case 3 – Susan age 60 with over $200,000 in assets, whose mother requires care at home, has elected a long duration period – 7 years – and a shorter elimination period – 30 days. The premium is paid from earned income now and will be from retirement income after she retires in two years.

First year Annual Premium is $1,425

Case 4 – Roger age 70 with over $300,000 in assets elected the most common duration sold – 5 years and a 90-day elimination period. His wife Anne also age 70 has the same policy and they each receive a 10% spousal discount available when both are insured. The premiums are paid from their retirement income.

First year Annual Premium is $2,065.50 for each policy

Case 5 – Betty age 75 is a widow has $100,000 in assets with children living nearby. She has elected a short duration – 3 years - that exceeds the average stay in a nursing home and a 30-day elimination period. The premium is paid from her investment income.

First year Annual Premium is $3,660

Note: Annual premiums will increase each year the policyholder elects inflation additions. The cost for this option is based on the amount of additional coverage and age. No additional underwriting is required.

Source: TIAA-CREF Life Insurance Company, 2002.

Due to the increasingly diverse market for long-term care insurance, the industry is responding by developing policies with a greater variety of choices for coverage. Owners with personal experiences of unanticipated long-term care expenses tend to prefer policies with longer duration benefits (higher dollar amount available to be used over longer periods of time). Women tend to select shorter elimination periods than men (lower deductible amount). Younger policy owners select policies with more extensive coverage than older buyers. For example, those under age 65 select longer benefit durations than buyers aged 65 and more. Less affluent policy owners typically choose shorter elimination periods while those with greater resources intend to self-fund a larger portion of their long-term care costs.

Understanding the Buy/Non-buy Decision

People are buying long-term care insurance for many reasons. Protecting assets continues to be the most frequent reason followed by the tax benefit. The current tax benefit allows deduction of premium if medical expenses exceed 7.5% of adjusted gross income. Most buyers do not have sufficient medical expenses to benefit from the current deduction. The decision to buy is arrived at several ways. Most know someone who has bought a policy. The addition of spousal discounts by most carriers has increased the number of couples both owning policies to 82 percent from 61 percent in 1995 according to HIAA. In addition to insurance agents, children, spouses, family and increasingly financial planners are assisting in the buying decision.

Cost continues to be the reason most individuals cite for not buying long-term care insurance. The agent training and marketing efforts over the last decade have significantly reduced the number of non-buyers who stated they were not able to buy long-term care insurance because it was too confusing from 87 percent in 1990 to 46 percent in 2000. TIAA-CREF Life in customer surveys has consistently received high marks for the clarity of its marketing materials and the knowledge of its counselors in its call centers -- two important factors in our sales success as a direct marketing company. The long-care insurance industry's ongoing effort to support high standards in product design and marketing has resulted in a significant increase in consumer confidence.

Tax Deductibility

The current tax advantages of tax-qualified long-term care insurance policies are not perceived as providing benefits to most buyers. Because the number of taxpayers who itemize their medical expenses is low, the number of long-term care policyholders who exceed the 7.5% of adjusted gross income threshold is small and therefore few are able to take advantage of the current below the line tax deduction.

Attitudes Toward the Role of Government

Many individuals mistakenly believe that Medicare and Medicaid will provide for long-term care costs when in reality, less than ten percent of nursing home costs will be paid by Medicare (U.S. Department of Labor, 2000). A person needs to have at least a three-day stay in a hospital before Medicare will then cover the first 20 days of skilled nursing care in a nursing home. After that, a person must pay a co-pay for each day and the coverage expires completely after 100 days.

Medicaid is the largest source of funding for long-term care, but the individual needs to "spend down" his/her assets and meet income guidelines to be eligible. The government has a three-year look back period where it requires individuals to report any asset transfers to individuals prior to applying for Medicaid, and it has a five-year look-back period for transfers to an irrevocable trust.

The federal government made long-term care expenses deductible from federal income taxes, provided the expenses exceeded 7.5% of adjusted gross income, through the 1996 Health Insurance Portability and Accountability Act. The law also included a portion of long-term care insurance premiums as expenses for this computation. The government sent a clear signal that with this law individuals need to become more self-reliant in providing for his or her own long-term care needs.

The industry believes that the government can do more to encourage individual action by passing an above-the-line deduction for long-term care insurance premiums and expenses as proposed in President Bush's Fiscal Year 2003 budget and in the bipartisan Senate bill S. 627 supported by Chairman Breaux.

Source: *Long-term Care Insurance -- The Forgotten Planning Tool,* Keith R. Davenport, Associate Director of Education, TIAA-CREF Institute, 2001.

When Should You Purchase Long-Term Care Insurance?

Long-Term Care Insurance: To Buy or Not to Buy?

"Paying for long-term care is a sleeping issue for Americans, but they are beginning to wake up," says Anne Wener, executive director of United Seniors Health Council. A recent study by MetLife's Mature Market Institute reports the average cost of a nursing home stay is $153/day for a private room or almost $56,000/year, and assisted living and home care costs are to some extent lower. Werner noted that 67 percent of Americans say the cost of long-term care is the greatest threat to their standard of living, while only 35 percent have done any planning for it, according to a survey by the National Council on the Aging, and only six million have purchased long-term care insurance.

As part of the industry's broad education initiative, the United Seniors Health Council publishes a consumer guidebook, Long-Term Care Planning: A Dollar and Sense Guide. It was updated in 2001 and provides the advice consumers need before buying a policy.

The book recommends that consumers consider buying long-term care insurance only if they:

- Own assets of at least $75,000 (excluding home and automobile);
- Have annual retirement income of at least $25,000 - $35,000;
- Can pay premiums without adversely affecting lifestyle; and
- Can absorb possible premium increases without financial difficulty.

An important element in planning for retirement is deciding when to purchase long-term care insurance. Based on data from the Department of Labor, the average age of LTC insurance buyers is age 64 (individual policies) and age 43 (group policies). Clearly, when individuals are given exposure to and education on LTC insurance products through employer-sponsored plans (not necessarily group plans), they are more likely to purchase LTC insurance. However, there are other factors:

- Your health and family health history.
- Your estimated retirement age and retirement income.

Insurance costs also are an important factor in determining when to buy insurance. Cost differentials over a 20 or 30 year period between the total premiums paid if purchase at 45 versus 55 or 65 are helpful in making the decision. Premiums will be lower and it will be easier to qualify for coverage at a younger age and that should be weighed against higher premiums over a shorter time period if purchased at an older age.

Source: *The United Seniors Health Council (formerly United Seniors Health Cooperative) is a non-profit organization that has been publishing unbiased consumer information since 1986. Information obtained from www.unitedseniorshealth.org.*

TIAA Products and the Marketplace

Teach~~ers~~ Insurance and Annuity Association (TIAA) started marketing individually underwritten long-term care (LTC) insurance to the education and research community in 1991 with what was then a very innovative feature "comprehensive long-term care" that provided nursing home and home care that drew from one pool of money. Up until that time carriers offered nursing home insurance with a home health care rider, each with its own pool of money. You could use up your home health care benefit and not be able to access the balance of the benefits in your policy unless you went into a nursing home.

Over the years, LTC policies have evolved to offer more comprehensive, less restrictive coverage. Our home care coverage was enhanced offering a 100% benefit option that recognized the individual's desire to remain in the home as long as possible. It became easier to qualify for benefits when the number of activities of daily living (dressing, bathing, transferring, etc.) was reduced from three to two to qualify for reimbursement for care received in a nursing home. In response to consumer demand a new type of facility was being built, and our policies started to cover care received in assisted living facilities. As consumers became more aware of the risks of dementias such as Alzheimer's and other conditions that resulted in very long periods of care at home and in facilities, our coverage offerings were enhanced to include an unlimited benefit.

While long-term care insurance has always addressed the needs of individuals, it has increasingly been important to recognize the special needs of couples. In recognition of the different risks of couples that take care of each other we offered a 10% premium discount when both were issued LTC insurance coverage. We also offer couples the ability to share each other's benefits from two policies, creating in a sense a single large pool of money that they each draw upon to pay for LTC needs. Financial circumstances may change at the death of a spouse, and for those who elect our survivor waiver of premium benefit, we waive the premium of the surviving spouse. Today, we continue to offer comprehensive and affordable coverage that allows customers the freedom to design coverage that best suits their needs and budgets.

TIAA-CREF Life markets long-term care insurance on a direct basis to its participants and offers the product to employers on a sponsorship basis. We take an educational approach in helping our customers understand the need and risks associated with long-term care, and the importance of planning ahead with long-term care insurance. We communicate the value of long-term insurance and it's role in retirement planning through direct mail, articles and retirement planning seminars.

Since April 2000 TIAA-CREF Life Insurance Company, a wholly owned subsidiary of TIAA, has been offering long-term care insurance to the general public. TIAA and TIAA-CREF Life is currently ranked by LIMRA as 15th among Long-Term Care Insurance carriers in Total Premium and is the only carrier in the Top 15 that does not utilize commissioned agents and brokers to sell their long-term care products.

Trends in Employer and Individual Policy Markets: Demographics and Growth of LTC Policies

Industry Trends

Long-term care insurance is one of the fasting growing insurance products today. The number of policies sold has doubled over the past five years to 7 million, and the market grew an average of 21% per year over the last 10 years. However, overall few Americans have taken the step to protect against the great risk that long-term care poses to their financial security.

Despite a largely untapped market for long-term care insurance, industry experts are taking a cautious yet optimistic view on the outlook for this product. In part, because of the ongoing challenge for insurers to develop adequately priced and profitable products as well as improve product distribution and expand the communication effort to consumers. Regulatory changes, that often vary by state, represents another hurdle for insurers and often delay their ability to go out to market with new product developments in a timely ~~fa~~shion. However, experts predict that with longer life spans and the aging of the baby boomer generation, we can expect to see moderate to strong growth in the long-term care insurance market. The introduction of the Federal Program on Long-Term Care is expected to help increase public awareness on the need for long-term care insurance.

More and more employers are offering long-term care insurance as an employee benefit, with over 3,000 employers (according to the Department of Labor) making it available to employees, retirees, their spouses and parents. Unfortunately, participation rates are lower than expected in this segment of the market. Increased employer support and active promotion may provide the most optimal opportunity to expand coverage in the employer market.

The ACLI prepared a study* in 2001 on the link between retirement planning and long-term care education. Generally, the study found that when employers provided potential enrollees with education about long-term care policies, and not just general information, employees were much more likely to enroll in the group coverage. Those who considered only group long-term care tended to be younger, with more moderate resources, and less confident about their retirement plans. The group insurance plan fills a gap for employees under 60 who otherwise would not consider this type of insurance.

Employees cited education by their employer as a major factor for motivating them to enroll (51%). Of those who were very likely to purchase a policy, 74% were educated about long-term care planning. The report also found that 50% of those enrollees in group insurance were partially motivated to do so by their employer paying some of the premium, and 36% of those who would be interested in enrolling would be further encouraged by government support through tax deductions for premiums.

The report concluded that employer-sponsored education about long-term care led employees to consider it as an integral part of their retirement planning. It also stated that a key difference between long-term care education and retirement planning education was that employees received long-term care education only during the original offering of a group plan while retirement education was continuous.

Source: *Long-Term Care Insurance at Work: The Retirement Link and Employee Perspectives, ACLI, 2001.*

What Will It Take To Grow The Market And Increase Participation?

Industry Outlook

Long-Term Care Industry leaders surveyed by LIMRA in 2001 were cautiously optimistic about the future growth of long-term care insurance. Government tax incentives would help grow sales along with the aging population particularly the baby boomers. The ability to penetrate the employer-sponsored market would be assisted by tax incentives for business owners and their employees if they could purchase long-term care insurance on a pre-tax basis according to a U.S. Chamber of Commerce survey of its members. The majority of Americans are still looking to the government for solutions according to a recent Harris poll. Eighty five percent want tax incentives for long-term care insurance while 90 percent want tax benefits for informal caregivers.

The impact of the baby boomers is expected to double the number of elderly over the next 30 years and doubling or quadrupling the number needing long-term care services according to William J. Scanlon, Director of Health Financing and Public Health Issues. The same changes are occurring in the workplace. As the average age of the worker has increases from 35 years old in 1980 to a projected 41 years old in 2005, workers will continue to experience increasing levels of eldercare issues for their parents, grandparents and spouses. This increased awareness of long-term care issues and the overall aging of the workforce make the need for long-term care insurance more visible to the employer and employee alike. While employers are not looking to finance long-term care insurance, they are in increasing numbers offering ~~it~~ to the employees as an employee pay-all benefit. LIMRA recently reported that 9 percent of midsize and large employers offer long-term care insurance and 23 percent are considering offering it in the next two years.

What will it take to increase market penetration?

For its part, the industry needs to begin expanding its marketing strategy to reach a new audience for long-term care insurance. Employer-sponsored plans will only succeed if insurers can convince younger buyers and single persons of the importance of long-term care insurance coverage. This will also require a shift in operations on behalf of the sales group of insurers to that of educators so as to help the consumer identify what his or her needs are and how to best provide for them. Analysts predict that the potential for growth is greatest in the group-discounted products that individual employees will get through their employer. Increased participation in the employer market can be realized through more active employer support and promotion on the value of long-term care insurance. By integrating long-term care insurance into their retirement planning programs, employers can help spur sales among younger age workers.

Companies will need to develop communication materials to help reach this new target audience. Over the years, one of the barriers to growth in this marketplace has been the lack of awareness among consumers of the need for long-term care insurance and the lack of emphasis placed on the product by industry, the media, and the government as to its importance. All sectors need to work together to build awareness.

The Internet offers opportunities to market directly to consumers on a one-on-one basis. Still, most potential buyers over the Internet often are confused by the complexity of a product and often require more face-to-face explanations of benefits and personalized coverage. Industry should work to promote its employer-sponsored products through interactive modules that assist the buyer in understanding the need for long-term care insurance, the product features, and how to best personalize coverage for their particular needs. Insurers should offer simpler product designs and integrate the Internet site with marketing promotions, a local educational resource, and tech-center support availability.

Government tax incentives also play a significant role in encouraging the growth of individual and employer-sponsored sales for long-term care insurance. In addition to an above-the-line deduction, tax incentives that allow employers to include a reduction in long-term care insurance policies in cafeteria plans and flexible-spending accounts may increase employer interest in offering long-term care insurance as a voluntary employee benefit.

Source: *Long-Term Care Insurance: Industry Trends and Outlook, LIMRA International, 2001.*

What is the role of HIPAA and NAIC in providing increased protections for long-term care insurance consumers?

The life insurance industry and the National Association of Insurance Commissioners (NAIC) are committed to maintaining consumer confidence in this vital product line and believe that the long-term care model regulation creates a high level of consumer protection and rate stability. All states and the District of Columbia have adopted some version of the Model into their own laws and regulations. Since 1986, the NAIC has revised, updated, and strengthened its initial Long-Term Care Insurance Models as well.

Private long-term care insurance has become an integral part of a person's retirement planning. One step taken by the federal government to convey the importance of future planning was passing the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The law contained language that gave favorable tax treatment to qualified long-term care insurance policies. We believe Congress can further build on that success by providing for an above-the-line deduction for long-term care insurance premiums, allowing cafeteria plans and flexible spending accounts to include long-term care insurance, and a tax credit for individuals and their caregivers.

Consumer protections

For more than 15 years, the NAIC, along with consumer and industry groups, has worked diligently to ensure that strong consumer protections were part of the NAIC Long-Term Care Insurance Model Act and Regulation. In addition, the HIPAA requires that any long-term care policy meet the consumer protection requirements found in the NAIC model act in order to qualify for the tax break. Some of the more important protections include:

- A non-forfeiture benefit equal in value to premiums paid to date in the event of a lapse or cancellation.
- A provision that requires a company to offer a reduction in benefits option if premiums increase to a certain level (based on a table of increases); to convert the policy to a paid-up status with a shorter benefit period; or allow the customer to pay the increased premium.
- An offer of inflation protection against increasing costs of long-term care.
- A prohibitions against excluding coverage for Alzheimer's, policy cancellation due to deteriorating health, or increasing premiums due to advancing age.
- An option that a designated individual other than the beneficiary receive notice of policy termination due to nonpayment of a premium and the reinstatement of the policy if it is due to cognitive impairment or loss of functional capacity.
- A 30-day free-look period.

Rate Stability

The NAIC has adopted new consumer protection provisions to address premium rate increases for long-term care insurance. The restrictions on increases seek to ensure that the premium rates companies offer customers will be sufficient for the life of the policy and therefore preclude the chance of unjustified and unnecessary rate increases. These protections include:

- Providing that if the state insurance commissioner determines a rate increase to be unnecessary he can require the company to either reduce the premiums or increase the benefits to the customer accordingly.
- An authorization for state insurance commissioners to ban a company from the marketplace for up to five years if the Commissioner determines that a company repeatedly filed inadequate premium rates.
- A requirement that all rate filings come with an actuarial certification that no rate increases are anticipated, with the approving actuary subject to existing standards of professional conduct.
- Disclosure requirements asking that companies provide consumers with a rate increase history to inform consumers of any past company practices.

The ACLI supports this initiative and is confident that once the rate stability measure is adopted by states, consumers will have an added layer of confidence in the reliability of their long-term care products.

The majority of the market has not experienced rate increases on the product line but the ACLI recognizes that there has been situations where rate increases in some states occurred with state regulators unable to properly evaluate the legitimacy of such increases. We are happy to say over 17 states have either proposed or adopted the rate/stability provision to date.

The average termination or lapse rate has declined in recent years. ACLI's analysis shows that in the individual market, two percent of policyholders voluntarily lapsed or replaced their policies in 1997 versus six percent in 1992. Group terminations fell to seven percent in 1997 from eight and one half percent in 1995. Companies are offering policyholders the opportunity to examine the policy, returning the premium if the buyer decides within a specified time-period to terminate the policy. They also are allowing consumers to reinstate coverage if there is a policy lapse due to cognitive impairment.

The insurance industry, in conjunction with the NAIC, believes it has met the challenges of protecting consumers from improper premium rate increases in the long-term care insurance market. The next step is for states to continue to adopt the model provisions.

Summary

TIAA-CREF along with other companies are active participants in the long-term care insurance market. However, we recognize that in order to provide long-term care coverage for a greater percentage of our population, the public needs more incentives from the Federal government. Those incentives can take a number of forms including an above-the-line tax deduction for long-term care insurance and tax credit for long-term care provided at home.

We believe that the success of the new Federal long-term care program will make a significant contribution beyond its target audience – the Federal workforce. By reaching out to 20 million eligible workers, retirees, and their families, it also will educate the public and raise awareness of long-term care costs. It will highlight the financial burdens that our states are already facing in long-term care costs paid by Medicaid. And, it serves to reinforce the message that individuals must take responsibility to protect themselves from the high cost of long-term care services.

Private industry is excited and encouraged by the launch of the program and will look to build on its successes. We are optimistic that as public awareness grows, so will demand for long-term care insurance. As a result, more employers will be encouraged to take a role in providing long-term care insurance, either through employer-provided or individual programs.

Through this informal partnership, private long-term care insurance carriers and employers can follow the example set by the Federal government:

- Educate the public on the high costs of long-term care services.
- Educate lawmakers on the benefits of long-term care insurance.
- Encourage the passage of tax incentives to purchase long-term care insurance
- Correct consumer misperceptions about Medicaid and Medicare coverage.
- Protect state Medicaid systems – and the low-income population it serves – by making long-term care insurance available to a large segment of the population.

We appreciate the opportunity to testify today and look forward to working with the Committee in the future to encourage all Americans to plan for their retirement security. Our hope is that they will have the necessary tools – such as long-term care insurance – and the important incentives – above-the-line tax deduction – to safeguard their retirement assets.

The CHAIRMAN. Thank you very much, Mr. Scott, for your statement.

Next, Ms. Boyd.

STATEMENT OF FROLLY BOYD, SENIOR VICE PRESIDENT, GROUP INSURANCE/LONG-CASE PENSIONS, AETNA, INC., HARTFORD, CT, AND BOARD MEMBER, AMERICANS FOR LONG-TERM CARE SECURITY

Ms. BOYD. Good morning, Mr. Chairman. Thank you for this opportunity to speak to you today. My name is Frolly Boyd. I am the Senior Vice President of Aetna Life Insurance Company's Group Insurance Division based in Hartford, CT. I would like to request that the text of my formal statement be added to the record.

The CHAIRMAN. Without objection.

Ms. BOYD. I would like to thank you, Mr. Chairman, Senator Breaux, for cosponsoring S. 627.

As one of the Nation's oldest and largest providers of health and related group benefits, Aetna has taken a leadership role in group long-term care insurance. In addition to representing Aetna, I am also here today on behalf of Americans for Long-Term Care Security, ALTCS. I serve on the board of ALTCS, a 34-member coalition of consumer and industry organizations that seeks to build public awareness about long-term care and advocates legislation to help Americans better prepare for their retirement security. I believe you have a list of the membership.

Aetna and Americans for Long-Term Care Security believe that the Government must continue to provide a safety net for the truly needy. At the same time, the Government should also provide incentives for private sector solutions, such as long-term care insurance.

Congress needs to act now. With the baby-boom generation preparing to retire, the cost of long-term care will place an intolerable strain on the Medicaid program.

Contrary to popular belief, Medicare pays virtually nothing for long-term care services. Medicaid is the one and only Government program providing long-term care coverage and pays for over two-thirds of all nursing home patients in the United States. This has put a tremendous strain on State budgets. Because of the widespread practice of transferring and sheltering assets to achieve Medicaid eligibility, the middle-class elderly end up in nursing homes paid for by Medicaid monies.

For America's 77 million baby boomers, paying future long-term care costs is their largest looming expense. In 2020, one out of every six Americans will be age 65 or older—roughly 20 million more seniors than today. By 2020, the number of Americans 85 and older—the people most likely to need long-term care—will double to 7 million.

It is no secret that long-term care is very expensive. The average annual cost of a 1-year nursing home stay is $55,000. But in some areas of the country, it is closer to $80,000. It costs almost $16,000 annually for daily visits by a home health care aide. Alarmingly, these expenses are projected to quadruple over the next 30 years, eroding hard-earned retirement nest eggs.

Medicaid will never be able to foot the bill for the millions of baby boomers that will need long-term care services in the near future. Helping people pay for these services directly through quality long-term care insurance products should be part of our Nation's answer to this crisis.

That is why Aetna and Americans for Long-Term Care Security strongly support the Long-Term Care and Retirement Security Act of 2001.

The bill would allow individuals an above-the-line Federal income tax deduction for the premiums they pay to purchase long-term care policies. Additionally, it provides up to a $3,000 tax credit for family caregivers to help cover their long-term care expenses. Most importantly, for employer group long-term care products, it will also permit long-term care insurance coverage to be offered under employer-sponsored cafeteria plans and flexible spending accounts.

While not a complete panacea, this legislation will provide some needed relief to the growing numbers of Americans who are overwhelmed by caring for their disabled parents and relatives, while encouraging many of those caregivers to begin preparing for their own long-term care needs.

I believe the tax breaks contained in S. 627 will dramatically increase the public's appetite for long-term care products and provide needed relief to Federal and State government programs.

Another important reason this legislation is needed: its very passage will generate publicity and increase public awareness. Consumer education is critical.

One of the barriers to growth in the marketplace is consumers' misconception about who pays for long-term care and their lack of awareness. A recent survey found that only 25 percent of people age 55 and older think they or their family would be responsible for long-term care expenses. The truth is most health plans do not cover long-term care, and Medicare coverage within the health plans is very limited.

The cost of long-term care insurance is also cited as a reason why few consumers own a policy today. Many people assume insurance covering nursing home costs must be expensive. In reality, long-term care insurance policies can be quite affordable, especially when purchased at a younger age.

For example, a 40-year-old might pay an annual premium of about $259 for a standard group long-term care policy. That annual premium rate would apply for the life of the policy. The same policy for a 50-year-old would cost $482, and for a 60-year-old it would cost $1,136.

Long-term care policies have also dramatically improved. Increasingly, insurers are offering comprehensive coverage for the wide variety of benefit options and design flexibility. Today's policies cover a variety of services, a variety of providers, and a variety of care settings, such as both facility- and home-based care. We strongly applaud and encourage legislative efforts to develop uniform consumer protection provisions so that the public can be assured that the benefits that they expect will be paid on time, when needed, and without hassle.

In conclusion, we believe that swift passage of this bill will help families struggling with the staggering costs of long-term care and enable others to protect themselves by purchasing private coverage. As the baby-boom generation ages into retirement, they must be encouraged to buy private insurance now to provide for their own eventual long-term care needs. Continued reliance on Medicaid and other programs is not the answer. The tax relief embodied in S. 627 will go a long way in providing aging Americans with retirement security. Thank you, Chair.

[The prepared statement of Ms. Boyd follows:]

TESTIMONY OF FROLLY BOYD

Good morning, Mr. Chairman and members of the Committee. Thank you for this opportunity to speak to you today. My name is Frolly Boyd. I am the senior vice president of Aetna Life Insurance Company's Group Insurance division based in Hartford, CT. It is my unit that is responsible for Aetna's long-term care insurance policies.

As one of the nation's oldest and largest providers of health and related group benefits, Aetna has taken a leadership role in long-term care insurance. Indeed, Aetna underwrote the nation's first employer-sponsored group long-term care insurance plan for the state of Alaska back in 1987.

In addition to representing Aetna, I am also here today on behalf of Americans for Long-Term Care Security (ALTCS). I serve on the board of ALTCS, a 34-member coalition of consumer and industry organizations that seeks to build public awareness about long-term care and advocates legislation to help Americans better prepare for their retirement security. Our membership includes such diverse interests from the National Alliance for Caregiving and the American Society of Aging to the Council of Affordable Health Insurance and Citizens for a Sound Economy. The complete membership list is attached.

Aetna and ALTCS believe that the government must continue to provide a safety net for the truly needy. At the same time, the government should also provide incentives for private sector solutions, such as long-term care insurance, so that individuals and families are encouraged to take personal responsibility for long-term care planning. Every American with private long-term care coverage today is one fewer citizen looking for government assistance tomorrow.

I am delighted that this Committee is addressing a critically important issue: how private long-term care insurance can help relieve the financial and emotional burden of long-term care faced by millions of aging Americans.

Drain on Medicaid

Congress needs to act now. With the baby boom generation preparing to retire, the cost of long-term care will place an intolerable strain on the Medicaid program unless alternative sources of financing can be found.

Contrary to popular belief, Medicare pays virtually nothing for long-term care services. Medicaid is the one and only government program providing long-term care coverage, and it pays for over two-thirds of all nursing home patients in the U.S. This has put a tremendous strain on state budgets. As the nation ages and the baby boomers start to retire, Medicaid spending on long-term care will further strain government budgets, mostly at the state level. Indeed, Medicaid's costs have increased dramatically in just the past year. This committee recently heard compelling testimony from the states on the severe strain Medicaid budgets are under from rising nursing home costs for long-term care.

It should be noted too that Medicaid is a means-tested public assistance program – initially designed for the poor in need of health coverage. But today, with the high cost of nursing home care and the widespread practice of transferring and sheltering assets to achieve Medicaid eligibility, the middle-class elderly end up in nursing homes paid for by Medicaid monies.

For America's 77 million baby boomers, paying future long-term care costs is their largest looming expense. In 2020, one out of every six Americans will be age 65 or older – roughly 20 million more seniors than today. Furthermore, by 2020, the number of Americans 85 and older – the people most likely to use long-term care – will double to seven million.

It's no secret that long-term care is very expensive. The average annual cost of a one-year nursing home stay is $55,000. In some areas of the country it's closer to $80,000. It costs almost $16,000 annually for daily visits by a home health care aide. Alarmingly, these expenses are projected to quadruple over the next 30 years – eroding hard-earned retirement nest eggs. This makes the financing of long-term care coverage both a health *and* retirement issue. How devastating it will be for a retiree to see his or her retirement nest egg drained overnight because of a long-term care need.

Medicaid will never be able to foot the bill for the millions of baby boomers that will need long-term care services in the near future. And, it shouldn't have to given the mission of Medicaid to assist the poor. Helping people pay for these services directly through quality insurance products should be part of our nation's answer to this crisis.

That is why Aetna and ALTCS strongly support the "Long-Term Care and Retirement Security Act of 2001," introduced by Senators Charles Grassley and Bob Graham (S.627) and co-sponsored by 23 other members of the Senate including seven members of this committee.

The bill would allow individuals an above-the-line federal income tax deduction for the premiums individuals pay to purchase long-term care policies. Additionally, it would provide for up to a $3,000 tax credit for family caregivers to help cover their long-term care expenses. It will also permit long-term care insurance coverage under employer-sponsored cafeteria plans and flexible spending account arrangements.

Benefits of S.627

While not a panacea, this legislation will provide some needed relief to the growing numbers of Americans who are overwhelmed by caring for their disabled parents and relatives, while encouraging many of those caregivers to begin preparing for their own long-term care needs.

Passage of this bill is important for several reasons:

- Tax incentives would make private long-term care insurance, both individual and group-based coverage, more affordable.
- The government would be promoting individual responsibility by encouraging Americans to fund their own future long-term care needs.
- Individuals buying private insurance would have less reason to spend-down their assets to make themselves eligible for Medicaid, thereby forcing government to pay for their long-term care needs.
- An expanded private long-term care insurance market would reduce Medicaid outlays, thus decreasing future costs to the federal and state governments.

Public Education Needed

Another important reason this legislation is needed: its very passage will generate publicity and help make the public more aware of the value and dramatic cost savings of pre-funding its long-term care risk through insurance. This kind of consumer education is critical. I can't stress enough that we need to do a better job in this area.

The new federal employee long-term care program will certainly go along way toward helping to educate Americans. However, these efforts need to be strengthened because the majority of Americans are unaware of their potentially devastating financial risk in this area.

One of the barriers to growth in the marketplace is consumers' misconception about who pays for long-term care and their lack of awareness about long-term care insurance. A recent survey found that only 25 percent of individuals age 55 and older think they or their family would be responsible for long-term care expenses. The underlying belief of many is that public programs or their own health insurance would provide the coverage they need. Younger baby-boomers have similar misconceptions. Unfortunately, this is hardly the truth.

In fact, most health insurance plans don't cover long-term care, and Medicare coverage is very limited. Medicare's skilled nursing facility benefit doesn't cover most nursing home care. And Medicare does not cover homemaker services. It doesn't pay for home health aides who provide personal care unless the individual is homebound and is also receiving skilled care such as nursing or therapy. Also, Medicare supplement insurance policies don't cover long-term care costs.

Individuals who do ***not*** purchase long-term care coverage prior to needing it may become uninsurable. Waiting until the need for coverage arises generally results in a situation where the individual no longer qualifies for long-term care insurance coverage. If they do qualify, costs may be too prohibitive to purchase a long-term care plan. It would be similar to trying to purchase auto insurance after you had a car crash.

Education should begin early, so that younger individuals understand the likelihood that they will need long-term care and can plan ahead while they have the resources to do so.

The cost of long-term care insurance is also cited as a reason why few consumers own a policy today. Many people assume insurance covering nursing home costs must be expensive. In reality, long-term care insurance policies can be quite affordable, especially when purchased at a younger age.

Compared to the prospect of wiping out a lifetime of savings to pay for long-term care bills - potentially running up to hundreds of thousands of dollars - insurance premiums are quite reasonable. How much someone pays for coverage depends in part on their age when they buy the policy. Long-term care policies are sold on a level premium basis. This means that the premium you pay stays the same for the life of the policy unless you voluntarily increase your coverage through an inflation protection provision in the policy.

Buying at a younger age locks in your premium. A 40-year-old, for example, might pay an annual premium amount of $259 for a standard group long-term care policy with a daily nursing home benefit amount of $200 (or $100 a day for at home care), and that annual premium rate would apply for the life of the policy. The same policy for a 50-year-old would cost $482 and for a 60-year old it would cost $1,136. Although a younger individual will pay premiums over a longer time, it is still less expensive to purchase the coverage at a younger age, instead of buying at an older age and paying higher premiums for fewer years. Assuming premiums are paid until age 75, a 40-year-old will pay $259 a year over 35 years totaling $9,065. A 60-year-old will pay $1,136 a year over 15 years totaling $17,040.

Surveys repeatedly show that lowering costs of long-term care insurance through tax incentives would spark growth in this market. Those who don't enroll in employer-sponsored long-term care plans overwhelmingly say they would be interested in enrolling if they could deduct premiums from their income taxes regardless of whether they itemize. I believe that the tax breaks contained in S.627 will dramatically increase the public's appetite for long-term care products.

Although the number of individuals purchasing long-term care policies – either individually or at work – is relatively low, the market is growing. This is particularly true with employer-sponsored plans that reach a large number of people efficiently during their working years when premiums are more affordable. Policies have also improved. Increasingly, insurers are offering comprehensive coverage with a wide range of benefit options and design flexibility. Today's policies cover a variety of services, providers and care settings such as both facility-based and home-based care. Driven by the aging boomers and a growing unmet need for retirement security, the market could really take off with the aid of the tax incentives contained in S.627.

Consumer Protections

The long-term care policies subject to the tax incentives under S.627 are currently covered by broad consumer protections that were enacted as part of HIPAA. S. 627 is important because it updates those protections, and adds some others, to reflect the most recent provisions of the NAIC Model Long-Term Care Act and Regulation. We strongly applaud and encourage legislative efforts to develop uniform consumer protection provisions so that the public can be assured that the benefits they expect will be paid on time, when needed, and without hassle.

To that end, Aetna and ALTCS support the consumer protections contained in The Health Insurance Portability and Accountability Act (HIPAA) of 1996, which provided certain limited tax advantages for policies that contained those protections. Some of the existing consumer protections that would be updated by S. 627 include:

- The offer of a nonforfeiture benefit – a policy provision that provides a paid-up benefit equal to the premiums if the policy is canceled or lapses;
- The offer of inflation protection – provides for increases in benefit levels to help pay for expected increases in the costs of long-term care services;
- A prohibition on limiting or excluding coverage for Alzheimer's and certain other illnesses;
- Minimum standards for home health and community care benefits;
- A 30-day free-look period in which consumers can cancel the policy after buying it and get their money back.

- Significantly expanded suitability standards, designed to help insurers and consumers determine the appropriateness of long-term care insurance purchases.

Some of these new consumer protection provisions added by S. 627, which Aetna and ATCS support, include:

- Required disclosures to consumers of rating practices;

- Provisions requiring contingent nonforfeiture benefits to be included in long-term care policies.

In conclusion, we believe that swift passage of this bill will help families struggling with the staggering costs of long-term care, and enable others to protect themselves by purchasing private coverage. As the baby boom generation ages into retirement, they must be encouraged to buy private insurance now to provide for their own eventual long-term care needs. Continued reliance on Medicaid and other public programs is not the answer. The tax relief embodied in S.627 will go a long way in providing aging Americans with retirement security.

Americans for Long Term Care Security Coalition Members

Aetna (www.aetna.com)
American Agri-Women (www.americanagriwomen.com)
American Association for Long-Term Care Insurance (www.aaltci.org)
American Council of Life Insurers (www.acli.org)
American Society on Aging (www.asaging.org)
American Society of Association Executives (www.asaenet.org)
Assisted Living Federation of America (www.alfa.org)
Association of Health Insurance Advisors (www.ahia.net)
B'nai B'rith Center for Senior Housing and Services (http://bbinet.org)
Catalano's Nurses Registry, Inc. (www.catalanos.com)
Citizens for a Sound Economy (www.cse.org)
Council for Affordable Health Insurance (www.cahi.org)
Health Insurance Association of America (www.hiaa.org)
Independent Insurance Agents of America (www.iiaa.org)
John Hancock Insurance and Financial Services (www.johnhancock.com)
Municipal Employees Long-Term Care Administrators
National Academy of Elder Law Attorneys (www.naela.com)
National Alliance for Caregiving (www.caregiving.org)
National Association of Health Underwriters (www.naifa.org)
National Association for Home Care (www.nahc.org)
National Association of Insurance and Financial Advisors (www.nahu.org)
National Association of Nutrition and Aging Services Program (www.nanasp.org)
National Association of Professional Insurance Agents (www.pianet.com)
National Association to Preserve Social Security and Medicare (www.ncpssm.org)
National Hispanic Council on Aging, Inc. (www.nhcoa.org)
National Long-Term Care Network (www.nltcn.com)
National Silver Haired Congress
60 Plus Association (www.60plus.org)
The Senior Coalition (www.senior.org)
United Seniors Association (www.unitedseniors.org)
United Seniors Health Council (www.unitedseniorshealth.org)
Unum Provident Corporation (www.unumprovident.com)

Americans for Long-Term Security
1101 Vermont Avenue, NW • Suite 1001 • Washington, DC 20005
202.789.0470 • 202.682.3984 Fax
www.ltcweb.org

The CHAIRMAN. Thank you very much, Ms. Boyd.

We have a few minutes left in this vote, which has started. I want to recess the committee and return for the other two witnesses just as soon as we can. [Recess.]

The committee will please come to order. When we left, Ms. Boyd had just completed her testimony.

Mr. Titus.

STATEMENT OF FRANK D. TITUS, ASSISTANT DIRECTOR FOR LONG-TERM CARE, AND ACTING ASSOCIATE DIRECTOR, RETIREMENT AND INSURANCE, UNITED STATES OFFICE OF PERSONNEL MANAGEMENT, WASHINGTON, DC

Mr. TITUS. Thank you, Mr. Chairman and members of the committee. Good morning. My name is Frank Titus. I am the Assistant Director for Long-Term Care and the Acting Associate Director for Retirement and Insurance at the United States Office of Personnel Management, the sponsor of the Federal Long-Term Care Insurance Program. I want to thank you for inviting me this morning and for your support of this program.

Your letter of invitation indicated that you were interested in basically five different areas: the process that OPM used that resulted in the selection of John Hancock and MetLife as Long-Term Care Partners, the companies that will administer this program; the composition of the Federal family that is eligible to apply for coverage under the program; the early enrollment period that is now underway and the open season that will begin on July 1 and run through the end of the year; our outreach and consumer education efforts, both past and planned; and how we will know whether we succeeded in this important offering or not. I will address each of these briefly in turn.

First, our selection process. As you know, the Long-Term Care Security Act was signed into law in September of 2000, and shortly thereafter we created the Office for Long-Term Care Implementation in the U.S. Office of Personnel Management, and I was selected as the Assistant Director of that office.

We began an outreach effort and held literally scores of meetings with stakeholder groups, industry representatives, et cetera, in an effort to understand as much as we could about the product, and about our stakeholders' interests, so we could develop a balanced group policy that would meet our stakeholder needs and that would attract very competitive bids from the insurance industry.

That process culminated in the creation of a request for proposals that was issued on June 20, 2001. That request for proposals, which is the standard Government vehicle for contracting and obtaining services, contained evaluation criteria that were divided between technical criteria and cost criteria.

The RFP said that the technical criteria taken together would be more important than cost, and it enumerated the criteria that were most important. From a technical standpoint, they were: education, marketing and enrollment, customer service, underwriting, and claims administration.

Our cost evaluation was a bit different from standard Government cost evaluations in that this was not simply a low-cost effort. Our cost criteria did evaluate the absolute premiums, but, more important, we evaluated the results that we thought those premiums would produce in actual experience in terms of something we called an experience fund.

We also looked at the profit that carriers proposed and the proportion of that profit that they were willing to put at risk for performance. We looked at the reasonableness of the underlying economic and actuarial assumptions in terms of the NAIC model that is designed to produce premium stability.

We assembled two interagency task forces for the evaluation of the technical and cost aspects of the proposals we received. They included members from OPM, Treasury, HHS, DOD, and the Pension Benefit Guaranty Corporation.

We evaluated the initial proposals. We held meetings with the offerors. We requested best and final offers by October 15, and then the panels met again and made a recommendation to me as contracting officer.

I am happy to say that while our competition was very rigorous and keen, at the end of the day the Government was in a no-lose situation. It was looking at highly rated proposals that we just couldn't lose on. But both the technical and the cost evaluation panels slightly favored the proposal that was submitted by John Hancock and MetLife as Long-Term Care Partners. My independent review of their proposal as the contracting officer concurred with their evaluation, as did the Director of the Office of Personnel Management, who ultimately was the selecting official.

The CHAIRMAN. Run that by me again. Who was it? You said you had the two, Hancock and MetLife. Who was the third one you were talking about?

Mr. TITUS. Well, MetLife and Hancock came together as Long-Term Care Partners, they formed a joint venture company to administer this policy.

The CHAIRMAN. OK.

Mr. TITUS. I will just run through the rest very quickly.

You asked who is eligible. The Federal family consists of employees and members of the uniformed services, retired employees and retired members of the uniformed services; their current spouses, including surviving spouses, who are in receipt of an annuity their adult children, adopted children, and step-children age 18 or over; and the parents, parents-in-law, and step-parents of employees. The total Federal family is estimated to be some 20 million.

Our early enrollment period, as I say, is now underway. It runs until May 15. It is for people who are already educated about long-term and long-term care insurance and are in a position to make an informed decision today.

The primary difference between the early enrollment and the open season that will begin in July will be a tremendous education and outreach effort that is designed to educate the vast majority of people who are not knowledgeable about long-term care and long-term care insurance so that they will be in a position to make an informed choice during the open season.

The CHAIRMAN. You have another open season later on?

Mr. TITUS. Yes, beginning July 1 and running through the end of the year.

The CHAIRMAN. OK.

Mr. TITUS. Now, finally, you asked about the consumer education and outreach. As I say, during the early enrollment period there's relatively little. During the open season that commences in July, it will be the largest ever educational campaign. It will be comprehensive and continuous. We have established implementation coordinators at each agency. We will be issuing 5 monthly bulletins entitled "Get Smart about Your Future." We already have 750,000 subscribers for those bulletins, and thousands more are coming in each week.

We have conducted one satellite broadcast on March 6. We have a satellite broadcast coming up on May 15 and another on July 17. They increasingly focus on long-term care, long-term care insurance, and then the Federal product. We have posters, fliers, brochures, magnets for your refrigerators, all those kinds of things.

We will have a big kick-off before July 1, and after that we will have some 2,000 workplace meetings and community meetings nationwide. Finally, we will have a website, interactive decision support tools, and a toll-free number.

Finally, you asked how will I know and how will OPM know whether we succeeded. Well, I was gratified to learn that you and your wife are interested in purchasing a policy, and I was very happy to deliver to you this morning an open enrollment kit and a personal letter of invitation to become what we are calling a charter member of the Federal Long-Term Care Insurance Program. So I guess one of the ways I will measure my success is to see whether you and your wife sign up.

The other way that I will measure my success is to look at how many other charter members there are and the market penetration that we achieve among the total Federal family.

GAO will be conducting independent reviews of our program during its third and its fifth years, and there are possible studies planned by HHS and others.

That concludes my remarks. I thank you very much.

[The prepared statement of Mr. Titus follows:]

STATEMENT OF
FRANK D. TITUS
ASSISTANT DIRECTOR FOR LONG TERM CARE
ACTING ASSOCIATE DIRECTOR FOR RETIREMENT AND INSURANCE
OFFICE OF PERSONNEL MANAGEMENT

before the

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

on

THE FEDERAL LONG TERM CARE INSURANCE PROGRAM

APRIL 10, 2002

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

GOOD MORNING. I AM FRANK TITUS, AND I SERVE AS ASSISTANT DIRECTOR FOR LONG TERM CARE FOR THE OFFICE OF PERSONNEL MANAGEMENT. I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS THE FEDERAL LONG TERM CARE INSURANCE PROGRAM (FLTCIP).

I AM ESPECIALLY PLEASED TO REPORT THAT THE PROGRAM IS UP AND RUNNING WELL IN ADVANCE OF THE AMBITIOUS DEADLINE ESTABLISHED BY THE LONG TERM CARE SECURITY ACT. IT IS WORTH NOTING THAT SCARCELY MORE THAN TWO YEARS HAVE PASSED SINCE THE ORIGINAL LEGISLATION WAS INTRODUCED. THE RECORD SPEED WITH WHICH THIS

PROGRAM HAS BEEN CREATED IS A TESTAMENT TO ITS STRONG BIPARTISAN SUPPORT WITHIN CONGRESS AND TO OPM'S COMMITMENT.

OPM SEES THE FEDERAL LONG TERM CARE INSURANCE PROGRAM AS CRITICAL TO THE FEDERAL GOVERNMENT'S EFFORTS TO ATTRACT AND RETAIN A HIGH-CALIBER WORKFORCE. IN ADDITION, THE PROGRAM PROMOTES PERSONAL RESPONSIBILITY BY ENCOURAGING MEMBERS OF THE FEDERAL FAMILY TO PLAN TO MEET THEIR OWN LONG TERM CARE NEEDS, RATHER THAN EVENTUALLY RELYING ON GOVERNMENT ASSISTANCE.

WE ARE WELL AWARE OF THE INTENSE INTEREST THE PROGRAM HAS ELICITED IN MANY QUARTERS, FROM THE ELIGIBLE POPULATION, TO THE INSURANCE INDUSTRY, TO PUBLIC OFFICIALS AT ALL LEVELS. WE KNOW THAT IT IS A TALL ORDER TO MEET THE EXPECTATIONS OF ALL OF THESE PARTIES. HOWEVER, WE ARE CONFIDENT THAT WE HAVE SUCCEEDED IN OFFERING A SUPERIOR PRODUCT AT A COMPETITIVE PRICE.

BEFORE I DISCUSS FURTHER THE CURRENT STATUS OF THE PROGRAM, I WOULD LIKE TO REVIEW WITH YOU BRIEFLY THE PROCESS THAT OPM USED TO DEVELOP THE PROGRAM. SHORTLY AFTER ENACTMENT OF THE LONG TERM CARE SECURITY ACT ON SEPTEMBER 20, 2001, OPM BEGAN MEETING WITH NATIONAL EXPERTS IN THE FIELDS OF LONG TERM CARE

AND LONG TERM CARE INSURANCE. WE HELD SEVERAL MEETINGS WITH INSURANCE INDUSTRY REPRESENTATIVES AND KEY STAKEHOLDERS. OUR GOAL IN SOLICITING THE INPUT OF THESE PARTIES WAS TO DESIGN AN INNOVATIVE, COMPREHENSIVE LONG TERM CARE INSURANCE PLAN THAT SURPASSES THE STATE OF THE ART IN THE INDUSTRY AND RESPONDS TO THE NEEDS OF THE ELIGIBLE POPULATION—WHOM WE CALL THE "FEDERAL FAMILY."

ON JUNE 20, 2001, OPM ISSUED A REQUEST FOR PROPOSALS (RFP) FOR QUALIFIED CARRIERS TO INSURE AND ADMINISTER THE FEDERAL LONG TERM CARE SECURITY PROGRAM (FLTCIP). WE THEN CONVENED A TECHNICAL EVALUATION PANEL (TEP) AND A COST EVALUATION PANEL (CEP) CONSISTING OF INSURANCE EXPERTS FROM THE OFFICE OF PERSONNEL MANAGEMENT, THE DEPARTMENT OF TREASURY, THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, THE DEPARTMENT OF DEFENSE, AND THE PENSION BENEFIT GUARANTY CORPORATION.

THE RFP STATED THAT, TAKEN TOGETHER, TECHNICAL ASPECTS OF THE PROPOSALS WOULD CARRY A GREATER WEIGHT THAN COST. IT FURTHER STATED THAT WHILE ALL ASPECTS OF THE PROPOSALS WOULD BE EVALUATED, THE FOUR MOST IMPORTANT TECHNICAL ASPECTS, IN DESCENDING ORDER OF IMPORTANCE, WERE: 1) EDUCATION, MARKETING AND ENROLLMENT; 2) CUSTOMER SERVICE; 3) UNDERWRITING; AND 4)

CLAIMS ADMINISTRATION. THE OTHER TECHNICAL FACTORS WERE PLAN DESIGN, CONTRACTOR INFORMATION, REPORTING REQUIREMENTS, AND ADMINISTRATION AND SYSTEMS.

THE COST EVALUATION FOR THE FLTCIP PROPOSALS VARIED FROM TYPICAL COST EVALUATIONS, WHICH TEND TO FOCUS ON PRICE ALONE. THE COST EVALUATION PANEL DEVELOPED 10 FACTORS THAT WOULD BE ADDRESSED IN ITS REVIEW. FOUR FACTORS ACCOUNTED FOR 80 OF THE 100 POSSIBLE POINTS IN THEIR PLAN. THE FACTORS AND THE ASSOCIATED POINTS WERE: PREMIUM (20); OPERATION OF THE EXPERIENCE FUND (40); PROPOSED PROFIT AT RISK (10); AND REASONABLENESS OF ASSUMPTIONS (10). IT IS ALSO IMPORTANT TO NOTE THAT THE RFP REQUIRED THAT THE BIDDERS DEVELOP THEIR PREMIUMS IN ACCORDANCE WITH THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS' (NAIC) RATE STABILIZATION GUIDELINES. WHILE OPM WANTED THE MOST COMPETITIVE PREMIUMS POSSIBLE, WE ALSO WANTED STABLE PREMIUMS.

THE TECHNICAL AND COST EVALUATION PANELS PROVIDED THE RESULTS OF THEIR INITIAL EVALUATIONS TO ME, AS THE CONTRACTING OFFICER, FOR DETERMINATION OF THE "COMPETITIVE RANGE" -- THAT IS, THOSE OFFERORS THAT HAD A REASONABLE CHANCE OF BEING SELECTED FOR CONTRACT AWARD. I FOUND THAT TWO OF THE PROPOSALS SUBMITTED

WERE COMPETITIVE. WE THEN MET WITH THESE TWO BIDDERS DURING THE FIRST WEEK IN OCTOBER TO OBTAIN FURTHER UNDERSTANDING AND CLARIFICATION OF THEIR PROPOSALS. OPM SET A DEADLINE OF OCTOBER 15, 2001 FOR BEST AND FINAL OFFERS.

THE TECHNICAL AND COST EVALUATION PANELS THEN REVIEWED THE BEST AND FINAL OFFERS, AND MADE THEIR RECOMMENDATIONS TO ME.

WHILE THE PANELS SCORED EACH PROPOSAL FAVORABLY, BOTH PANELS CLEARLY FAVORED THE PROPOSAL SUBMITTED BY LONG TERM CARE PARTNERS, THE JOINT VENTURE FORMED BY JOHN HANCOCK AND METLIFE. I AGREED WITH THEIR ASSESSMENTS, AS DID OPM DIRECTOR KAY COLES JAMES, WHO AWARDED LONG TERM CARE PARTNERS THE CONTRACT FOR THE FEDERAL LONG TERM CARE INSURANCE PROGRAM ON DECEMBER 18, 2001.

SINCE THAT DATE, OPM AND LTC PARTNERS HAVE COLLABORATED TO LAUNCH THE EDUCATIONAL AND MARKETING CAMPAIGN AND FINALIZE PLANS FOR BOTH THE EARLY ENROLLMENT PERIOD AND OPEN SEASON. ALLOW ME NOW TO DISCUSS THE CURRENT STATUS OF THE PROGRAM, AND WHAT LIES AHEAD.

AS YOU ARE AWARE, WE ESTIMATE THAT THE FEDERAL FAMILY ENCOMPASSES APPROXIMATELY 20 MILLION PEOPLE WHO ARE ELIGIBLE TO APPLY FOR THE FLTCIP. THE ELIGIBLE POPULATION INCLUDES:

- **EMPLOYEES** - FEDERAL EMPLOYEES AND MEMBERS OF THE UNIFORMED SERVICES. THIS INCLUDES EMPLOYEES OF THE U.S. POSTAL SERVICE AND TENNESSEE VALLEY AUTHORITY, BUT DOES NOT INCLUDE EMPLOYEES OF THE DISTRICT OF COLUMBIA GOVERNMENT.

- **ANNUITANTS** - FEDERAL ANNUITANTS, SURVIVING SPOUSES OF DECEASED FEDERAL OR POSTAL EMPLOYEES OR ANNUITANTS WHO ARE RECEIVING A FEDERAL SURVIVOR ANNUITY, INDIVIDUALS RECEIVING COMPENSATION FROM THE DEPARTMENT OF LABOR WHO ARE SEPARATED FROM THE FEDERAL SERVICE, MEMBERS OR FORMER MEMBERS OF THE UNIFORMED SERVICES ENTITLED TO RETIRED OR RETAINER PAY, AND RETIRED MILITARY RESERVISTS AT THE TIME THEY QUALIFY FOR AN ANNUITY (ALSO KNOWN AS GREY RESERVISTS). RETIRED EMPLOYEES OF THE D.C. GOVERNMENT ARE NOT INCLUDED.

- **CURRENT SPOUSES** OF EMPLOYEES AND ANNUITANTS (INCLUDING SURVIVING SPOUSES OF MEMBERS AND RETIRED MEMBERS OF THE UNIFORMED SERVICES WHO ARE RECEIVING A SURVIVOR ANNUITY).

- **ADULT CHILDREN** (AT LEAST 18 YEARS OLD, INCLUDING ADOPTED CHILDREN AND STEPCHILDREN) OF LIVING EMPLOYEES AND ANNUITANTS

- **PARENTS, PARENTS-IN-LAW**, AND **STEPPARENTS** OF LIVING EMPLOYEES (BUT NOT OF ANNUITANTS)

AS YOU CAN IMAGINE, ONE OF THE GREATEST CHALLENGES WE FACE IS EDUCATING AND COMMUNICATING WITH THE ELIGIBLE POPULATION. THE LONG TERM CARE SECURITY ACT CLEARLY CHARGES OPM WITH ENSURING THAT INDIVIDUALS ELIGIBLE TO APPLY FOR THE PROGRAM RECEIVE EXTENSIVE EDUCATION ABOUT LONG TERM CARE INSURANCE.

WE TAKE THIS CHARGE VERY SERIOUSLY. WE WANT PEOPLE TO MAKE SOUND DECISIONS ABOUT WHETHER LONG TERM CARE INSURANCE IS RIGHT FOR THEM. AND WE KNOW THAT A LOT OF PEOPLE DO NOT KNOW MUCH ABOUT LONG TERM CARE, AND OFTEN KNOW EVEN LESS ABOUT HOW TO PAY FOR IT.

IN COLLABORATION WITH LONG TERM CARE PARTNERS, WE'VE DESIGNED A MULTIFACETED EDUCATIONAL CAMPAIGN THAT INCLUDES:

- A MONTHLY BULLETIN SERIES ENTITLED, "GET SMART ABOUT YOUR FUTURE";
- THREE SATELLITE BROADCASTS:
  - THE FIRST WAS ABOUT LONG TERM CARE IN GENERAL
  - THE SECOND WILL FOCUS ON LONG TERM CARE INSURANCE
  - THE THIRD WILL FOCUS ON THE PRODUCTS WE WILL BE OFFERING
- POSTERS, FLYERS, AND BROCHURES ON LONG TERM CARE AND LONG TERM CARE INSURANCE;
- APPROXIMATELY 2,000 WORKPLACE AND COMMUNITY MEETINGS ACROSS THE COUNTRY; AND
- WEBSITES WITH A WEALTH OF INFORMATION AND, BEGINNING JUST BEFORE OPEN SEASON, A VARIETY OF INTERACTIVE PLANNING TOOLS.

ALL OF THESE COMPONENTS, WITH THE EXCEPTION OF THE WORKPLACE AND COMMUNITY MEETINGS, ARE ALREADY UNDERWAY. THE LEVEL OF INTEREST AND ATTENTION THIS CAMPAIGN HAS ALREADY RECEIVED FROM THE FEDERAL FAMILY IS ENCOURAGING. NO EDUCATIONAL EFFORT ABOUT LONG TERM CARE INSURANCE HAS EVER BEEN ATTEMPTED ON THIS SCALE. BUT WE'RE CONFIDENT THAT AS THE EDUCATIONAL CAMPAIGN CONTINUES, THE FEDERAL FAMILY WILL BE MUCH BETTER

INFORMED ABOUT LONG TERM CARE AND LONG TERM CARE INSURANCE THAN THEY ARE TODAY.

WE ARE ALSO AWARE, HOWEVER, THAT A SEGMENT OF THE FEDERAL FAMILY ALREADY KNOWS A GREAT DEAL ABOUT LONG TERM CARE INSURANCE. THEY KNOW EXACTLY WHAT THEY WANT, AND THE ONLY QUESTION THEY NEED AN ANSWER TO IS "WHEN CAN I BUY?" OPM WANTS TO SATISFY THIS PENT-UP DEMAND AS BEST WE CAN.

THUS, IN AN EFFORT TO SATISFY THE DIVERSE NEEDS OF THE FEDERAL FAMILY, WE WILL OFFER TWO OPPORTUNITES IN 2002 TO APPLY FOR THE FEDERAL LONG TERM CARE INSURANCE PROGRAM. THE FIRST, EARLY ENROLLMENT, BEGAN MARCH 25 AND WILL END MAY 15. COVERAGE WILL BECOME EFFECTIVE THE LATER OF MAY 1 OR THE FIRST OF THE MONTH FOLLOWING APPROVAL OF THE INDIVIDUAL'S APPLICATION. APPLICANTS' AGE, FOR PURPOSES OF DETERMINING PREMIUMS, WILL BE THEIR AGE ON THE DATE THEIR APPLICATION IS RECEIVED.

EARLY ENROLLMENT IS DESIGNED FOR THOSE WHO HAVE DONE THEIR HOMEWORK, KNOW THE ISSUES, AND HAVE DECIDED THAT THEY WANT LONG TERM CARE INSURANCE. NO ONE SHOULD FEEL AS IF THEY WILL BE LEFT BEHIND IF THEY DO NOT APPLY DURING THE EARLY ENROLLMENT

PERIOD. INDEED, ONLY LIMITED BENEFIT AND PAYMENT OPTIONS ARE AVAILABLE DURING EARLY ENROLLMENT.

WE PLAN TO CAPITALIZE ON THE SAVVY OF THESE EARLY PURCHASERS IN THE EDUCATIONAL CAMPAIGN. WE KNOW THAT PEER-TO-PEER EDUCATION IS USUALLY THE MOST EFFECTIVE. YOU'RE MUCH MORE LIKELY TO HEED THE ADVICE OF SOMEONE YOU KNOW AND TRUST THAN TO PAY ATTENTION TO A BROCHURE OR POSTER, NO MATTER HOW WELL DESIGNED. WE THEREFORE BELIEVE THAT INDIVIDUALS WHO PURCHASE OUR COVERAGE DURING EARLY ENROLLMENT CAN BE SOME OF OUR BEST ADVOCATES AND EDUCATORS. LONG TERM CARE PARTNERS IS DESIGNATING EVERYONE WHOSE ENROLLMENT IN THE FEDERAL LONG TERM CARE INSURANCE PROGRAM BECOMES EFFECTIVE MAY 1 AS A "CHARTER MEMBER." OPM DIRECTOR KAY COLES JAMES BECAME THE FIRST CHARTER MEMBER ON MARCH 25, AND THEN INVITED FORMER DIRECTOR JANICE LACHANCE TO BECOME THE SECOND. THESE CHARTER MEMBERS WILL BE ENCOURAGED TO OFFER TESTIMONIALS ABOUT THE IMPORTANCE OF LONG TERM CARE INSURANCE WHICH CAN BE SHARED WITH OTHER MEMBERS OF THE FEDERAL FAMILY.

AS I'VE NOTED, MOST OF THE FEDERAL FAMILY WILL NEED THE EDUCATION AND INFORMATION CAMPAIGN THAT WE HAVE PLANNED AND

THUS SHOULD WAIT UNTIL OPEN SEASON TO APPLY. OPEN SEASON WILL BEGIN JULY 1 AND EXTEND THROUGH THE END OF THE YEAR. THE FULL RANGE OF BENEFIT OPTIONS WILL BE AVAILABLE, INCLUDING A FACILITIES ONLY BENEFIT, AN UNLIMITED BENEFIT PERIOD AND A WEEKLY BENEFIT. IN ADDITION, OPEN SEASON WILL PRESENT THE FIRST OPPORTUNITY TO PAY PREMIUMS THROUGH PAYROLL OR ANNUITY DEDUCTION. DURING OPEN SEASON, APPLICANTS' AGE, FOR PURPOSES OF DETERMINING PREMIUMS, WILL BE THEIR AGE ON JULY 1, 2002. THUS, NO ONE WILL BE DISADVANTAGED BY WAITING UNTIL LATER IN THE OPEN SEASON TO APPLY. THE EFFECTIVE DATE OF COVERAGE WILL BE THE LATER OF OCTOBER 1 OR THE FIRST OF THE MONTH AFTER THE APPLICATION IS APPROVED.

OPM RECOGNIZES THE IMPORTANCE OF A SUCCESSFUL INITIAL ROLLOUT, AND WE, ALONG WITH LONG TERM CARE PARTNERS, ARE COMMITTED TO DOING EVERYTHING POSSIBLE TO MAKE THIS PROGRAM A SUCCESS. ULTIMATELY, WE WILL MEASURE OUR SUCCESS BY THE MARKET PENETRATION WE ACHIEVE–THAT IS, THE PROPORTION OF THE FEDERAL FAMILY THAT PURCHASES COVERAGE UNDER THE PROGRAM.

IN ADDITION, YOU MAY RECALL THAT THE LONG TERM CARE SECURITY ACT REQUIRES THE GENERAL ACCOUNTING OFFICE TO CONDUCT TWO

EVALUATIONS OF THE FEDERAL LONG TERM CARE INSURANCE PROGRAM, BY THE END OF THE PROGRAM'S THIRD AND FIFTH YEARS. CERTAINLY, THESE EVALUATIONS WILL PROVIDE AN INDEPENDENT MEASURE OF THE SUCCESS OF THE PROGRAM.

FINALLY, WE HAVE HAD DISCUSSIONS WITH THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ABOUT ITS INTEREST IN CONDUCTING RESEARCH RELATED TO THE FLTCIP. CLEARLY, HHS HAS A NUMBER OF LONG TERM CARE INITIATIVES THAT COULD BE INFORMED BY THE FLTCIP EXPERIENCE, AND VICE VERSA. WE LOOK FORWARD TO CONTINUING TO EXPLORE THESE OPTIONS.

IN CLOSING, I ASSURE YOU THAT WE HAVE EVERY REASON TO BELIEVE THAT THIS PROGRAM WILL BE A SUCCESS. WE ARE DEEPLY GRATEFUL FOR THE SUPPORT OF CONGRESS AND BELIEVE YOUR ACTIVE ADVOCACY ON BEHALF OF THE PROGRAM CAN BE VERY HELPFUL. CONSEQUENTLY, MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I'D LIKE TO INVITE YOU TO JOIN DIRECTOR KAY COLES JAMES, FORMER DIRECTOR JANICE LACHANCE, AND ME AS CHARTER MEMBERS OF THE FEDERAL LONG TERM CARE INSURANCE PROGRAM. IF YOU ALREADY HAVE LONG TERM CARE INSURANCE AND THUS CHOOSE NOT TO PURCHASE OUR COVERAGE, YOU CAN LEND YOUR SUPPORT BY URGING THE FEDERAL FAMILY TO

CAREFULLY CONSIDER HOW THEY WILL PAY FOR THEIR FUTURE LONG TERM CARE NEEDS.

THANK YOU FOR YOUR TIME TODAY AND FOR YOUR CONTINUING INTEREST IN THE FEDERAL LONG TERM CARE INSURANCE PROGRAM.

The CHAIRMAN. Thank you very much, Mr. Titus.

Mr. Forte.

STATEMENT OF PAUL E. FORTE, CHIEF EXECUTIVE OFFICER, LONG TERM CARE PARTNERS, LLC, CHARLESTON, MA

Mr. FORTE. Good morning, Mr. Chairman and members of the committee. Thank you for this invitation to testify. My name is Paul Forte. I am the Chief Executive Officer of Long Term Care Partners LLC, a new joint venture company between John Hancock Financial Services and MetLife. Long Term Care Partners is the exclusive administrator of the Federal long-term care insurance program. I am pleased to be able to participate in this important hearing on the need for private long-term care insurance, one of the key markets in the future, and on the Federal program, a landmark event in the development of that market.

Since the mid-1980's, John Hancock and MetLife have labored to perfect our respective long-term care insurance products and to serve our ever expanding books of business. We have simultaneously participated in public policy initiatives, recognizing that without them, the private long-term care insurance market was not likely to grow.

But of all the public policy initiatives in which we have been involved, none in our opinion is as significant to the future of the private long-term care insurance market as the establishment of the Federal program. This program will have far-reaching effects on the entire U.S. population, not just the 20-million-member Federal family.

More than 3 years in the making, the Federal program is distinguished for its quality, its comprehensiveness, and its value. I would like to present some evidence for this assertion, but before I do, allow me to say a few words about the entity that will be administering the Federal program since that is near to my heart.

John Hancock and MetLife first began working closely together on the Federal program in the fall of 2000. Our two companies discussed the best way to support it if we were fortunate enough to win the award. After much discussion, we decided to build a dedicated company from scratch.

This company would have all of the expertise needed to manage a large national long-term care insurance program, to make it strong and to keep it strong. It would be responsible for everything from marketing and underwriting to customer service and claims adjudication. Further, it would make extensive use of the Internet and other technology so that it would be easy for Federal family members to access information and benefits quickly, wherever they were. It would give OPM and Federal family members a single point of contact. In short, it would take the best of everything from both companies and put it together under one roof.

Needless to say, this approach took a lot of thought and a lot of hard work, and Long Term Care Partners is now underway. We are building our organization, recruiting talent, setting up systems, and developing service protocols. We are supporting the early enrollment program, which began March 25 and will run through May 15.

Now to the reasons that I think the Federal program is so good:

First, a generous allowance for informal care benefits, bringing friends, neighbors, and other non-professionals, including relatives, into the caregiving process;

Second, care coordination and counseling services to help insured consider the many options they have before them and to access benefits when they need them;

Third, the right to appeal all disputed claim decisions to an independent third-party examiner;

Fourth, flexibility in moving from a periodic method of adjusting for inflation to an automatic compound increase method, without evidence of insurability and with appropriate adjustments to rates;

Fifth, international insurance coverage so that insureds may receive benefits anywhere in the world.

These features illustrate the quality of the Federal program and distinguish it from other long-term care offers available in the market. Since I have commented on several of these in my written testimony, let me say a few words about rates.

The Federal program represents an excellent, overall consumer value, but in order to see this, you must compare Federal program benefits with those of other policies, because long-term care insurance is not a commodity. Every policy is different, with its own provisions, its own terms, its own limitations. If adjustments are made in the rates of other policies to allow for the benefits the Federal program offers—for example, generous informal benefits, care coordination for insureds and family members, assisted living facilities covered at 100 percent of the daily benefit amount—the Federal program will come out on top.

We estimate that Federal program rates are at least 15 percent less expensive on average than comparably designed policies on a standard single-issue basis, and we expect these rates to be stable. OPM's recommendation that we set rates based upon "moderately adverse" actuarial assumptions means it is likely that these rates will be sufficient to support experience over the long term.

This approach to setting premiums is fully consistent with the rate stabilization initiatives in the current National Association of Insurance Commissioners model. In any event, all rates quoted are guaranteed not to increase for the initial 7-year contract period unless OPM approves the increase.

I would like to note, Mr. Chairman, that neither John Hancock nor MetLife has ever raised long-term care insurance rates on any employer group contract, and we have hundreds of them.

Before closing, I would like to assure this committee of the commitment that Long Term Care Partners brings to the Federal program. Some of us have been involved in long-term care insurance for the better part of our adult careers and have waited a long time for a stimulus of this magnitude. Many of us have felt satisfaction at watching the Federal program develop from its initial legislation into the impressive structure it is becoming. All of us are dedicated to making the Federal program a success because we believe in it and in the people who are making it happen here in Washington.

On behalf of the staff of Long Term Care Partners and of my associates at John Hancock and MetLife, I would like to thank you again for this opportunity to appear before your committee and for your valuable time. I will be happy to answer any questions you may have.

[The prepared statement of Mr. Forte follows:]

Long Term Care Partners, LLC

Written Testimony of

Paul E. Forte
Chief Executive Officer
Long Term Care Partners, LLC®

Submitted to the

Special Committee on Aging
United States Senate

April 10, 2002

Written Testimony of
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April 10, 2002

Good morning, Mr. Chairman and members of the Committee. Thank you for this invitation to testify. My name is Paul Forte. I am the Chief Executive Officer of Long Term Care Partners, LLC, a new joint venture company between John Hancock Financial Services and Metropolitan Life Insurance Company. Long Term Care Partners is the exclusive administrator of the Federal Long Term Care Insurance Program. I am pleased to be able to participate in this important hearing on the state of the private long term care insurance market, one of the key insurance markets of the future, and on the Federal Program, a landmark event in the development of that market.

I want to express my gratitude for the leadership role this Committee has taken over the years in highlighting the importance that private long term care insurance plays in retirement planning. You and members of this Committee have supported the need to encourage the private long term care insurance market in order to meet the nation's long term care needs without crippling taxpayers and already strained government programs.

It is a special honor for me to testify on this subject. I began my work on long term care insurance in 1987, in the infancy of private long term care insurance, when relatively few people had policies. In those days, carriers were just taking their first steps toward insuring the risk posed by long term care needs. Knowledge was limited to some general ideas about plan design. Actuarial assumptions were based purely on public data like the National Nursing Home Surveys, because private insurance experience was unavailable. Consumer advocates were critical of policy provisions. State insurance regulation was still evolving. Financial planners were either unaware of private long term care insurance or unconvinced that it represented a good value. When asked about long term care insurance, many simply recommended saving for long term care expenses through various investment instruments.

It is deeply gratifying to reflect on how far we have come since then. Today, more than 5 million Americans own some form of long-term care insurance. Nearly 100 companies are selling long term care insurance products. Sales of long term care insurance are still modest when compared to other forms of protection – roughly $1 billion in new annualized sales premium last year – but there is every indication that this is a powerful new insurance market with a significant role to play in our nation's future, because 76 million baby boomers are beginning to think seriously about retirement and they are beginning to realize that they may not be able to save enough to cover long term care expense risk.

The policies themselves have improved dramatically. Most now gear their coverage to custodial care, as opposed to skilled nursing care; most pay benefits for cognitive, as well as functional impairment; and most now accommodate, to some extent, aging in place, the coverage of a wide range of services and care settings so as to help people live as long as possible in the community.

Over the years, John Hancock and MetLife have labored to perfect our respective long term care insurance products and to serve our ever expanding books of business. We have simultaneously participated in public policy initiatives, recognizing that without them the private LTCI market was not likely to grow. As representatives of our respective companies and our industry, we have advocated for responsible state insurance regulations, for appropriate federal standards for policies, and for favorable tax treatment for long term care premiums and benefits, issues in which this Committee has taken a lead role. Both companies were in full support of the Health Insurance Portability and Accountability Act of 1996, and both have worked closely with the National Association of Insurance Commissioners and consumer groups to help shape the current NAIC LTCI Model Act and Regulation, which provides reasonable consumer protections and product standards. We support the current NAIC long term care insurance models in total, and their adoption in the states.

But of all the public policy initiatives in which we have been involved, none, in our opinion, is as significant to the future of the private long term care insurance market as the establishment of the Federal Long Term Care Insurance Program through the Long

Term Care Security Act of 2000. This program will have far reaching effects on the entire U.S. population, not just the 20 million member Federal Family. It will involve the most sustained education and enrollment campaign ever conducted for long term care insurance. It will cause millions of people to think seriously about long term care and long term care insurance who have never given the subject a thought. And it will have an effect on the way that long term care is delivered in this country, because it will establish new benchmarks for service.

The Federal Program is distinguished for its quality, its comprehensiveness, and its value. I will present some of the evidence for this assertion momentarily, but it may be of interest to the Committee to know something of the process by which the Program was designed.

The Federal Program is the result of more than three years of study into all aspects of long term care and long term care financing. The U.S. Office of Personnel Management (OPM) began its work in 1999, talking with employees, retirees, and other stakeholders within the Federal Family, and then consulting with dozens of the top people in the industry, from actuaries and underwriters to care managers and customer service specialists. The Request for Proposal OPM issued in June of 2001 was as challenging and thorough as any that has appeared. The negotiations for the contract were tough. Since the statute allowed for the formation of consortia of insurers, who would bring diverse resources together, the expectations for expertise and capacity were high. Emphasis was placed on both technical capabilities *and* price. The aim throughout was to secure not only the strongest possible plan design at the best possible price, but to ensure, through good administration, *that plan design would stay meaningful and that the Program would continue to be competitively priced in the years ahead.* After proposals were submitted and reviewed, and oral interviews were held, all competitors were asked to revisit their proposals and to sharpen their pencils. Best & Final offers were considered and a decision was made.

This, in short, was the way the Federal Program was designed and, I believe, the process was sound. Now to the evidence for my assertion that the Federal Program is of high quality and value.

First, the Federal Program makes generous allowance for informal care benefits. The testimony before this very Committee of such distinguished persons as you, Mr. Chairman, Secretary of Health and Human Services Tommy Thompson, former Senator Dave Durenberger, and others, points to the need to move long term care away from its institutional bias and toward home and community-based care. This is the aim of the Cash and Counsel Programs in Arkansas and Florida, the Family Care and the Community Options Program in Wisconsin, and the Program of All-Inclusive Care for the Elderly (PACE), whose demonstration projects have shown what can be done to provide high quality care for people in their communities.

Under the Federal Program, we are taking an approach consistent with such important initiatives. Insureds will be able to receive up to 75% of their normal daily benefit payable for services provided by friends, neighbors, and other non-professional persons. These persons can be paid to help with bathing, dressing, preparing meals, exercising, going to the doctor, visiting community agencies, and doing other daily living tasks.

Moreover, the Federal Program will pay benefits for informal care from *relatives,* provided those relatives have not been living with the insured before the insured is certified as eligible to receive benefits. The Federal Program will pay up to 75% of the Maximum Daily Benefit for up to 365 days over the lifetime of the coverage. These informal benefits are far in excess of what is typically available in the private LTCI market, where benefits for informal care are typically limited to less than 50% of the Daily Benefit Amount , available for only 25 or 30 days per year, and not payable to relatives at all.

Finally, the Federal Program makes available both hospice care benefits and caregiver training benefits, neither of which require the fulfillment of the normal waiting period but can be paid immediately upon an insured's being certified for benefits.

We believe that such benefits will help many persons to stay in their homes and communities who would not otherwise be able to do so, and to lead happier, more productive lives than would otherwise be possible.

The second point of design I wish to call to your attention is Care Coordination and Information Counseling Services. Many long term care insurers require that certification for benefits be handled by persons with medical training. This person will confer with visiting nurses, attending physicians, health care practitioners, and others to ascertain the nature and extent of functional or cognitive impairment before approving benefits.

While certification of this kind helps to ensure that real needs are being met, it does not in itself help people to make informed choices. Under the Federal Program, Care Coordinators will offer information counseling services to the insured and the insured's family members. Among those services are the best potential sites of care for the insured's particular needs, the way to combine various modes of care, nutritional counseling, and discounts available from select providers. A detailed plan of care will be written for each insured, and efforts will be made to help the insured make wise choices with respect to providers. Incidentally, information counseling by a Care Coordinator will be available to qualified relatives of enrollees (e.g., spouses, parents, parents-in-law, adult children), even if those relatives are not themselves enrolled in the Program. This emphasis on Care Coordination and Counseling means patient advocacy. It means making sure that insureds have qualified resources to help them access benefits when they need them.

The last element of design I will discuss is the Claims Appeal Process. During the evolution of the Long Term Care Security Act, many parties felt strongly the need for an independent appeals process for benefit eligibility and for disputed claims generally. I am happy to report that the Federal Program has such a process, whereby an independent third party, mutually agreed upon by Long Term Care Partners and OPM, will consider appeals by insureds to adjudicate. The third party's assessment will be binding.

Several insurers today allow for the consultation of persons not working for the carrier to render an opinion on whether a particular insured should be certified for benefits. But none of these insurers, to my knowledge, will actually *accept* the decision of an independent third party as *final*.

The Federal Program is distinguished from other long term care insurance offerings in other ways. In the interest of time, let me just mention the following:

- The right to switch inflation protection modes from Future Purchase Option to Automatic Compound Increase, without evidence of insurability and with appropriate discounts.
- A unique separate account strategy for the investment of plan assets.
- International insurance coverage, whereby persons enrolled in the Program can receive benefits anywhere in the world.
- The largest education and awareness campaign ever conducted on the subject of long term care and long term care financing. This campaign, which has already begun and will extend throughout the remainder of 2002, will involve a Call Center staffed by long term care specialists, substantial mailings, satellite broadcasts, more than 2,000 face-to-face meetings nationwide, and powerful, interactive website technology to help Federal Family members make smart choices.

Such provisions illustrate the quality of the Federal Program. But a program's success depends upon two other important factors: rates and service.

Much will be said about the competitiveness of the Federal Long Term Care Program rates in the weeks and months ahead. Some will be pleased, others will not. Certain parties have already suggested that better or cheaper policies are currently available elsewhere.

The Federal Program *is* an excellent overall consumer value. But in order to see this, you must compare Federal Program benefits with those of other policies, *because long term care insurance is not a commodity.* Every policy is different, with its own provisions, its own terms, its own limitations. If adjustments are made in the rates of other policies to allow for the benefits that the Federal Program offers – for example, generous informal care benefits, Care Coordination for insureds and family members, assisted living facilities covered at 100% of the Daily Benefit Amount, international insurance coverage – the Federal Program will come out on top. We estimate that Federal Program rates are at least 15% less expensive, on average, than comparably designed policies on a standard, single issue basis. And we expect these rates to be stable. OPM's recommendation that we set rates based upon "moderately adverse" actuarial assumptions means it is likely that these rates will be sufficient to support experience over the long term. This approach to setting premiums is fully consistent with the rate stabilization initiatives in the current NAIC model. It should be noted that in any event all rates quoted are guaranteed not to increase for the initial seven-year contract period unless OPM approves the increase.

The other important factor in considering the merits of a long term care insurance offering is service. The Federal Program is being sponsored by OPM, which will function as regulator. This means that OPM will protect the interests of Federal Family members with respect to keeping plan design current, premiums stable, customer service responsive, claims adjudication equitable, and general satisfaction high. As I have already noted, OPM has proven itself a tough customer. I believe that it will continue to demonstrate its toughness in the interests of enrollees at every stage of the Program. If the carriers selected to underwrite and administer the Program do not perform as stipulated, they will be penalized with respect to profit charges and could ultimately be subject to replacement by other carriers. But having come at last to the subject of carriers, allow me to say a few words about them.

John Hancock and MetLife first began working closely together on this program in the fall of 2000, after President Clinton had signed the Long Term Care Security Act (P.L. 106-265) into law. Our two companies discussed the best way to support the proposed Federal Program, if we were fortunate enough to win the award. After much discussion, we decided to build a dedicated company -- from scratch. This company would have *all* of the expertise needed to manage a large national long term care insurance program, to make it strong and to keep it strong. It would be responsible for everything from marketing and underwriting to customer service and claims adjudication. Further, it would make extensive use of the Internet and other technology, so that it would be easy for Federal Family members to access information and benefits quickly, wherever they were. It would give OPM and Federal Family members a single point of contact. In short, it would take the best of everything from both companies and put it together under one roof.

Needless to say, this approach took a lot of thought and a lot of hard work. And Long Term Care Partners is now under way. We are building our organization, recruiting talent, setting up systems, and developing service protocols. We are supporting the Early Enrollment Program, which began March 25 and will run through May 15. We are getting our building ready. It is located at Pease International Tradeport (formerly Pease Air Force Base), in Portsmouth, New Hampshire, one of the fastest growing commercial zones in New England. This facility will be fully operational on May 1, less than five months from the date of the contract award and two full months before the start of Open Season.

I'm proud to have been chosen to lead Long Term Care Partners, because I believe that the Federal Long Term Care Insurance Program will be one of the most flexible, inclusive, and affordable programs ever devised. I'm also proud because it will give me a chance to advance our national dialogue on long term care, a priority, I know, of this Committee and a process I believe we can assist through our efforts.

In closing, I would like to assure this Committee of the commitment that Long Term Care Partners brings to the Federal Program. Some of us have been involved in long term care insurance for the better part of our adult careers and have waited a long time for a stimulus of this magnitude; many of us have felt satisfaction at watching the Federal Program develop from its initial legislation into the impressive structure it is becoming; all of us are dedicated to making the Federal Program a success, because we believe in it and in the people who are making it happen here in Washington.

On behalf of the staff of Long Term Care Partners, and of my associates at John Hancock and MetLife, I would like to thank you again for this opportunity to appear and for your valuable time.

The CHAIRMAN. Thank you for your testimony.

Mr. Forte and Mr. Titus, I want to be a charter member of your program. We will sit down and we will negotiate on the premiums. [Laughter.]

I thank all of you. I just think this is so important. I think the Federal effort with OPM and the partnership between MetLife and Hancock is incredibly important because hopefully we will get a lot of coverage on this, affecting not just Federal employees but, as you said, Mr. Scott, all of the civilian employees who also will be made better aware of the nature of the problem and the need for insurance.

I am a very strong believer in insurance to spread the risk and to deliver products at an affordable price. I think you have all made some really good points, and most people think the current programs cover long-term care. Most people think they don't have a problem with it because they have Medicare, and they don't have a problem with it because if they really get poor, they have Medicaid.

The truth is that Medicare, being as inadequate as it is, covering only 53 percent of an average senior's health care costs in this country, simply doesn't provide any real long-term care coverage. We have had hearings before this committee in this room with Governors—the Governor of Kentucky was the last one—who said their Medicaid program is going broke. Why is it going broke? Principally because it is being used as a stop-gap measure to provide long-term care. It was never intended to do that. We are trying to put round pegs in square holes and square pegs in round holes, and it just doesn't fit. Medicaid was never intended to be a long-term care program for the Nation's elderly, and yet, by default, it has become so. We embarrass people and families by requiring them to spend all their assets so they can become poor enough for the country to give them some help.

So I really believe that hopefully this major effort on the part of OPM is going to add to the coverage and publicity and knowledge that individuals need about what they should be purchasing and how they should go about doing it.

Let me ask you, Mr. Titus, the FEHB insurance for Federal employees gives the employees a number of different options with a number of different companies. I take it that with regard to long-term care we have only one provider, which is the partnership between the two companies we have been speaking about.

Mr. TITUS. That is correct.

The CHAIRMAN. Why do we not have a choice for employees to pick, you know, amongst more than just one provider?

Mr. TITUS. Well, as the name implies, long-term care insurance is just that: You are establishing a long-term relationship with the company. That is very different than health benefits where your premium is based on the plan's experience in only one year.

The premiums that have been set for long-term care are premiums that basically have a life of more than 40 years, and they are designed to be stable and to be level.

It is just a very different product, and we looked at both models. There was a legislative proposal which would have attempted to replicate the FEHB program in terms of long-term care. In consultation with industry and experts and in surveying what was done by other employers, we could not find any model where employers were offering basically competing insurance products.

As you know, and as has been testified this morning, not many people purchase this product because it is not well understood; and we felt that if people had to choose between five or six different competing products, the result would be not only much higher marketing and administrative costs in terms of rolling out the program, but probably lower participation rates.

We wanted to be in a position where we could stand up and be advocates and cheerleaders for a very comprehensive and flexible product, and we couldn't do that if we had competition in the marketplace.

The CHAIRMAN. How long is the contract with the joint venture program for?

Mr. TITUS. It is a 7-year contract. We will be evaluating their performance each and every year. As we approach the seventh-year anniversary, we will do an industry survey to make sure that the carriers are performing on a par with the best available in the industry. If that determination is positive, if we determine that there is no enrollee interest to be served by a recompetition, then we will renew.

If we determine that we could get better performance at a better price by recompeting the contract, then that is what we will do.

The CHAIRMAN. I am a big believer in giving people as much information as possible about products and then giving them choices to pick the one that best fits their particular needs and their family needs. But I understand the point that you make is from a standpoint of efficiency and cost, et cetera.

Let me ask Mr. Scott and Ms. Boyd, is that, from your knowledge, sort of a typical arrangement with large employers where they would go out and negotiate and pick a particular long-term care provider? Or is it more likely that they would have several different choices?

Ms. BOYD. It is the former. Certainly an employer, particularly in the area of life insurance, long-term care, and disability insurance, these areas, an employer would pick one supplier.

The CHAIRMAN. You would agree?

Mr. SCOTT. That is correct. I would agree, yes.

The CHAIRMAN. So they are consistent with what the private market has been doing in this area.

Ms. BOYD. Yes.

Mr. SCOTT. That is correct.

The CHAIRMAN. It is really interesting that 5 million people, I think is the figure that I had, approximately, have long-term health care insurance being provided by 100 companies. What do you all in the private sector think that the potential realistically is? I think this is a market that is going to explode. If I was in the insurance business, I would be running as fast as I could to design programs that are going to be available for this explosion of seniors that we are about to have in this country.

What do you think? Anybody, either one of you, have an idea about the potential out there for what a program that today covers 5 million people can be in the next 20 years? Any projections?

Ms. BOYD. I think that it is indeed potentially explosive, and for a couple of reasons. I think that, first of all, awareness is growing because of the aging of the population. But I believe the industry would reflect what Aetna has experienced, and this goes back to under HIPA tax relief. It was very limited. But even after that, certainly at Aetna we saw a 40 percent increase in enrollment in our book of business.

Now, as I said, part of that, I think, was due to general awareness, but also I think even though those tax breaks were limited, the signal was sent that individual accountability was very, very important. So I think the Federal program will indeed support that.

Second, the publicity and awareness and education around the Federal program will send a very strong message. Employers are beginning to look at, as Mr. Scott referred to, voluntary products as they transfer costs to employees, and long-term care bought on a group basis is very affordable.

So there is a great deal of interest, I think, in looking by employers at this opportunity.

The CHAIRMAN. Do you have a number that you all could tag to this potential number of people that might be involved in purchasing this?

Ms. BOYD. Well, the population that is growing, you know, those 65 or older, I think I mentioned was going to be 20 million in my testimony. So that is the extent. I don't think we would expect to see that happen overnight. We saw a 40 percent increase in our own book. I think you could expect to see that in this.

The CHAIRMAN. From your perspective as insurance people, is there anybody who shouldn't have this insurance? I guess the answer is probably obvious, but could you elaborate on that?

Ms. BOYD. Well, I think that like other parts of other insurance coverages, there is always a need and there are always different ways to solve that need. I think, again, Mr. Scott referred to the average age as certainly most suitable for somebody with a moderate income. But I have it, and I think that anybody who wishes to protect their assets would want to look at this seriously.

Mr. SCOTT. Mr. Chairman, I am remiss not to have a specific number for you, but I am sure we can get some better feel for that as time goes on here. I think the boom is quite significant, though, and I think we are all trying to position ourselves to take full advantage of that increase.

The CHAIRMAN. I really think it is something that would be recommended, I mean looking at it, for people of all income levels. If you are fortunate enough to be wealthy, you would want to protect your assets, not have to spend them all.

Mr. SCOTT. Absolutely.

The CHAIRMAN. Have something to pass on to your children and grandchildren, et cetera. If you have a moderate income, you need it. Obviously you need it if you are very poor.

Mr. SCOTT. That is the way we try to counsel people when they inquire about long-term care. Obviously we sell direct. We don't have intermediaries representing us in the marketplace. So when we counsel people about long-term care, we try to stratify them basically in the way you just indicated.

If you happen to be independently wealthy or can self-insure some of this, we still try to encourage you to protect those assets so you can pass those assets on to your heirs and not have them eroded by paying for long-term care—open-ended actually, because you don't know how long you are going to be paying for this, so you don't know what the impact will be on your assets.

For those that are in greater need, we try to offer a more comprehensive program where it would cover more of the risk for them, and certainly for those that are on the lower end, we talk about Medicaid but we still try to talk about the importance of them buying coverage, too.

The CHAIRMAN. I would like some discussion, if I can, on the type of long-term care that these insurance programs would cover. As we all know, there is a huge bias toward institutional care, which drives me crazy. You basically in the public now get Medicaid, and Medicaid covers nursing homes.

Now, for some people a nursing home is absolutely essential, and there are wonderful facilities that take care of people who need 24-hour-a-day, 7-day-a-week care from an institutional setting and with medical professionals being on call the entire time. But there is a large number of people who are elderly who don't need 24/7 care.

What does the Federal program cover when you say that we will provide $150 or $100 a day benefit? What type of care and who selects it and how does that work under the plan? Paul, do you want to elaborate on that?

Mr. FORTE. Yes. Well, the Federal program, Mr. Chairman, will offer enrollees a wide variety of options for how they get long-term care in the future. It will cover, of course, all kinds of institutional care, for example, nursing care and assisted living facilities care, and other kinds of care that would be provided in an institution. But it will offer, we think, an unprecedented degree of flexibility for home- and community-based care.

I noted earlier in my remarks that this program will not only have a generous home care benefit, but it will have an informal care benefit that is really strong, namely, you will be able to get a significant amount of benefit each day from people who are non-professionals. These could be people living in your community. They could be neighbors. They could be friends. They could even be family members—provided that those family members are not living in your household at the time that you become benefit-eligible, in other words, at the time that you submit your claim.

So you will have an opportunity to get care from people who are known to you, with whom you are comfortable, people who may be available, retirees, others in your neighborhood.

The CHAIRMAN. Is the Federal Government going to have a formulary of providers that you negotiate with, say, in order to get the price down? Or do you say anybody in assisted living you can take your money and go into where you want to go?

Mr. FORTE. We will have, through our information and counseling service, we will make people aware of networks of providers who are willing to offer, say, assisted living at lower than market rates.

The CHAIRMAN. All right. When you have coverage for prescription drugs, the providers negotiate with the suppliers to get the best price, et cetera. Are we going to do that with your companies? Can they pick any nursing home they want? Can they pick any assisted living facility? Can they pick any home health care deliverer they want?

Mr. FORTE. They have total freedom to choose any facility that they want.

The CHAIRMAN. Do you look to a point when you would negotiate with the providers to establish formularies from a price standpoint to say, all right, whoever is going to make the best offer, we will cover them, but we will restrict who you can go to?

Mr. FORTE. This is something that hasn't been strictly formalized right now, but we are in the process of discussing that.

The CHAIRMAN. OK. How do the private companies deal with this issue?

Ms. BOYD. Mr. Chairman, as a health company, we certainly are able to—we also pay out a dollar amount or reimburse services, so we do not restrict where someone can go for care. But we are able to leverage the buying power that we have to create discounts for them.

The CHAIRMAN. How many customers do you have in your long-term care?

Ms. BOYD. We have 90,000.

The CHAIRMAN. 90,000?

Ms. BOYD. Yes. We would expect in the future to really leverage that ability.

The CHAIRMAN. So if you are leveraging 90,000, you have got a potential 20 million. Can we talk? [Laughter.]

Mr. FORTE. We have every expectation that not only in terms of the cost of services but in terms of the quality of services, we will certainly have negotiating leverage, and we expect that one of the things that this program is going to do is raise the bar for all providers across——

The CHAIRMAN. I mean, you have the ability to do that. You are going to be the largest provider of long-term care by far. You have the ability to influence the quality of the services as well as the price. It is not just who can do it the cheapest. You can do it the cheapest if you do it, you know, in your back garage somewhere and say that is a long-term facility. But I don't think anybody would want to go there, although it might be the cheapest. So, I mean, it is a question of quality and price together, which I think is very, very important.

We are trying to get as much information out there to people to make, you know, educated decisions about where they want to go.

Mr. Scott, how about your operation?

Mr. SCOTT. We operate pretty much in a similar vein. However, we try to intercede with the participant to get them some direction as to what the best level of care and the most appropriate care might be for them. A little bit of the early version of the managed care activities that we have seen.

I see this business kind of evolving over time to looking a little bit more like managed care, where from the standpoint of working with the participants and making sure they get the appropriate level of care at the right type of institution, in addition to that negotiating arrangements with those institutions to make sure that the price is fair and you are buying volume.

The CHAIRMAN. I take it in the private sector the insurance enrollee can pretty much decide what facility they need to go to.

Mr. SCOTT. That is correct.

The CHAIRMAN. Whether it is assisted living or whether it is a nursing home.

Mr. SCOTT. That is correct.

The CHAIRMAN. You just have a blanket amount. What is the normal—I mean, I think in the case of OPM, at least the thing they printed out for me, daily benefits amount—under three different plans, Plan A is $100, Plan B is $150, Plan C is $150 daily benefit amount. How does that compare to what your policies are? Is that in the ballpark?

Ms. BOYD. Very similar.

Mr. SCOTT. Very similar to what we offer.

Ms. BOYD. Ours range from $150 to $300.

I would just like to make one correction point. We talked about this buying power. From an Aetna perspective, we have 50 million health members, so it is the leverage on the health.

The CHAIRMAN. The total thing.

Ms. BOYD. So we have already proved that negotiating power, so I think it will be very valuable.

Mr. FORTE. Mr. Chairman, I would like to make one observation. Since long-term care insurance is a relatively new form of protection and many people who are buying the product now may not have need of that product for many years, as Frank was indicating earlier, we think it is very important to give them the assurance that they are going to have an enormous amount of control over the kind of care that they get and how they get it.

Now, we use care coordinators who will be working with the insured's own health care practitioner, and we will make a number of recommendations for how that person could get care in an optimal fashion, the best care for the best needs. But we want to indicate—I would like to indicate that this is what we consider patient advocacy and not gatekeeping. We are not going to prevent people from accessing care because they do not use providers or facilities that we have designated. This is extremely important. I think we can all agree that in the world of health care where there are, you know, millions of claims each day and costs going up, that might be a necessity. We all will use our health plan at any point. It could be today. With long-term care, that is not desirable from a marketing or management viewpoint.

The CHAIRMAN. Well, can you all make recommendations as to which plan is suitable? You can, can't you?

Mr. FORTE. Absolutely. We——

The CHAIRMAN. You can?

Mr. FORTE. Pardon me?

The CHAIRMAN. You can.

Mr. FORTE. Yes, we have——

The CHAIRMAN. I have got three choices, A, B, and C. You can look at my situation and recommend A over B or B over C?

Mr. FORTE. We will—we can certainly ask questions about where you are living, what kind of care you might be interested in, what kind of care we think might be appropriate for your particular health condition, and we can make recommendations as to how you set that benefit.

By the way, those are just three pre-packaged options. You can buy under the early enrollment program, Mr. Chairman, up to $300 a day on the Federal program. Under the open season, you will have an option for an unlimited plan. There will be no length of time that you can receive benefits, and I just thought I would mention that since that is a little unusual with respect to group programs. Most group programs do not offer unlimited coverage.

What you are looking at is just sort of some pre-packaged options to sort of help you get a read on it quickly. But you can customize a plan by either calling our 800 line or going to our website.

The CHAIRMAN. The $100 to $150 is just a particular concept, it is not only features that you are offering? You can buy $300 a day if you want it?

Mr. FORTE. You could certainly buy $300 a day. I mean, people are going to be eligible for this program all over the world, and costs vary from place to place.

The CHAIRMAN. In the private sector, can you recommend which is the best one for an individual?

Ms. BOYD. I think this is an important point, that long-term care is very complex and it is not only which plan but it is what are your circumstances. The trend certainly that we are following is that we will profile.

The CHAIRMAN. What is the Boehner bill all about, if you can make recommendations on what you are selling, is it just different from retirement plans?

Mr. FORTE. This is different than retirement plans. The Boehner bill would allow us to make broader recommendations on some of——

The CHAIRMAN. That doesn't make any sense. We have got one standard if you are selling a retirement plan or a different standard if you are selling a long-term health insurance as far as what you can do with your customers?

Mr. FORTE. We can make recommendations to people today on health insurance. We have just chosen not to do that in many ways because what we are trying to do is allow the person to kind of walk down the path to make their own decision.

Mr. SCOTT. The Boehner bill is an investment advice bill, so that is different.

The CHAIRMAN. This is advice on long-term care. It is just as important as investments. I mean, I don't see the distinction. It is a distinction without a difference that companies that sell products for pension retirement cannot advise their clients as to which one is the best. But if you are selling long-term health care insurance, which is an investment for the rest of your life, you can. That doesn't make any sense, does it?

Ms. BOYD. Well, I think that what you are actually advising on is not necessarily which facility to use, but based on your family situation and your needs——

The CHAIRMAN. You tell them which plan best fits them. That is advice.

Mr. SCOTT. Yes.

Ms. BOYD. Which plan.

The CHAIRMAN. Yes.

Mr. SCOTT. What we should be doing and what we do often is walk through the person's background, what they have, what are their assets, what are they able to afford in retirement, if they are annuitized, like many of our participants are, how much money do they get each year in their annuity plan, can they afford the premium, and what is the likelihood—what is their health history.

The CHAIRMAN. You make a recommendation.

Mr. SCOTT. We make—well, we will give them several choices. We may not make a specific recommendation. We could. We are not limited.

The CHAIRMAN. You can do that?

Mr. SCOTT. Yes.

Mr. FORTE. We could—one of the first things I would want to know, for example, is what part of the country you plan to retire in and whether you think that——

The CHAIRMAN. South. [Laughter.]

Ms. BOYD. Right on.

Mr. FORTE. That would be Louisiana, sir?, The Chairman. Maybe even further south.

Obviously, if you were going to retire to a very high cost area, like Miami Beach, you know, you are going to be looking at a plan that is closer to $300 a day. You would want maybe the top level daily benefit that was currently offered. Then, of course, you would also want to think about how you were going to adjust for inflation.

The CHAIRMAN. I understand everything you are telling me, but the point I am trying to figure out in my own mind is why we have Federal laws that say if you are selling a pension plan to people, to a person, that you can present what you have to offer but you can't recommend which aspect of it is best for that client. If you are selling long-term care insurance to the same client the next day, you can show him all the options and you can recommend which one is the best for them, but you can't do it if you are selling a pension plan. It ought to be the same, as far as I am concerned, one way or the other.

All right. Let's go to restrictions. If I am 58 years old and have early stages of Alzheimer's, are you going to sell me a long-term care plan?

Mr. FORTE. Mr. Chairman, each person's underwriting profile is different, and our underwriters will take a look at your profile. If you are already an Alzheimer's patient, it is likely that you would not be accepted for coverage. The application that you have in front of you, which I believe is what we refer to as the short form——

The CHAIRMAN. You have seven questions.

Mr. FORTE. It has got seven questions. Those begin by asking you about your ability to perform certain activities of daily living. Then it goes on to make inquiry into any one of a number of very serious illnesses that might cause you to become dependent in the activities of daily living and so forth.

The CHAIRMAN. If you answer any one of these——

Mr. FORTE. If you answer yes to any one of those, we recommend that you do not go any further with your application. You should wait for the open season, at which time we may be able to offer you something else, a non-standard policy whose underwriting terms you could pass successfully.

The CHAIRMAN. OK. How close are we to adverse risk selection in this?

Mr. FORTE. Pardon me?

The CHAIRMAN. How close are we to adverse risk selection if you are only going to insure people who are fairly healthy?

Mr. FORTE. Well, this is not—this plan will cover people who do not have perfect health. There are a number of health conditions, of course, that you might have that are not on that part of the seven questions. We will, of course, accept people whose health is not perfect.

Take someone, for example, who has diabetes, whose diabetes is controlled through oral medication, it was adult onset. That person might very well be accepted for coverage. Someone, on the other hand, who was an insulin-dependent diabetic from childhood might be declined.

So it really depends on your situation. But to your point about not accepting people who are currently not healthy, this is a true insurance program. We are accepting people into the program whose health is reasonably good. We are not accepting people who already constitute a potential claim. In fact, the statute expressly makes reference to the fact that this program is not for people who will become—either are now a claim or will become a claim almost immediately. If we were to do that, sir, it would be almost impossible for us to offer this program at competitive rates and to make it attractive enough to those people who are in very good health and who would have the option to go to an individual long-term care insurance underwriter and get a policy for them.

The CHAIRMAN. How does it work in the private sector, Mr. Scott?

Mr. SCOTT. In the group business, we have what we call simplified underwriting, something very similar to what you have in front of you. If we are offering to a group employer, we ask a limited number of questions to get a sense of the health history. Because it is group, you are going to be spreading the risk among a larger number, so, therefore, you can take people with a somewhat questionable health history because you assume you will have healthier people.

On the individual side, we have a much more extensive health care questionnaire where we ask detailed questions about the person's history and background and then make an underwriting decision based upon how they answer those questions.

The CHAIRMAN. How many people do you think that currently are applying for long-term health care insurance are denied access to it because of pre-existing conditions?

Mr. SCOTT. About 10 percent. That is our number. Our number is about 10 percent.

The CHAIRMAN. Ms. Boyd.

Ms. BOYD. I mostly would agree with that, yes.

The CHAIRMAN. About 10 percent?

Mr. FORTE. Mr. Chairman, that is also true on the group side, about 10 percent, particularly for actively—on the retiree side, it could be a little higher.

The CHAIRMAN. OK. A final point. What—maybe two points. What would be the optimum age, if there is one, for someone to purchase these packages? Is there an optimum age, best age?

Mr. FORTE. I am not sure that there is an optimum age. I would say that if you are approaching age 50 and you haven't yet purchased long-term care, you really ought to give it very serious thought because you are close to retirement, because at that age, actuarially, your risk of contracting some kind of illness goes up fairly significantly.

The CHAIRMAN. Your thoughts?

Ms. BOYD. In the employer market, I would say average age, about 35 to 40 would be a very good age.

The CHAIRMAN. 35?

Ms. BOYD. Yes. The earlier that you purchase, the cheaper and more affordable the product is going to be. Although you would be accumulating over a long period of time, you still would be paying in a lot less than you would have to pay out. Remember also that the need for long-term care is not just an elderly issue. You can have a need for long-term care at any time in life. There are as many people under the age of 65 in need of long-term care or in nursing homes as there are over.

The CHAIRMAN. Could something like what we are offering here in the private sector be a way to provide this type of coverage to Medicare patients through the Medicare program with the Government paying a portion of the premium? Could it be adaptable to that? Mr. Forte?

Mr. FORTE. I am not sure I understand the question, Mr. Chairman. Are you asking——

The CHAIRMAN. Medicare doesn't cover long-term care, and, you know, I am thinking about trying to see—there is a big debate on adding prescription drug coverage to Medicare, and many of us are fighting for a private delivery system of prescription drugs instead of having a micromanaged, top-to-bottom, federally run, federally fixed prices on prescription drugs, to do it through an insurance program. If we were to want to add long-term care to Medicare, couldn't we just incorporate this type of delivery system as a portion of Medicare, have the Government pay a portion of the premium?

Mr. SCOTT. That is a good question. I really haven't thought about that. I am not sure. I would have to take a little bit of time to think about it.

I guess funding would be an issue and how you would underwrite that would be two issues that come to mind that could be problematic.

The CHAIRMAN. Well, the way this would work would be the Medicare program would just do what OPM did, do a request for proposals from various providers and select one or several that we would make part of the Medicare program; and a Medicare recipient would pay a portion of the premium, the Federal Government would pay a portion of the premium, and private companies would deliver the product. Most of the people that you are going to be selling this to are Medicare-eligible. They just won't get it through the Medicare program.

Mr. SCOTT. That is correct.

The CHAIRMAN. This is like a Medigap add-on, what we are talking about here. I would just like to make it part of Medicare itself. I think Medicare should cover prescription drugs. Medicare should cover long-term health care. If we are going to have a program that takes care of seniors' health needs, obviously prescription drugs is one of them. Also, obviously, long-term care is another. Yet Medicare doesn't cover either one of them. You know, we have got a program that is frozen in the 1960's. What was needed in the 1960's is not what the priorities are in the year 2002.

Mr. SCOTT. Again, not having given this a lot of thought, but the only thing I can—another item that I think might be problematic is the fact that people might wait now until they are Medicare-eligible and then assume it is going to get paid for and not buy long-term care insurance and then increase the burden of Medicare disproportionate to what you might think it would be initially.

You know, one of the nice things with that—"nice" maybe is not the best term—is that because Medicaid and Medicare don't pay for this, we have a better opportunity to try to educate people about the need to do this earlier in their lives and to pay for it now. If you eliminate that, then we put a lot more pressure on all of us to educate people about the importance of doing it early.

The CHAIRMAN. Well, this has been very, very helpful. I think we have made a good record for what you all are attempting to do. I congratulate OPM for moving aggressively in this area, for the companies that have participated in the joint venture. I think that getting this information out will be a lot easier now that you have got a potential target of 20 million people who are Federal employees and their families that will be able to benefit from it. I think that will be helpful to the private sector because more people will know about it who are not Federal employees.

I just think this is a huge, huge potential area that we are going to be moving into in the future because it is absolutely essential and necessary, and I think we have got some positive things that are happening in regard to this.

With that, this will conclude our hearing. We thank you all very much for being with us.

[Whereupon, at 11:01 a.m., the committee was adjourned.]

APPENDIX

PREPARED STATEMENT OF SENATOR DEBBIE STABENOW

Chairman Breaux and Senator Craig, thank you for holding today's hearing on "Offering Retirement Security to the Federal Family—the Long Term Care Initiative." As a member of the Budget Committee, and a strong supporter of many health care and senior programs, I think it is critically important that we not only examine these issues but also celebrate success.

For the first time, approximately 20 million members of the Federal family—federal and postal service employees and annuitants, members and retired members of the uniformed services and qualified family members—can apply for federally-sponsored long term care insurance. This benefit was created under the Long-Term Care Security Act, Public Law 106–265, which was enacted in September of 2000.

One of the greatest threats facing older people and their families today may be the financial, social, psychological and family consequences of needing long term care. Long term personal or "custodial" care is not covered by most health care programs, including the Federal Employees Health Benefit Program and TRICARE. In making this important long term care insurance program available, OPM has worked carefully to ensure the insurance coverage offers the kinds of benefits and features that would be most beneficial to members of the federal family. This includes key benefits for care in the home, care in nursing homes, in assisted living facilities and a variety of other facilities.

According to statistics reported by OPM, six out of every ten Americans who reach the age of 65 will need long term care services. In addition, 40 percent of people receiving long term care today are between the ages of 18 and 64. This points up the importance of long term care insurance not only for older Americans, but for our population in general. Data indicates that long term care insurance is as necessary as homeowner's, automobile or medical insurance.

An example of how important it is recently came up in terms of the Farm Bill. While the Farm Bill terminates certain federal appointments of Extension Service employees, it retains eligibility for some specific federal benefits, such as the Federal Employees Health Benefits Program, the Federal Employee Group Life Insurance Program and the Civil Service Retirement System.

Some constituents contacted me and told me that they had concerns about the Farm Bill because it did not include the federal long term care benefit on the list of programs these people would continue to be eligible for. While chances are that, by virtue of their continued eligibility for the Federal Employees Health Benefit Program, these individuals may have been determined to be eligible for the long term care benefit, I was advised by OPM to specifically add language to the Farm Bill to ensure that this benefit was explicitly available to these employees. I am currently working with my Agriculture Committee colleagues during conference negotiations on the Farm Bill to make sure long term care insurance is added to the list of benefits. It will not cost the federal government any money, but will provide a very important benefit to members of the federal family.

I look forward to hearing from all of our witnesses today.

Americans for ALTCS Long-Term Care Security

For Immediate Release
April 10, 2002

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ALTCS RENEWS SUPPORT FOR LTC LEGISLATION

Americans for Long-Term Care Security (ALTCS) today renewed its call on Congress to pass the bi-partisan Long-Term Care and Retirement Security Act (H.R. 831/S. 627).

The call came in testimony presented today by ALTCS Board Member Frolly Boyd to the Senate Special Committee on Aging. Boyd, Senior Vice President of Aetna Life Insurance Company's Group Insurance Division noted, "ALTCS believes that the government must continue to provide a safety net for the truly needy. At the same time, the government should also provide incentives for private sector solutions such as long-term care insurance."

In her testimony, Boyd noted that for America's 77 million baby boomers "paying future long-term care costs is their largest looming expense." She cited that the average annual cost of a one-year nursing home stay is $55,000 and daily visits by a home health care aide over a year can cost $16,000. "Alarmingly these expenses are projected to quadruple over the next 30 years, eroding hard-earned retirement nest eggs. This makes the financing of long-term care coverage both a health and retirement issue," Boyd said.

Boyd and ALTCS said passage of S. 627 and H.R. 831 is important for several reasons:

- Tax incentives would make private long-term care insurance, both individual and group-based coverage, more affordable.
- The government would be promoting individual responsibility by encouraging Americans to fund their own future long-term care needs.
- Individuals buying private insurance would have less reason to spend down their assets to make themselves eligible for Medicaid, thereby forcing government to pay for their long-term care needs.
- An expanded private long-term care insurance market would reduce Medicaid outlays, thus decreasing future costs to the federal and state governments.

ALTCS noted that H.R. 831 currently has 182 co-sponsors and S. 627 has 24. In addition, ALTCS renewed its effort to assist in the public education and awareness raising work associated with the Federal Long-Term Care Insurance Program, also a subject of today's Senate hearing.

ALTCS is a 32-member bipartisan coalition based in Washington, DC.

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AMERICAN COUNCIL OF LIFE INSURERS
FINANCIAL SECURITY FOR LIFE

Statement

of the

American Council of Life Insurers

on

Long-Term Care Insurance

Before the

Senate Aging Committee

of the

United States Congress

April 10, 2002

The American Council of Life Insurers (ACLI) is a Washington D. C.-based national trade association representing more than 400 member companies that offer life insurance, annuities, pensions, long-term care insurance, disability income insurance and other retirement and financial protection products. ACLI member companies have 87 percent of the long-term care insurance in force in the United States.

We are delighted that this Committee is addressing the important issue facing this nation -- long-term care -- through the hearing process and through legislation. Chairman Breaux and several members of this Committee have taken the lead in highlighting the need to take action to ensure that the nation's citizens are prepared for this looming crisis. We are pleased to discuss with the Committee the role that private long-term care insurance protection plays in addressing this problem that threatens the retirement security of millions of middle-income families.

The Federal Government, by Act of Congress, is taking the lead and setting the example for other employers by offering federal employees and their families the protection of long-term care insurance. Through this program, federal employees will be able to protect their retirement savings from a long-term care event and will have the choice of providing care for themselves or a family member in the home, through assisted living or in a nursing home.

We are pleased to attach to this Statement, a copy of a recent ACLI study that focuses on long-term care in the workplace. The study, "Long-term Care Insurance at Work – The Retirement Link and Employee Perspectives", concludes that long-term care insurance is gaining interest as an employee benefit, from both employers and employees. Employers increasingly want to offer long-term care coverage as part of a complete plan for financial security. As more than 70 million baby boomers approach retirement, the rapidly aging work force together with more employees caring for elderly parents heighten the importance of long-term care planning as a workplace issue.

One of the greatest risks to asset loss in retirement is unanticipated long-term care expenses. Currently, it costs almost $16,000 annually for daily visits by a home health care aide and an average cost of over $55,000 per year for nursing home care. Within the next 30 years, these expenses are projected to reach $68,000 per year for a home health care aide to $241,000 for a year of care in a nursing home. These costs can quickly erode a hard-earned retirement nest egg. Moreover, we know this Committee is acutely aware that Medicaid will never be able to foot the bill for the millions of baby boomers who will need long-term care services in the not-so-distant future. Again, Chairman Breaux along with Senators Chuck Grassley, Bob Graham and several members of this Committee have supported the need to encourage the purchase of private long-term care insurance in order to meet the nation's long-term care needs without crippling taxpayers and already strained government programs.

Today, your Committee is focusing on the Long-Term Care Program for Federal employees. We want to stress that an important component for the success of that program will be passage of S.627 the "Long-Term Care and Retirement Security Act of 2001". Representatives Nancy Johnson and Karen Thurman have introduced companion legislation in the House designated as H.R. 831. The measure provides individuals with an above-the-line federal income tax deduction for the premiums they pay to purchase long-term care insurance. The long-term care policies subject to the deduction are covered by broad consumer protections. In addition, the measure would permit long-term care insurance policies to be offered under employer-sponsored cafeteria plans and flexible spending accounts. Finally the bill includes a tax credit to individuals with long-term care needs or their caregivers of up to $3000.

This important tax incentive will go a long way toward encouraging the purchase of long-term care insurance by middle-income Americans. Moreover, providing this important tax incentive means that Americans who take advantage of long-term care protection will not be a burden on the Medicaid system and will not have to spend-down their retirement assets to pay for long-term care before becoming eligible for Medicaid. Instead, they will have the choice of a variety of services if they are unable to perform a specific number of activities of daily living or are cognitively impaired. Today's long-term care insurance policies cover a wide range of services to help people live at home, participate in community life, as well as receive skilled care in a nursing home. Policies may also include respite care, medical equipment coverage, care coordination services, payment for family caregivers, or coverage for home modification. These options can enable people who are chronically ill to live in the community and to retain their independence.

While the financial benefits to individual policyholders are obvious, the benefits to government - and future taxpayers - of wider purchase of private long-term care insurance are substantial as illustrated by an ACLI study *Can Aging Baby Boomers Avoid the Nursing Home?* Medicaid's annual nursing home expenditures are projected to skyrocket from today's $29 billion to $134 billion by 2030 - an increase of 360 percent. ACLI's research indicates that by paying policyholders' nursing home costs - and by keeping policyholders out of nursing homes by paying for home- and community-based services, private long-term care insurance could reduce Medicaid's institutional care expenditures by $40 billion a year, or about 30 percent.

In addition, the ACLI study found that wider purchase of long-term care insurance could increase general tax revenues by $8 billion per year, because of the number of family caregivers who would remain at work. Today, 31 percent of caregivers quit work to care for an older person; nearly two-thirds have to cut back their work schedules; more than a quarter take leaves of absence, and 10 percent turn down promotions because of their caregiving responsibilities. It costs the typical working caregiver about $109 per day in lost wages and health benefits to provide full-time care at home - which is almost as much as the cost of nursing home care.

The life insurance industry and the National Association of Insurance Commissioners (NAIC) are committed to maintaining and justifying consumer confidence in this increasingly important protection product. We believe that, working together, the industry and its regulators have come up with a model regulation that affords maximum protection to long-term care insurance purchasers both in terms of consumer protection and rate stability.

Consumer Protections

It can now be said that private long-term care insurance is clearly an idea whose time has come. The product is considered a valuable and meaningful tool for planning a financially secure retirement. It is also a product that is fully regulated with a substantial NAIC Model Act and Regulation, which is used as an effective guidepost for states to follow and adopt. All states, including the District of Columbia, have some version of the Model enacted into their state laws and regulations. Further, the NAIC Long-Term Care Insurance Models have been revised, updated and strengthened many times since the initial Models were adopted in 1986.

The passage of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), which set certain requirements for long-term care insurance policies in order for them to be eligible for favorable tax treatment as federally qualified long-term care insurance policies, provided the initial spring board needed to encourage purchase of this product. It is important to recognize that HIPPA allows only a portion of the premiums to apply toward the 7.5 percent base for medical expense deductions currently allowed in the federal tax code.

The federal government's message through passage of this law was that individuals have to begin to take responsibility for their own retirement future and that message is now being heard throughout both the public and private sector. We firmly believe the passage of currently proposed federal legislation for an above-the-line deduction, and allowing cafeteria plans and flexible spending accounts to include long-term care insurance will help to continue to expand and build on that important message. The ACLI and its member companies are also very proud and supportive of the major strides that have been made with long-term care insurance with respect to the strong consumer protections now in place. For more than 15 years, the NAIC, working with consumer groups and the insurance industry, has made certain that much needed consumer protections are included in the NAIC Long-Term Care Insurance Model Act and Regulation. All long-term care policies must meet the consumer protections standards set by the state in which they are sold, and any policy purchased today that qualifies for the HIPAA federal tax incentives must meet numerous NAIC consumer protections and other standards required by this federal law.

ACLI supports the current NAIC Long-Term Care Insurance Models in total and their adoption in the states. A few examples of the consumer protections that currently exist in the model are:

(1) The offer of a nonforfeiture benefit --- a policy provision that provides a paid-up benefit equal to the premiums if the policy is canceled or lapses;

(2) A contingent benefit upon lapse --- a provision that requires if premiums increase to a certain level (based on a table of increases) the insured is offered (a) a reduction in the benefits provided by the contract so that premium costs remain the same, (b) a conversion of the policy to a paid-up status with a shorter benefit period, or (c) to keep the policy and pay the increase;

(3) The delivery of Long-Term Care Insurance Shopper's Guide --- must be given to consumers by agents and insurers to help consumers understand long-term care insurance and decide which, if any, policy to purchase; This guide is designed to educate consumers on how to purchase, how the policy works, and the cost and other shopping tips;

(4) An offer of inflation protection --- a policy benefit provision that provides for increases in benefit levels to help pay for expected increases in the costs of long-term care services;

(5) A prohibition on limiting or excluding coverage for Alzheimer's or certain other illnesses;

(6) A prohibition on cancellation of the policy due to advancing age or deteriorating health;

(7) A prohibition on increasing premiums due to advancing age;

(8) A continuation or conversion required for individuals covered under group policies;

(9) A designated individual, other than the insured, to receive notice of policy termination due to nonpayment of a premium, and the reinstatement of the policy if there is proof of cognitive impairment or loss of functional capacity;

(10) A prohibition against post-claims underwriting;

(11) A prohibition on requiring a prior hospital stay in order to qualify for benefits;

(12) Minimum standards for home health and community care benefits; and,

(13) A 30 day free-look period.

Rate Stability

The NAIC has recently completed its work and has adopted in 2000 a new and important consumer protection provision to address concerns over premium rate increases for long-term care insurance. The goal of this new provision is to increase the likelihood that premium rates offered by long-term care insurance companies will be adequate over the life of the policy, that rate increases will be less likely, that only justified increases will occur, and that necessary increases will be smaller and less frequent.

The following is a list of key items included in the new NAIC provisions on rate stability:

1. **Initial loss ratio requirements eliminated**.

   The current 60 percent loss ratio requirement on initial rate filings is eliminated. This enables companies to set more conservative initial premiums.

2. **Limits are established on expense allowances on increases**.

   All rate increases are subject to an 85 percent (70 percent for exceptional increases) loss ratio on the increase and 58 percent on the initial premium. The 58 percent allows for a more conservative initial premium and the 85 percent severely limits amounts available for commissions and profit. It provides a powerful incentive for companies to charge an adequate initial premium.

3. **Unnecessary rate increases reimbursed to the policyholder**.

   For each rate increase, the insurer must file its subsequent experience with the commissioner and if the increase appears excessive, the commissioner may require the company to increase benefits at no further cost to the policyholder or to reduce the premiums. This makes certain that premium increases that turn out to be unnecessary are returned to policyholders.

4. **Review of administration and claim practices authorized**.

   If the majority of policyholders subject to the increase are eligible for contingent benefit upon lapse, the company must file a plan, subject to commissioner approval, for improved administration or claims processing or demonstrate that appropriate processing is in effect. This is intended to eliminate lax administration and claims handling practices as a cause of continued rate increases. This will force companies to review claims more closely and to prevent them from paying inappropriate claims, which contribute to the need to increase premiums.

5. **Option to escape rate spirals by converting to currently sold insurance provided**.

   Any time after the first rate increase, for other than an exceptional rate increase, if the majority of policyholders subject to the increase are eligible for contingent benefit upon lapse, and if the commissioner determines that a rising rate spiral exists, as demonstrated by a significant number of policyholders dropping their insurance, the commissioner may require the company to offer to replace existing coverage with a comparable product currently being sold without underwriting. This is a type of pooling. It provides policyholders trapped in a rising rate spiral the opportunity to switch from the troubled policy to a more stable, current policy without the insured being subject to any underwriting.

6. **State Insurance Commissioner authorized to ban companies from the market place**.

   If the Commissioner determines that a company has persistently filed inadequate initial premium rates, the State Insurance Commissioner may ban the company from marketing long-term care insurance in that for up to five years. This penalty will essentially put the company out of this business in the state. It is intended as a last resort for the Insurance Commissioner when all else fails.

7. **Actuarial certifications required**.

For all rate filings, the company is required to provide an actuarial certification that no rate increases are anticipated. Actuaries signing such certifications are subject to existing standards of professional actuarial practice. This puts the burden on the company, rather than the state, to secure actuarial certification.

8. **Disclosure of rate increase histories required**.

Companies must provide consumers with a rate increase history. This is intended to inform consumers of past company practices and to deter companies from increasing premiums.

This new measure, once adopted by states, will provide consumers the necessary peace of mind that the premium rate increase that they would pay in the event of a rate increase will be smaller, less frequent and more manageable. ACLI supports the NAIC's overall effort and believes consumers should be protected from unreasonable and unexpected rate increases.

ACLI acknowledges that there have been situations where rate increases have occurred and that some states did not have the proper tools to regulate and evaluate the rates. It is important to stress though that the majority of the market has not experienced rate increases on this product line. The industry has stepped up to the plate on this issue and joined with state regulators, and consumer groups, and all had worked countless hours for over three years to adequately and appropriately address this matter --- and trying to accomplish all of this without harming future market innovation and growth.

We recognize that the fear of rate increases has been a concern for some. It is important to remember that long-term care insurance is a guaranteed renewable product which means insurers are permitted under the contract to revise the premiums, but only if the rates are changed for the entire class of policyholders. Again, the majority of long-term care insurers have not raised the premium rates, but where rates have been increased, many of those increases have not been to an extent that should cause alarm to all consumers or regulators.

It is important to note, too, that in recent years the average termination or lapse rate for long-term care insurance by policyholders has declined. A long-term care policy lapses if the policyholder does not pay the premium by the end of a specified time, or if the policyholder replaces it with a newer product. ACLI's analysis shows that in the individual market, two percent of policyholders voluntarily lapsed or replaced their policies in 1997 versus six percent in 1992. Group terminations fell to seven percent in 1997 from eight and one-half percent in 1995. To minimize lapse rates, companies typically offer new policyholders time to examine the policy, and the full premium is returned if the buyer decides within a specified period not to keep the policy. Since many buyers are older, many long-term care policies allow the policyholder to designate a third party for the insurer to notify when premiums are not paid. Insurers frequently reinstate coverage if the policy lapses because the policyholder has a cognitive impairment.

Though the issue of concern on premium rate increases is centered around a limited segment of the market, the insurance industry believes it had to address the concerns head on and believes we have accomplished that goal working with the NAIC. The next step is for the states to move forward and adopt the new provisions. We are happy today to report that more than 17 states have either proposed or adopted the new NAIC rate stability provisions to date. ACLI is committed to working with the states to continue in this effort.

A Smart and Knowledgeable Consumer

Another important part of purchasing long-term care insurance is to be a smart and knowledgeable consumer. Consumers must think through their purchase and understand what it is they are buying.

ACLI encourages consumers, when considering a major purchase of long-term care insurance, to:

(1) look for insurance companies that are reputable, consumer oriented, financially sound and licensed in their particular state,

(2) obtain the name, address and telephone number of the agent and insurance company,

(3) take time when making a purchase, ask for and read the outline of coverage of several policies,

(4) understand what the policy covers and ask questions to be clear about what the policy is not intended to cover,

(5) understand when the policy becomes effective, what triggers benefits and if it is tax deductible at the state and/or federal level,

(6) answer questions on medical history and health truthfully on the application, and,

(7) contact the State Insurance Department or the State Health Insurance Assistance Program with questions on long-term care insurance and the insurance company with specific questions about the policy.

In conclusion, we believe that protection and coverage for long-term care is critical to the economic security and peace of mind of all American families. Private long-term care insurance is an important part of the solution for tomorrow's uncertain future. As Americans enter the 21st century, living longer than ever before, their lives can be made more secure knowing that long-term care insurance can provide choices, help assure quality care, and protect their hard-earned savings and assets when they need assistance in the future. We also believe that the costs to Medicaid --- and therefore to tomorrow's taxpayers --- will be extraordinary as the baby boom generation ages into retirement, unless middle-income workers are encouraged to purchase private insurance now to provide for their own eventual long-term care needs. ACLI believes it is essential that Americans be given an above-the line deduction for this product that is so vital for their retirement security.

Again, the ACLI looks forward to working with this Committee to help Americans protect themselves against the risk of long-term care needs.

A·C·L·I AMERICAN COUNCIL OF LIFE INSURERS
FINANCIAL SECURITY FOR LIFE

Long-Term Care Insurance at Work

The Retirement Link
and
Employee Perspectives

RESEARCH FINDINGS

This report was written by Barbara Stucki, Ph.D., a consultant to the American Council of Life Insurers, with the assistance of ACLI's policy research, long-term care, and editorial staffs. The report is based on survey data collected by LifePlans Inc. for ACLI.

The American Council of Life Insurers is a Washington, D.C.-based trade association. Its member companies offer life insurance, annuities, pensions, long-term care insurance, disability income insurance, and other retirement and financial protection products.

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Long-term care insurance is gaining interest as an employee benefit, from both employers and employees. Employers increasingly want to offer long-term care coverage as part of a complete plan for financial security. As more than 70 million baby boomers approach retirement, the rapidly aging work force together with more employees caring for elderly parents heighten the importance of long-term care planning as a workplace issue.

Consumers who buy a policy through work are a growing segment of the long-term care insurance market. But getting employees to think about long-term care planning remains difficult: Many do not fully understand this relatively new benefit, and the need to deal with other expenses—child care, mortgages, or their children's college education—limits employees' ability to purchase this protection during their working years.

Concern with long-term care planning is developing gradually, however, as familiarity grows through financial planning, personal experience, and education. Younger employees often are interested in long-term care insurance but are not ready to buy. Awareness also is building about the need to protect hard-earned savings against ever-increasing long-term care expenses.

This study examines the role of employer-sponsored group long-term care insurance in the retirement plans of working-age Americans. By identifying retirement goals and long-term care concerns and preparations at different stages of life, the report addresses:

- The diverse ways in which employees—those enrolled as well as those interested in obtaining coverage—think about long-term care planning.
- The types of employees who enroll in group long-term care plans.
- The impact of educating employees about long-term care and group insurance.

To explore planning strategies, the study examines two types of enrollees: those who would consider only group long-term care coverage, and those who would have purchased an individual policy if their employer had not offered a group plan. Variations between these two groups help identify differences in long-term care planning at different stages of life.

Employees who have inquired about their employer's group plan but do not have coverage are also included in the analysis—an important group, since a high proportion intend to obtain long-term care insurance. Looking at long-term care planning as a process that evolves over time helps identify the factors influencing these potential enrollees. And understanding how they overcome the lack of awareness and inertia that typically surround long-term care planning is key to increasing enrollment rates.

Results of this study complement the findings of the ACLI report *Making the Retirement Connection: The Growing Importance of Long-Term Care Insurance in Retirement Planning,* which highlights the strong link between preparing for long-term care and retirement planning among individual policy owners. As with the individual market, group long-term care insurance will benefit from messages focused on long-term care planning for retirement security.

This report is based on a survey conducted by LifePlans Inc. during 1999–2000 for the American Council of Life Insurers. The study involved 939 respondents, ages 22 to 77. Participating enrollees had signed up for group long-term care insurance between 1994 and 2000. Potential enrollees had requested enrollment packages but were not enrolled in the long-term care plan offered by their employer. Respondents were asked to complete a mail-in survey with questions about their savings behavior; retirement goals, beliefs, and actions; and long-term care fears and preparations. Insurers provided information about the features of their long-term care policies.

The findings should not be viewed as representative of the entire market for group long-term care insurance, but as the initial effort to explore the perceptions and behavior of workers concerned about long-term care. The group market is diverse, ranging from small businesses with fewer than 100 employees to Fortune 500 companies as well as government employers. The report's results are consistent with industry experience in medium-size to large employer groups.

To examine the link between retirement planning and long-term care planning, analysis is restricted to employees under age 60. Addressing employee concerns, especially at younger ages, also enhances the ability of employers, insurers, and policy-makers to realize the potential of group long-term care insurance.

Highlights

- **Group enrollees are concerned about planning for long-term care in retirement.**

Most enrollees see long-term care planning as very important for retirement.

Women enrollees are particularly concerned about preparing for their long-term care needs. They are more concerned than men that their retirement will be affected by needing to rely on family for care or having to care for an aging spouse or relative.

Most group enrollees have provided care to an elderly relative or friend.

- **Many group enrollees would consider only employer-sponsored long-term care insurance.**

Younger enrollees are more likely to consider only group coverage for long-term care.

Enrollees who would consider only group coverage are more likely to have moderate resources.

- **Many employees interested in group coverage plan to buy long-term care insurance.**

A high proportion of employees under age 60 who have inquired about group long-term care insurance, but have not bought the coverage, plan to do so.

Most employees who consider enrolling in a group plan but decide to wait intend to obtain coverage just before retirement.

- **Linking long-term care education to retirement planning may promote group coverage.**

Potential enrollees informed about long-term care are more likely to see the value of obtaining coverage during their working years.

Potential enrollees who receive information on both retirement planning and long-term care coverage, rather than long-term care insurance alone, are more aware of the need to plan ahead for long-term care.

- **Workplace education encourages long-term care planning.**

Employees are more likely to be motivated to sign up for group coverage because they receive information at work than because others encourage them.

Potential enrollees who are very likely to obtain coverage most often learned about long-term care at work.

Potential enrollees who learn about long-term care at work are more likely to be concerned about the risk of needing long-term care in retirement, and less likely to feel that it is pointless to plan for long-term care.

Americans are becoming interested in planning for long-term care during their working years. As the need to rely on defined contribution plans for retirement income increases,[1] many are beginning to consider what effect a chronic illness or disability could have on their financial security. Long-term care policies offered at work make it easier for employees to protect their savings against long-term care expenses. Greater interest in group insurance also reflects the growing number of employers now offering this benefit—more than 2,000 businesses in 1998.[2]

Group long-term care insurance plays an important role in the long-term financial plans of enrollees. Most group enrollees are serious retirement planners working hard to meet their retirement goals, and are very concerned about preparing for long-term care.

Enrollees use their group policy as a tool to meet a wide array of retirement goals. Interest in the benefit stems largely from a desire to ensure quality of life in retirement. Most enrollees plan to use long-term care insurance to avoid jeopardizing retirement savings. A high proportion also want to avoid depending on others should the need for care arise.

Key Findings

Group enrollees are concerned about planning for long-term care in retirement.

- Most enrollees view long-term care planning as very important for retirement.
- Women are particularly concerned about preparing for their long-term care needs.

Group enrollees use long-term care insurance to meet diverse retirement goals.

- Older enrollees are often motivated to obtain long-term care coverage by a sense that time is running out.
- Women enrollees are concerned that needing to rely on family for care or having to care for an aging spouse or relative will affect their retirement.
- Most enrollees have provided care to an elderly relative or friend. Unmarried enrollees are likely to have experienced financial hardship due to caregiving.

Timing of retirement affects long-term care planning.

- Most group enrollees intend to retire before age 65.
- Enrollees planning to retire early give a great deal of thought to long-term care planning compared with those who intend to retire at 65 or older.
- Enrollees focused on early retirement would have purchased an individual policy if their employer had not offered group coverage.

Overview

Long-term care insurance is one of the newest benefits offered in the workplace, and enrollees in employer-sponsored plans are the vanguard of the group long-term care market. Studying this group helps employers, insurers, and policy-makers understand how group long-term care protection is valued and used to meet an array of retirement planning goals.

This chapter examines how long-term care planning among enrollees varies by gender, financial resources, caregiver experience, and marital status. These differences provide the basis for developing more refined tools to stimulate enrollment in group long-term care plans.

Analysis is limited to enrollees younger than 60 to strengthen the focus on the link between retirement planning and long-term care planning. Employees very close to retirement are likely to have a different perspective on long-term care coverage than those for whom retirement is further away.

Group enrollees differ from individual policyholders due to the distinctive features of group long-term care plans. Rather than owning a policy, group enrollees hold certificates in the group plan. Employers typically offer a selection of packaged plans and limit the number of benefit options. Employees customarily pay the premiums for their coverage.

Long-Term Care and Retirement

Although financial planning is especially challenging for those younger than 60, nearly all group enrollees in this study have thought about preparing for retirement (95 percent), and:

- More than half have given the issue a great deal of thought (53 percent).
- Almost 55 percent have determined how much money they will need to live comfortably in retirement.
- Three-quarters believe they are on their way to meeting their savings goals (76 percent).

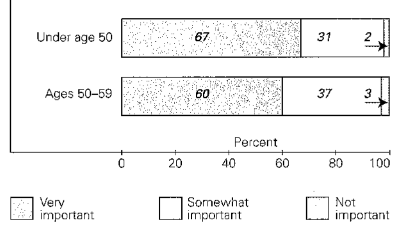
The average age of survey respondents at enrollment was 49—higher than that of the overall group long-term care insurance market (age 43).[3] Preparing for retirement may be somewhat more important in this sample than in the overall group market.

Nonetheless, enrollees' concern with planning for long-term care does not vary significantly by age. Younger enrollees are even more likely to see the value of preparing for long-term care: Two-thirds of enrollees under age 50 regard long-term care planning as an important part of retirement planning (67 percent), as do 60 percent of those ages 50–59.

Figure 1.1

Long-term care planning
Group enrollees consider long-term care a very important part of retirement planning.

Importance of Long-Term Care in Retirement Planning Among Enrollees, by Age



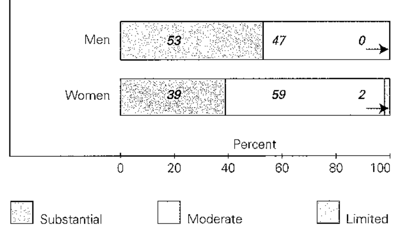
Women are particularly concerned about preparing for their long-term care needs. Almost three-quarters of women enrollees say long-term care planning is very important for retirement (72 percent) compared with half of men enrollees (50 percent).

Gender accounts for other important differences: Over half of men enrollees have substantial financial resources (53 percent) compared with 39 percent of women enrollees, for example.

Figure 1.2

Women's financial resources
Women enrollees are likely to have moderate financial resources.

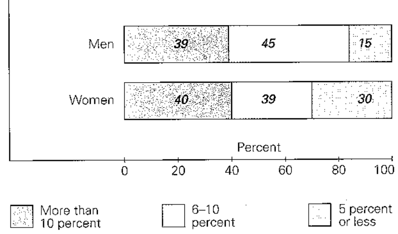
Financial Resources Among Group Enrollees, by Gender



Women enrollees also are twice as likely to be saving 5 percent or less of their income for retirement (30 percent) than men enrollees (15 percent). These differences may reflect the moderate financial resources on which women enrollees typically rely.

Figure 1.3

Income Allocated to Savings Among Enrollees Under Age 60, by Gender



Women's savings
Women enrollees are more likely than men to save 5 percent or less of their income.

Among all enrollees, those with moderate resources are more likely to save 5 percent of their income for retirement (34 percent) vs. those with substantial resources (8 percent).

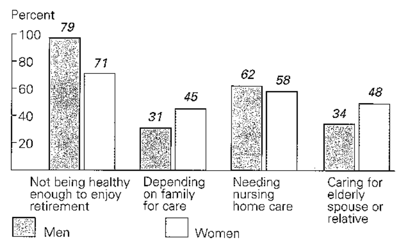
Financial Resource Levels of Group Enrollees

Limited	Income less than $24,000 and assets less than $125,000.
Moderate	Income $24,000–$40,000 with any amount of assets, or income over $40,000 with assets under $125,000.
Substantial	Income over $40,000 and at least $125,000 in assets.

Enrollees value long-term care insurance as a tool to address a variety of health concerns for retirement. Ensuring that chronic health conditions do not impede quality of life in retirement is particularly important. Most men (79 percent) and women (71 percent) enrollees worry about their ability to enjoy their retirement years due to a health condition.

Figure 1.4

Long-Term Care Concerns for Retirement Among Enrollees, by Gender



Women's concerns
Women enrollees are worried that dependency or caregiving will affect their retirement.

Women enrollees are more concerned than men that their golden years will be diminished by needing to rely on family for care (45 percent) or having to care for an aging spouse or relative (48 percent).

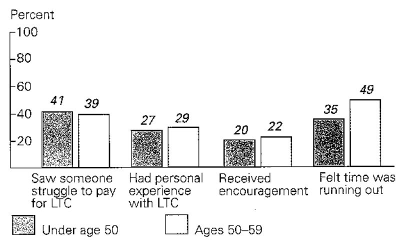
Reasons for Enrolling

Since the likelihood of needing long-term care is greatest beyond age 80—far in the future for enrollees in this study—what encourages younger workers to obtain long-term care coverage? A strong motivation is seeing someone struggle to pay for long-term care in retirement. This factor is as important for enrollees younger than 50 (41 percent) as for older enrollees (39 percent).

Almost half of enrollees ages 50–59 obtained group coverage because they felt a sense of urgency—that time was running out to prepare for long-term care (49 percent). The fact that employers typically limit enrollment periods for this type of coverage may be a related factor.

Figure 1.5

Factors Motivating Enrollees To Purchase Long-Term Care Insurance, by Age

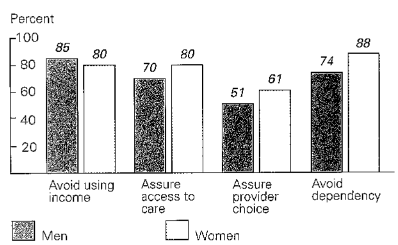


Motivations of older workers
A sense of urgency motivates older workers to enroll.

Attitudes toward group long-term care insurance also vary between men and women under age 60. Women enrollees are somewhat more concerned about long-term care planning as a personal issue: For most, coverage is important because it helps protect against dependency in retirement (88 percent). Men enrollees are more likely to view long-term care planning as a financial issue (85 percent), although dependency is also a significant concern (74 percent).

Figure 1.6

Benefits of Long-Term Care Insurance to Enrollees, by Gender



Motivations of men
Men workers enroll to avoid using income to pay for long-term care.

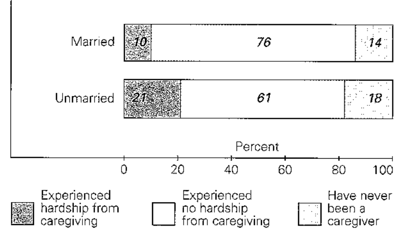
Caregiving experiences influence perceptions of long-term care risk and heighten the motivation to plan ahead. Most enrollees have had some experience as a caregiver to an elderly family member or friend (84 percent).

Enrollees' high level of experience with caregiving may in part reflect the definition used in the study. Caregivers include enrollees who had provided assistance at some time, even if they were not caregivers at the time of the survey. Caregiving also could range from full-time personal care to more intermittent help with transportation or finances.

Caregiving experiences may encourage unmarried employees to consider long-term care insurance. One out of five unmarried enrollees experienced financial hardship due to caregiving (21 percent)—twice as high as among married enrollees (10 percent).

Figure 1.7

Financial Hardship Due to Caregiving Among Enrollees, by Marital Status

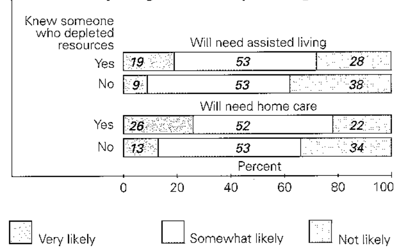


Caregiving experience
Unmarried enrollees are likely to have undergone hardship because of caregiving.

Knowing someone who depleted their retirement savings or assets to pay for long-term care also prompts enrollees to be more concerned about needing long-term care services. One in four with this knowledge think they very likely will need home care in the future (26 percent), compared with 13 percent of enrollees who do not know someone who faced this problem.

Figure 1.8

Perceptions of Need From Enrollees' Knowledge of Someone Depleting Assets To Pay for Long-Term Care



Exposure to impoverishment
Knowing someone who depleted savings to pay for long-term care increases enrollees' perception of needing long-term care.

Similarly, enrollees believe they are very likely to need assisted living services once they know someone whose financial resources were affected by long-term care expenses (19 percent) vs. those not exposed to financial impoverishment (9 percent).

Timing of Retirement

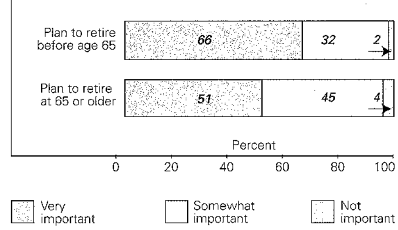
Many American workers dream of the possibility of retiring early. Among group enrollees younger than 60, 77 percent intend to quit working before age 65. Enrollees under age 50 are as likely to want to retire early (77 percent) as those ages 50–59 (78 percent).

Perceptions of the value of planning for long-term care vary by anticipated retirement age. Two-thirds of enrollees who plan to retire before age 65 believe preparing for long-term care is very important for retirement (66 percent), compared with 51 percent of those expecting to retire at 65 or older. The fact that enrollees not planning to retire early are still struggling to save enough for basic retirement needs may influence the disparity. Those planning on early retirement are also more likely to believe they are meeting their retirement goals (82 percent) than other enrollees (59 percent).

Figure 1.9

Early retirement and long-term care planning
Enrollees anticipating early retirement value long-term care planning.

Importance of Long-Term Care Planning Among Enrollees Under Age 60, by Anticipated Retirement Age

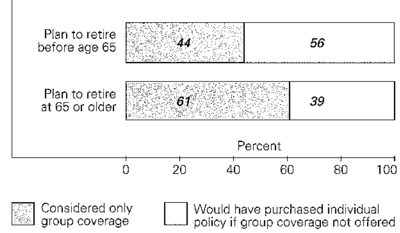


When asked if they would have purchased a long-term care policy if their employer had not offered coverage, a high proportion of group enrollees planning to retire early said they would have bought long-term care insurance on their own (56 percent).

Figure 1.10

Group enrollment and retirement
Enrollees intending to retire early would purchase individual coverage if the group plan was not available.

Purchasing Decisions Among Enrollees Under Age 60, by Anticipated Retirement Age



Conclusion

Offering long-term care insurance to employees younger than 60 can be challenging for employers and insurers. Group plans need to meet a wide array of personal expectations, income levels, and lifestyles. However, linking long-term care insurance to retirement planning helps target the employees likely to be interested in this benefit. Group enrollees are very concerned about retirement planning, regardless of age.

Gender has a significant impact on the way enrollees view the link between retirement planning and long-term care planning. While women are more concerned about planning for long-term care, men are more likely to consider long-term care planning as a financial issue. However, both men and women enrollees value their group policy as protection against dependency in retirement. Older enrollees are motivated to sign up for group coverage by a sense that time is running out.

Early retirement is an important goal for many employees who enroll in a group long-term care insurance plan. Those who intend to retire early particularly value long-term care coverage as part of their retirement preparations. Focusing on employees planning on early retirement targets those most likely to be interested in group coverage.

Notes

1 Assets in private-sector defined contribution retirement plans amount to $3 trillion today vs. $91 billion in 1977. Within this marketplace, 401(k) plans are flourishing: Today, 44 million workers participate in 345,000 401(k) plans with assets totaling over $2 trillion. In 1990, by contrast, 20 million participated in fewer than 100,000 plans with assets of $400 billion. See U.S. Department of Labor, Pension and Welfare Benefits Administration. Abstract of 1996, Form 5500 Annual Report (Final 1996). *Private Pension Plan Bulletin,* No. 9 (Winter 1999-2000); and Salisbury, Dallas. EBRI Research Highlights: Retirement and Health Data. *EBRI Issue Brief* No. 229 and Special Report SR36 (January 2001).

Rollovers from defined contribution plans have helped multiply IRA assets to $2.5 trillion today from $600 billion in 1990. See Copeland, Craig. IRA Assets Continue To Grow. *EBRI Notes,* Vol. 22, No. 1 (January 2001).

2 Coronel, S. (2000). *Long-Term Care Insurance in 1997–1998*. Washington, D.C.: Health Insurance Association of America.

3 Ibid.

For most Americans, creating financial security is a journey that takes many years to complete. At different stages of life, financial concerns differ: For younger employees, it may be buying a home; older employees often worry about children's college expenses and saving for retirement. Competing goals require families to juggle resources and make choices about how to make their financial future more secure.

Employer-sponsored long-term care insurance is a new retirement planning tool for many consumers. Discovering how group long-term care insurance fits into the retirement plans of employees under age 60, and what factors influence the timing and perceived value of enrolling in a group plan, is essential if employers, insurers, and policy-makers are to encourage employees to focus on the future and understand the value of planning for long-term care at earlier ages.

Enrollees who would consider only group coverage are more likely to be younger than 50. Many are saving for retirement but do not yet have specific retirement goals. Enrollees who would have purchased an individual policy if their employer had not offered coverage tend to be older and more involved in retirement planning.

Other employees besides those who enroll are also thinking about planning for long-term care. Many workers who have inquired about their employer's plan but not obtained coverage nonetheless intend to buy long-term care insurance. Often faced with competing demands on their resources, these potential enrollees typically intend to wait until just before retirement to purchase a policy.

Key Findings

Many group enrollees would consider only employer-sponsored long-term care insurance.

- Younger enrollees are more likely to consider only group coverage for long-term care.
- Enrollees who would consider only group coverage generally have moderate resources.

Many potential enrollees plan to buy long-term care insurance.

- A high proportion of employees who have inquired about group long-term care insurance, but do not have coverage, nonetheless plan to obtain coverage.
- Potential enrollees younger than 40 are more likely than 40- to 60-year-olds to see the need for long-term care coverage in their future.
- Almost all employees who believe they are likely to obtain coverage also believe that long-term care planning is important for retirement.

Timing of ownership is influenced by an employee's stage in life.

- Most potential enrollees intend to purchase a policy just before retirement.
- The need to support others may influence potential enrollees to delay purchasing coverage.

Group long-term care insurance fills an important gap for employees.

- Many potential enrollees very likely to own long-term care insurance considered enrolling in a group plan.
- Employers' help in paying premiums and government tax incentives would encourage potential enrollees to obtain coverage.

Overview

Selecting long-term care insurance involves a variety of choices that allow consumers to tailor a policy to fit their retirement goals.

Employees who want to buy coverage must first decide whether to enroll in a group plan through their employer, if offered, or to purchase an individual policy on their own. Individual policy owners select the insurance company and policy benefits that best meet their specific needs. In a group plan, the employer chooses the carrier and policies that will be offered to employees, streamlining the purchase process. Group plans may also extend coverage to people with existing health problems, since they use less restrictive or no underwriting during initial offerings to active full-time employees.

This chapter profiles differences in the long-term care planning strategies of two types of group enrollees under age 60: those who would consider only group coverage, and those who would have bought an individual policy if their employer had not offered a group plan. Variations between the groups help identify differences in long-term care planning at different stages of life.

This chapter also examines the behavior and attitudes of potential enrollees—employees who have inquired about group long-term care insurance but not yet obtained coverage. Many employees younger than 60 are not ready to buy a long-term care insurance policy—their main decision is whether to purchase long-term care insurance at some point. The likelihood of their owning coverage and the life-stage factors that influence the timing of their purchase are analyzed.

Group vs. Individual Coverage

Consumers have numerous choices when it comes to spending their insurance dollar. For employees, enrolling in a group long-term care plan is an option when long-term care insurance is a workplace benefit. Many enrollees who would consider only this type of coverage are unlikely to buy long-term care insurance if it is not offered through the workplace.

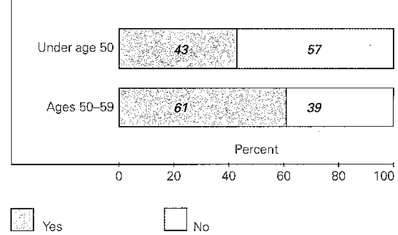
The differences between group enrollees who would consider only an employer-sponsored policy, and those who would have bought individual long-term care insurance if their employer had not offered this benefit, are significant. Those who consider only group coverage are younger, more likely to have moderate resources, and less confident of their retirement plans.

Life Stage and Long-Term Care Planning

Employer-sponsored long-term care insurance may be particularly attractive to younger workers. More than half of enrollees under age 50 would consider only employer-sponsored coverage (57 percent). In contrast, older enrollees are more likely to say they would have bought an individual policy if their employer had not offered group coverage (61 percent).

Figure 2.1

Enrollees Who Would Consider Individual Long-Term Care Insurance if Group Coverage Unavailable, by Age



Influence of age
Younger workers are likely to purchase only group long-term care coverage.

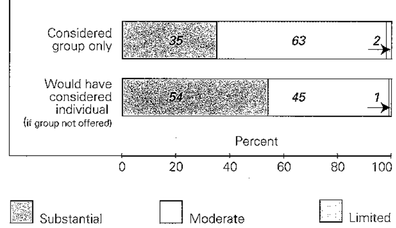
Enrollees who would consider only a group policy are a distinctive group, perhaps reflecting the long-term care planning strategies of those whose financial resources are stretched. Two-thirds of workers who would consider only a group policy have moderate or limited resources (65 percent) vs. 46 percent of those who would have bought an individual policy if the coverage had not been available at work.

Enrollees who would consider only a group policy are also more likely to be living with their spouse and children (35 percent) than those who would have bought long-term care insurance had it not been offered at work (28 percent). Women enrollees (53 percent) are as likely as men (52 percent) to consider only a group policy.

Figure 2.2

Group vs. Individual Long-Term Care Insurance Choice Among Group Enrollees Under Age 60, by Financial Resources

Influence of resources
Workers considering only group long-term care coverage are likely to have fewer resources.

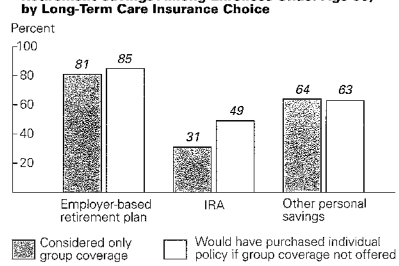


Most enrollees make personal contributions to their company retirement plans, such as 401(k), 403(b), SIMPLE, and other plans.

Figure 2.3

Retirement Savings Among Enrollees Under Age 60, by Long-Term Care Insurance Choice

Group enrollees' savings
Enrollees who consider only group coverage are not as likely to save through IRAs and employer-based plans.

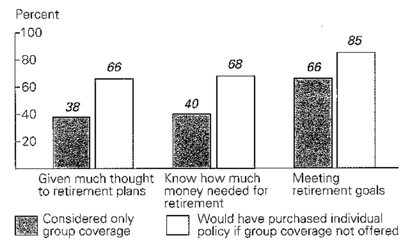


Enrollees who would consider only group coverage are less likely to be saving through individual retirement accounts (31 percent) than those who would otherwise have bought individual coverage (49 percent)—perhaps in part because substantial financial resources are less likely among enrollees who would consider only group coverage.

Although group enrollees are saving for retirement, many do not have specific retirement goals, especially those who would consider only a group policy. Just over one-third of these enrollees have given a great deal of thought to retirement (38 percent). Less than half have calculated how much money they will need to live comfortably after they retire (40 percent).

Figure 2.4

Retirement Planning Among Enrollees Under Age 60, by Long-Term Care Insurance Choice



Group enrollees' planning
Enrollees who consider only group coverage are less likely to be preparing for retirement.

Despite the differences between the two groups, workers younger than 60 who decide to obtain long-term care insurance through an employer-sponsored group plan value the coverage for similar reasons.

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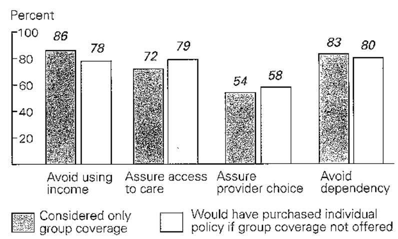
Enrollees who would consider only group coverage (86 percent) and those who would have bought an individual policy if coverage had not been an employee benefit (78 percent) are both concerned about protecting their retirement income against long-term care expenses. A desire to avoid dependency is equally important

Figure 2.5

Most Important Benefit Among Enrollees Under Age 60, by Long-Term Care Insurance Choice



Benefits of coverage
Long-term care purchasers primarily want to protect their income against long-term care expenses.

for enrollees who would only consider group coverage (83 percent) and those who would otherwise have bought an individual policy (80 percent). Assuring provider choice is least likely to be a concern for either group.

Planning Today vs. Later

When employers offer long-term care insurance to their work force, less than 10 percent of employees typically decide to enroll.[1] However, other employees younger than 60 are considering group long-term care insurance. A high proportion of potential enrollees believe they will eventually own a long-term care policy.

Many factors affect the timing of the purchase of long-term care insurance, including competing demands and a sense of having plenty of time to deal with the issue. Potential enrollees who plan to buy a policy later feel more strongly about including long-term care in their retirement plans than those who are less inclined to obtain coverage.

Future Enrollees

One of the most common reasons that employees younger than 60 do not obtain coverage is that long-term care insurance is not a high priority for their stage in life. In this study, 73 percent of potential enrollees did not enroll in the group plan because of other demands on their financial resources.

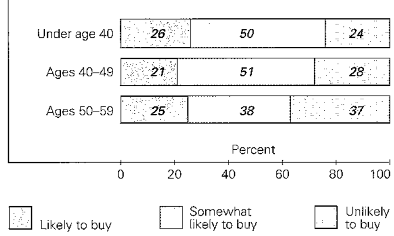
Focusing only on the current decision not to enroll misses an important point, however. Although interested employees choose not to obtain long-term care coverage today, many intend to do so later. One in four potential enrollees say they are very likely to eventually obtain this type of coverage (24 percent), and nearly half feel it is somewhat likely they will buy a policy (46 percent). Just under 30 percent of potential enrollees who learn about long-term care insurance say it is unlikely they will obtain coverage.

Chances for future ownership vary by age. Potential enrollees younger than 40 are most likely to see the need for long-term care coverage in their future. More than three-quarters feel private insurance is likely to be part of their retirement plans

(76 percent). One in four say it is very likely they will own long-term care insurance (26 percent).

Figure 2.6

Purchasing Plans for Long-Term Care Insurance Among Potential Enrollees, by Age



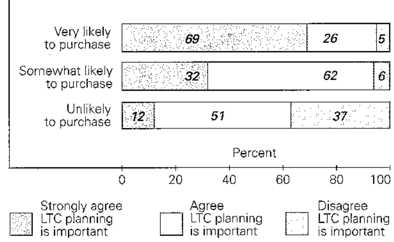
Future enrollment
Younger workers are most likely to obtain long-term care insurance at some point.

Among potential enrollees ages 50–59, by contrast, almost two-thirds who have not yet obtained coverage plan to do so (63 percent). Such differences by age may reflect the fact that older employees concerned about long-term care planning are more likely to have already purchased a policy.

Linking long-term care planning to retirement planning may help encourage future ownership. Almost all employees who believe they are likely to obtain long-term care coverage consider long-term care planning important for retirement. Indeed, more than two-thirds of those very likely to obtain coverage feel long-term care planning is very important (69 percent).

Figure 2.7

Importance of Long-Term Care Planning Among Potential Enrollees, by Likelihood of Purchase



Planning and purchasing
Long-term care planning is ranked highest among workers who plan to enroll in employer-sponsored long-term care plans.

Those who evaluated their employer's long-term care insurance and decided they are unlikely to obtain coverage also value long-term care planning (63 percent). However, few of these employees feel strongly about the need for long-term care planning for retirement (12 percent).

These differences may stem in part from employees' perceptions about their ability to pay for long-term care expenses with savings. One in three potential enrollees under age 40 (34 percent) and 28 percent of those ages 40 to 49 say that a long-term care insurance policy will be their most important source of funding for these expenses. Potential enrollees ages 50–59 are more likely to plan to rely on personal savings to pay for long-term care (44 percent) rather than on private insurance (18 percent).

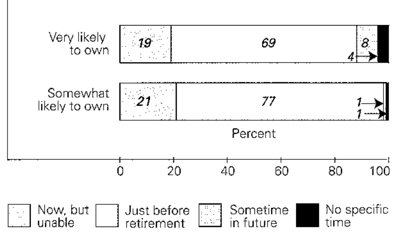
Timing of Enrollment

Life stage has a significant impact on when employees intend to obtain long-term care insurance. Workers closer to retirement are more concerned about planning for long-term care. A high proportion of potential enrollees who expect to retire within the next five years have given a great deal of thought to long-term care (79 percent), compared with 54 percent of those who intend to retire within five to nine years, and 37 percent who anticipate retiring in 10 or more years.

Most potential enrollees plan to purchase a policy just before retirement, both those who are very likely to own a policy (69 percent) and those who are only somewhat likely to own a policy (77 percent).

Figure 2.8

Purchasing Plans for Long-Term Care Insurance Among Potential Enrollees, by Time of Purchase



Purchasing trigger
Most workers planning to enroll in group long-term care insurance plans intend to do so just before retirement.

A continuing need to support others may help explain why some potential enrollees plan to delay purchase until just before retirement. More than half of potential enrollees younger than 50 are living with their spouse and children (54 percent) vs. 37 percent of group enrollees under age 50. Living arrangements differ little between employees 50 and older who are enrolled and those who are interested in private insurance but not enrolled in a group plan.

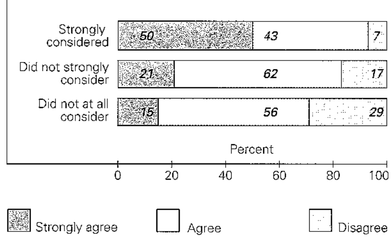
Promoting Group Long-Term Care Insurance

Several factors have the potential to motivate employees to enroll in a group long-term care insurance plan, offered by the employer. Half of employees who strongly considered enrolling in group coverage also felt strongly that they would buy long-term care insurance if their employer helped pay some of the insurance premiums (50 percent).

Figure 2.9

Influence of employer contribution
Employees strongly considering long-term care insurance are likely to buy if their employer contributes.

Agreement That Employer Contribution Would Influence Purchase, by Workers Who Considered Buying

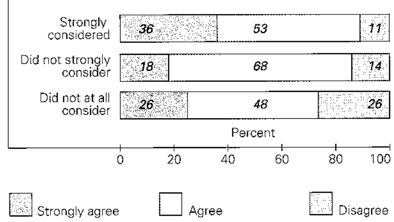


Similarly, more than one in three employees who strongly considered enrolling in their employer's group long-term care plan would be encouraged by government support through tax deductions for premiums (36 percent).

Employees who did not consider the group plan at all were more interested in a tax deduction for coverage (26 percent) than the possibility that their employer would help pay for premiums (15 percent).

Figure 2.10

Agreement That Tax Deduction Would Influence Purchase, by Workers Who Considered Buying



Effect of tax deduction
Employees not considering group LTC insurance indicated interest in a tax deduction for coverage.

Conclusion

Employer-sponsored long-term care insurance helps fill an important gap in the retirement plans of many employees under age 60. This is particularly true for enrollees with moderate resources, many of whom only considered this type of long-term care insurance. A high proportion of employees who are still thinking about long-term care planning also looked into group coverage. These potential enrollees often want to enroll in a group plan but face competing demands on their financial resources.

Enrollees who would consider only a group policy are typically younger employees, but may also include workers who face greater challenges saving for retirement due to ongoing family responsibilities. The link between retirement planning and long-term care planning in this group may be somewhat different from that for other policy owners. For these employees, long-term care insurance could be an important stimulus to make more concrete plans for retirement.

The findings reveal the complex dynamics of long-term care planning among employees, and how much is overlooked if long-term care planning is regarded as a simple decision rather than a process that evolves over time. Looking at long-term care planning as a continuum is particularly relevant to understanding the factors that influence employees interested in long-term care insurance who have not yet purchased coverage.

1 Lutzky, Steven, John Corea, and Lisa Alecxih. (2000). *A Survey of Employers Offering Group Long-Term Care Insurance to Their Employees (Final Report).* Washington, D.C.: The Lewin Group.

Employers have an important role in helping their employees create a successful retirement plan.

As sponsors of retirement income programs and a trusted source of information, employers can assist workers with planning for retirement. With today's avalanche of financial advice, employers also help their workers understand the information that is relevant to their life stage.

Employer-sponsored plans have great potential to expand the group long-term care insurance market. But much of this depends on the effectiveness of educational programs.

The education that employers provide reinforces concern about long-term care among employees under age 60. Many group enrollees say this information was a major factor motivating them to sign up for coverage. Potential enrollees who learn about long-term care planning at work are also more likely to think about preparing for these expenses and to consider buying coverage during their working years. Such information not only heightens awareness of the risk of long-term care, but also helps dispel myths about long-term care planning.

This chapter highlights the value of linking retirement planning and long-term care education to promote interest in long-term care insurance among workers. Combining education about saving for retirement with information about how long-term care insurance can help protect those savings holds important benefits for both markets.

Key Findings

Long-term care education at work motivates enrollment.

- More than half of enrollees believe that receiving information about long-term care was an important factor motivating them to enroll in a group plan.
- Employees are encouraged to enroll in a group long-term care plan if they receive more education about this benefit.
- Group enrollees say they were motivated to enroll more by learning about long-term care at work than by encouragement from other trusted advisers.

Workplace education encourages long-term care planning.

- Potential enrollees who are very likely to buy long-term care insurance have learned about the issue at work.
- Potential enrollees educated about long-term care at work are concerned about the risk of needing long-term care in retirement.
- Learning about long-term care at work makes potential enrollees less likely to feel that planning for long-term care is pointless.

Educating employees about both long-term care and retirement planning helps promote group coverage.

- Potential enrollees educated about long-term care understand the value of obtaining coverage during their working years.
- Potential enrollees who learn about both retirement planning and long-term care at work, rather than just long-term care, are concerned about planning ahead for long-term care.

Employers face challenges in educating employees about long-term care planning.

- Even though employers offer information and select policies, half of group enrollees feel their employer did little to encourage them to buy long-term care insurance.
- Younger workers are less likely to be aware of information about long-term care planning offered at work.

Overview

Financial decision-making is often a complex and emotional process, especially for Americans younger than 60 trying to plan for long-term care. Since the chances of needing help due to a chronic illness or disability rise with age, employees are frequently uncertain about the amount of financial risk they could face due to long-term care expenses. Many are unsure about how to make solid decisions to protect their retirement savings against these costs.

Employers and insurers use a variety of approaches to educate employees about long-term care insurance, including brochures and seminars. Employees may receive a letter from their employer endorsing the purchase of long-term care insurance, or read about long-term care insurance on posters or in the company newsletter. New employees may be given information about long-term care insurance during their orientation.

This chapter examines the impact of these efforts to educate employees about long-term care and group insurance. Educational programs are evaluated from a consumer perspective to identify the key features that motivate enrollment and increase awareness of the need to plan for long-term care.

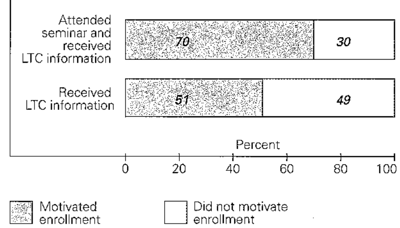
Increasing Enrollment

Employees who enroll in a group plan value the information they receive from their employer about long-term care. More than half believe this education was a major factor motivating them to sign up for group coverage (54 percent).

Employees are more likely to be encouraged to enroll in a group long-term care plan if they receive more education about this product. Nearly three-quarters of enrollees who attend a seminar on long-term care in addition to receiving other information say education is a major force motivating their purchase of group coverage (70 percent).

Figure 3.1

Motivation From Learning About Long-Term Care Among Enrollees Under Age 60, by Type of Education



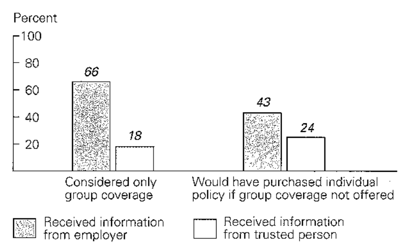
Impact of seminars
Workers who attend a seminar on long-term care are likely to enroll in a group plan.

In contrast, just half of enrollees who only receive information on long-term care feel this type of education motivates them to apply for group coverage (51 percent).

Enrollees who would consider only a group policy are highly likely to have been influenced by the information received from their employer on long-term care (66 percent). In general, group enrollees are more likely to be motivated to enroll by learning about the issue at work than by encouragement from other trusted advisers, including family members or professional advisers.

Figure 3.2

Factors Motivating Enrollment Among Workers Under Age 60, by Source of Long-Term Care Information



Impact of employer education
Enrollees are motivated to enroll by information they receive from their employer.

Promoting Planning

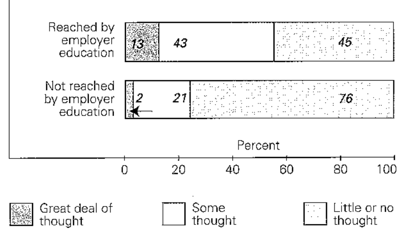
Education about long-term care insurance helps increase awareness of the need to plan ahead, particularly for potential enrollees. Although the employers in this study actively promote this benefit, educational materials do not reach all potential enrollees. More than one in three of these employees were unaware of employer education efforts and said they had not obtained materials about long-term care planning at work (36 percent).

Potential enrollees who obtained information or attended a seminar found it easy (29 percent) to very easy (31 percent) to learn about long-term care. Most of these employees also found the materials easy to understand (68 percent).

Concern about long-term care planning is reinforced when employees learn about the issue. Over half of potential enrollees who receive information at work have thought about planning for long-term care (56 percent).

Figure 3.3

Consideration Given to Long-Term Care Planning Among Workers, by Education Experience

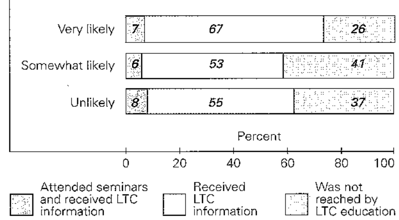


Reach of education
Educated employees think about long-term care planning.

Potential enrollees very likely to buy a policy are more likely to have been educated about long-term care planning (74 percent) than those who are only somewhat likely to purchase a policy (59 percent). One in four employees very likely to buy long-term care insurance were not aware of employer education about this benefit (26 percent).

Figure 3.4

Likelihood of Long-Term Care Insurance Purchase Among Employees, by Type of Education



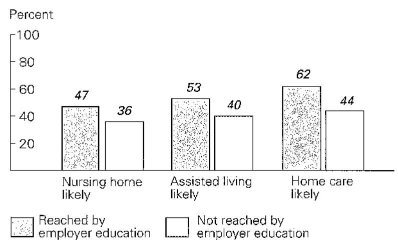
Informed employees
Well-informed employees are more likely to purchase long-term care insurance.

As employees learn about long-term care planning, they become more concerned about the risk of needing help due to a disability or chronic condition. This is particularly true when innovative services in the home and community are considered. For example, more than half of potential enrollees educated about long-term care are concerned that they may spend some time in an assisted living facility during retirement (53 percent), compared with 40 percent of those who did not learn about this issue at work.

Some employees, especially at younger ages, believe planning for long-term care is pointless. Indeed, more than one-third of potential enrollees who had inquired about

Figure 3.5

Concern Regarding Long-Term Care Needs Among Workers, by Education Experience

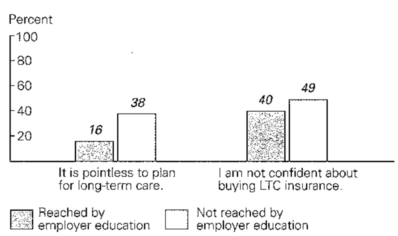


Perceptions and learning
Workers who learn about long-term care are concerned about the risk of needing care.

group long-term care insurance, but did not learn more about the benefit, remained unconvinced of the value of preparing for these retirement expenses (38 percent). In contrast, only 16 percent of potential enrollees educated about long-term care at work still felt it was pointless to plan ahead for this risk.

Figure 3.6

Beliefs About Long-Term Care Planning and Insurance Purchase Among Potential Enrollees, by Education Experience



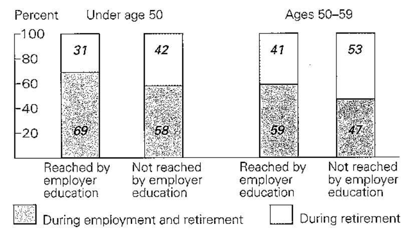
Need for education
Employer education increases workers' willingness to plan for long-term care and to purchase insurance.

Education also boosts employees' confidence in their ability to make appropriate purchases of long-term care insurance.

Educating employees about long-term care planning encourages preparing for this risk sooner. More than two-thirds of potential enrollees under age 50 who learned about long-term care believe having a long-term care insurance policy is important during their working years as well as during retirement (69 percent), compared with 58 percent of those who were unaware of information available at work about long-term care planning.

Figure 3.7

Beliefs About When To Own Long-Term Care Insurance Among Potential Enrollees, by Age and Education Experience



Education and timing
Potential enrollees who are educated about long-term care are likely to value insurance before retirement.

Older potential enrollees have somewhat less interest in owning coverage during both their working and retirement years. Nonetheless, the impact of long-term care education is similar among employees ages 50–59.

Education and Retirement Planning

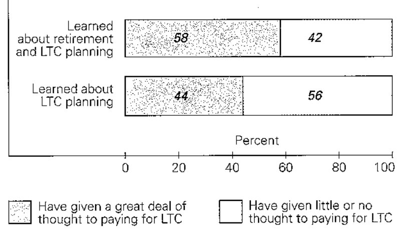
Combining long-term care education with information about retirement enhances educational efforts. Increasingly, long-term care planning is seen as integral to retirement planning, helping consumers to protect the retirement savings they have worked hard to accumulate.

Offering both types of planning education encourages employees to plan for long-term care. Among potential enrollees, more than half of those who learned at work about planning for both retirement and long-term care have thought hard about how to pay for long-term care (58 percent), compared with 44 percent of those who learned only about long-term care planning from their employer.

Figure 3.8

Retirement and LTC planning
Potential enrollees who learn about retirement and long-term care planning are more concerned about paying for long-term care.

Consideration Given to Paying for Long-Term Care Among Potential Enrollees, by Education Experience



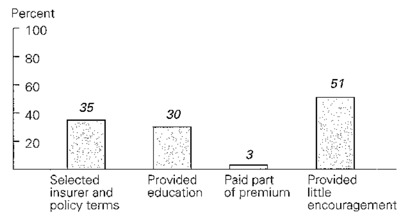
Employer Challenges

Companies often find that promoting group long-term care insurance is very challenging. Yet the potential is great: If just 10 percent of working-age Americans older than 45 decided to enroll in a group long-term care plan, the employer-sponsored long-term care insurance market would increase nearly sevenfold.[1]

About one in three enrollees signed up for a group policy because their employer simplified the process by selecting the insurance carrier and policy features (35 percent).

Figure 3.9

Enrollees' Perceptions of How Employers Encouraged Enrollment in Group Policy

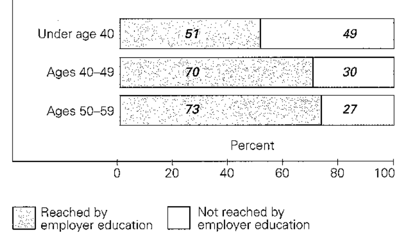


Employers' encouragement
Many enrollees felt employers did little to encourage them to enroll in the group long-term care policy.

Half of group enrollees, however, felt their employer did little to encourage them to obtain long-term care insurance (51 percent). This may signal a greater need for senior management to actively promote this benefit to employees.

Figure 3.10

Long-Term Care Learning Experience Among Potential Enrollees, by Age



Reaching younger workers
Workers under age 40 are often not aware of information on long-term care provided by their employer.

Efforts to educate workers about long-term care are not reaching all employees. Almost half of potential enrollees under age 40 were not aware of receiving any information about this benefit from their employer (49 percent). Such lack of awareness may contribute to this group's lower interest in long-term care planning compared with older potential enrollees.

Conclusion

Employer-sponsored long-term care education helps set in motion the process of long-term care planning for many employees. The information that employees receive about long-term care insurance at work significantly increases their awareness of the need to plan ahead for long-term care. Educating workers about long-term care also encourages them to consider owning a policy before retirement.

Combining education on retirement planning with information on long-term care financing, rather than offering long-term care education alone, helps strengthen the message about needing to plan ahead for long-term care. The challenge is finding ways to link education on long-term care with retirement planning. Companies typically conduct long-term care education and communication programs during the initial offering of a group plan. In contrast, educating employees about retirement planning is usually ongoing.

1 Lutzky, Steven, John Corea, and Lisa Alecxih. (2000). *A Survey of Employers Offering Group Long-Term Care Insurance to Their Employees (Final Report).* Washington, D.C.: The Lewin Group.

Methodology

Findings are based on a survey conducted by LifePlans Inc. for the American Council of Life Insurers between October 1999 and October 2000. The survey includes two samples: 369 employees enrolled in a group insurance plan and 570 employees who had made inquiries about their employer's long-term care plan but were not enrolled at the time the sample was drawn. Enrollees had signed up for group coverage within the past six years, had maintained their policies, and were not on claim at the time of the survey.

The study represents approximately 15,000 employees. Employees from five midsize companies (501–5,000 employees) participated, supplemented by employees from 25 city and county government employers in the group long-term care insurance plan offered by the California Public Employees Retirement System (CalPERS). Enrollees in the public vs. private sectors exhibited very few statistically significant differences in their retirement and long-term care planning behavior and attitudes.

Government employers selected for this study offered group plans with features similar to those at private companies: group certificates, payroll deduction, and a comprehensive enrollment process. The group plan under CalPERS differs from private-sector plans in that it requires enrollees to undergo medical underwriting. However, CalPERS accepts between 95 and 99 percent of active employees who apply, making the number of public employees denied on the basis of underwriting fairly small among workers younger than 60.

Among larger group plans, the sample of enrollees was randomly selected. In small groups, all enrolled employees were included in the study. Because of the variability among employer groups, the sample, while random, is representative of only the employers that participated in the study, not of the entire market for group long-term care insurance. However, a technical panel of long-term care insurers reviewed the results and verified their consistency with industry experience.

The sample of potential enrollees was drawn from each participating insurance company's list of employees requesting enrollment packages. During the data screening process, many of those who were thought not to be enrolled were found to be participating in the group plan. Because already enrolled employees may have been requesting enrollment packets for relatives, none of these surveys were used in the final sample. Moreover, the potential enrollee sample is a convenience sample: Employees who had made their inquiry recently were more likely to be included to ensure that they were relatively close to their decision not to buy a policy.

LifePlans worked with the insurers of the group plans involved in the study to contact employers that might be interested in participating. Insurers also provided data from their administrative systems to supplement survey information gathered directly from enrollees. Such administrative data included information on the features of the group plan of each enrollee, optional features from which they could choose, their annual premiums, and the date of policy purchase.

The survey collected information on the socio-demographic characteristics of each respondent, including age, gender, income and assets, living arrangement, education, and health status. Respondents were asked about their attitudes toward retirement (goals and confidence levels) and long-term care financing (source of funds, risk factors, and health concerns). The survey also asked detailed questions about retirement and long-term care planning behavior (savings, anticipated sources of funds, motivation for planning, and value of private insurance). LifePlans combined the two sources of information using a unique identifier on each returned survey to link specific long-term care insurance policy features to the attitudes, behavior, and socio-demographic characteristics of the respondents.

The survey was administered through the mail and, in some cases, by telephone. To increase response rates, potential respondents were initially contacted by phone to alert them to the study and forthcoming survey. The survey included a toll-free number to help answer questions from respondents. Two rounds of follow-up postcards and phone calls were completed to encourage participation.

Characteristics of Respondents (percent)

	Owners[1]	Potential owners[2]
Gender		
Male	41.4	51.4
Female	58.6	48.6
Age[3]		
Under 40	8.9	31.9
40-49	37.2	32.3
50-59	53.9	35.8
Marital status		
Married	70.9	75.6
Divorced/separated	15.6	11.5
Widowed	3.6	1.8
Never married	9.9	11.1
Children under age 18 living at home		
None	78.2	53.9
One	13.4	19.3
Two or more	8.4	26.8
Education		
High school or less	9.0	9.8
Technical/business school	2.0	4.1
College	66.6	67.9
Graduate degree	22.4	18.2
Financial resources		
Limited	1.4	3.0
Moderate	53.8	67.0
Substantial	44.8	30.0
Health status		
Excellent	42.4	39.3
Good	49.4	54.2
Fair/poor	8.2	6.5

Source: American Council of Life Insurers

1 Represents 304 respondents.
2 Represents 489 respondents.
3 At time of survey.