S. HRG. 109–429

LONG–TERM CARE FINANCING: ARE AMERICANS PREPARED?

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

WASHINGTON, DC

MARCH 9, 2006

Serial No. 109–18

Printed for the use of the Special Committee on Aging

U.S. GOVERNMENT PRINTING OFFICE

27–433 PDF WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
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LONG–TERM CARE FINANCING: ARE AMERICANS PREPARED?

THURSDAY, MARCH 9, 2006

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

The Committee met, pursuant to notice, at 10:13 a.m., in room SD–138, Dirksen Senate Office Building, the Hon. Gordon H. Smith (chairman of the committee) presiding.

Present: Senators Smith and Martinez.

OPENING STATEMENT OF SENATOR GORDON SMITH, CHAIRMAN

The CHAIRMAN. Good morning, ladies and gentlemen. We thank you for your patience. It has been a hectic morning and we thank you all for coming.

Today's hearing topic, long-term care, is a subject Congress must begin to address if we are to ensure that future generations of retiring Americans are able to meet their health care needs while not crippling entitlement programs like Medicare and Medicaid.

I am very glad we have the opportunity to discuss long-term care financing and take the first steps to answering the question, "Are Americans prepared?" The biggest concern regarding long-term care is that it is very expensive. The Centers for Medicare and Medicaid Services estimate that national spending for long-term care was approximately $160 billion in 2002, representing about 12 percent of all personal health care expenditures.

To make matters even more difficult, demand for long-term care is expected to increase significantly in the coming decades. Today, almost two thirds of people receiving long-term care are over the age 65, with the number of people receiving care expected to double by 2030.

To put a human face on this growing problem, we hear stories every day of disabled Americans who cannot afford care, turning then to self-impoverishment as a last resort of beginning to receive Medicaid benefits. For these reasons, urgent action is needed on two fronts.

First, we must strengthen Medicaid to ensure that it remains a viable safety net for millions of needy Americans well into the future. Second, we need to encourage savings and the purchase of long-term care insurance for those who are in a position to prepare for long-term care expenses.

Why is this such a great concern? As the baby boomers begin retiring in increasing numbers over the coming years, our ability to

pay for entitlement programs will simply be stretched to the breaking point. In addition, the Deficit Reduction Act that was enacted earlier this year included several provisions that dramatically changed eligibility standards for Medicaid, such as lengthening the look-back period for asset transfers and disqualifying individuals with substantial home equity.

On a positive note, the bill created the National Clearinghouse for Long-Term Care Information and expanded the Long-Term Care Partnership Program. For that, I must commend the work of Senator Craig, who is the former Chairman of this Committee and who still serves with distinction. We commend him for all his hard work to expand the Long-Term Care Partnership Program. His leadership as Chairman of this Committee was one of the primary reasons Congress expanded the Long-Term Care Partnership Program.

With these greater restrictions on Medicaid eligibility, we must begin to offer positive estate planning solutions to give Americans better opportunities to prepare for their long-term care needs. As with health care, the best way to be prepared for long-term care expenses is to be insured. However, insurance can be expensive, especially when weighing the pros and cons of purchasing long-term care insurance versus remaining uninsured.

Currently, about 55 percent of the people over 85 years old need some form of long-term care. When deciding to purchase insurance, the gamble that a person could be one of the 45 percent that will not need long-term care can be perceived as a better option than paying for insurance.

We must tear down the notion that the purchase of this type of insurance is a gamble. Long-term care insurance protects assets and income from the devastating financial consequences of these costs.

Today's comprehensive long-term care insurance policies allow consumers to choose from a variety of benefits and offer a wide range of coverage choices. They allow individuals to receive care in a variety of settings, including nursing homes, home care, assisted living facilities, and adult day care. Last, long-term care insurance allows individuals to take personal responsibility for their long-term health care needs and reduces the strain on the Medicaid budget.

While planning for long-term care costs by buying insurance is a step in the right direction, this may not be the ideal solution for everyone. For younger individuals, saving for long-term care needs, whether for the later purchase of that care or paying outright for it, is sometimes more beneficial than buying insurance. We should support early savings efforts for insurance and care, as many people don't think about this need until it is just simply too late.

Putting away money over time, as we will hear from Joanne Vidinsky, can be a very powerful means of affording insurance or care. However, with our national savings rate in steady decline, I fear the American middle class is woefully unprepared to meet this coming challenge.

Today, I will introduce the Long-Term Care Trust Account Act of 2006 with Senator Lincoln of Arkansas, who serves with me on this Committee and the Finance Committee as well. This bill will

incentivize savings and the purchase of insurance by creating a savings vehicle for the purpose of preparing for costs associated with long-term care services and purchasing long-term care insurance.

Individuals who contribute to this account will receive a refundable tax credit on their contributions. This will help individuals save for insurance and the many people in our country that want to help their parents or a loved one prepare for their health care needs as well.

The issue of long-term care expenditures and costs need not be an insurmountable task. However, it will require action and cooperation by public officials and private providers as we work to find ways to help Americans prepare. As with any major issue facing this Nation, Republicans and Democrats must come together to bring new and innovative solutions to the table. It is a time for ideas, not ideals, and I look forward to working with my colleagues as we strive to meet this growing challenge.

Last, I would like to thank all of our witnesses who join us here this morning. We have assembled two excellent and diverse panels. I am eager to hear your thoughts as we engage in this meaningful and productive dialog.

With that, I am very pleased to be joined by a distinguished member of our Committee, Senator Martinez of Florida, for your opening statement.

OPENING STATEMENT OF THE SENATOR MEL MARTINEZ

Senator MARTINEZ. Mr. Chairman, thank you very much. I again congratulate you and welcome your holding of this hearing and appreciate the opportunity to make an opening statement and welcome our speakers as well.

I know that the issue of long-term care is an extremely important topic in the area of health care, and we in Congress really cannot afford to wait any longer to devise a plan to help educate individuals on the importance of having a policy and helping citizens to purchase this type of insurance.

Mr. Chairman, our country is heading toward a demographic meltdown on long-term care. It is simply unsustainable for individuals in the Government to maintain the current rate of spending without further endangering the state of health care in the United States.

Preparing for future health care cost is something that every American should be doing. Long-term care insurance is one of the ways in which Americans plan for periods of extended disability without burdening their families, going bankrupt, or relying on Government assistance.

It is important that incentives are put in place today that will deal with the impending influx of elderly Americans who will rely on the long-term health care system in the future. That is why I am pleased the Congress recently acted, through the deficit reduction act, to expand the Partnership for Long-Term Care Program, the public-private long-term care insurance program that formerly was only available in a handful of States.

The benefits of the partnership program are two-fold. The program provides incentives for individuals to purchase long-term care

insurance and relieves pressure on State Medicaid programs, where long-term care expenses are growing exponentially. The State of Florida is certainly no exception to that problem.

Additionally, if the purchasers of these policies spend down their policy and need to rely on Medicaid, they will be able to protect assets on a dollar-for-dollar basis. This arrangement helps protect beneficiaries, important assets, and relieves pressure on publicly financed long-term care.

While this is a positive step forward, more will be needed as the baby boomer generation begins to retire. Mr. Chairman, I am in a long list of notable Americans like our President, our immediate past President, who will be turning 60 this year, and it is upon us that the baby boomers are coming of age.

All options should be considered, and I am a co-sponsor of a bill that will allow individuals to use their 401(k) and 403(b) plans to purchase long-term care insurance with pre-tax dollars at any age and without early withdrawal penalties. Under this legislation, the consumer has the option to purchase long-term care insurance at the most appropriate amounts for their own needs and their spouses.

I also, Mr. Chairman, welcome the bill that you have filed today, including a tax credit to individuals who purchase long-term care insurance. I look forward to reviewing that bill and perhaps joining as an early co-sponsor with you on that measure.

I hope that both of those proposals will soon get consideration in the Finance Committee, and I look forward to hearing the panelists today. I appreciate the indulgence of the Chair to have my remarks.

The CHAIRMAN. Thank you very much, Senator Martinez. We would welcome you on the bill.

Senator MARTINEZ. Thank you.

The CHAIRMAN. If you find it meritorious, we would certainly love your support.

Testifying today on our first panel will be Robert Danbeck. Mr. Danbeck is associate director and chief human capital officer at the Office of Personnel Management. Mr. Danbeck will be discussing the Federal Long-Term Care Insurance Program, which Congress started in 2000.

Mr. Danbeck, thanks for coming. The mike is yours.

STATEMENT OF ROBERT F. DANBECK, ASSOCIATE DIRECTOR AND CHIEF HUMAN CAPITAL OFFICER, OFFICE OF PERSONNEL MANAGEMENT (OPM), WASHINGTON, DC

Mr. DANBECK. Mr. Chairman, it is a pleasure to be here. I have a longer statement that I request be made part of the record.

The CHAIRMAN. Without objection.

Mr. DANBECK. Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you today to discuss the Federal Long Term Care Insurance Program.

The Office of Personnel Management (OPM) views this program as a critical component of the Federal Government's effort to attract and retain a high-caliber workforce. It is the largest group long-term care insurance program, with over 211,000 participants.

It is a true success story, thanks to the strong congressional leadership, which made the Federal program possible.

OPM staff worked extensively with congressional staff and industry representatives to ensure the authorizing legislation for the program would be viable from both an administrative and an industry perspective. Shortly after enactment of the Long-Term Care Security Act of September 19, 2000, OPM staff began meeting with national experts in the fields of long-term care and long-term care insurance to help us design a program that would be at the forefront of the marketplace.

On June 20, 2001, OPM issued a request for proposal from qualified carriers to insure and to administer the program. After a competitive bidding process and an extensive evaluation of competing proposals by both technical and financial panels, OPM awarded a contract to Long Term Care Partners, the joint venture formed by John Hancock and MetLife, on December 18, 2001.

John Hancock and MetLife are the Nation's two largest carriers of group long-term care insurance and consistently earn top ratings for financial strength from the major rating organizations. Both have been in the long-term care insurance business for well over 15 years and have a history of rate stability.

Federal and Postal employees and annuitants, active and retired members of the uniformed service, and certain District of Columbia employees and their qualified relatives are eligible to apply for long-term care insurance under this program. The Federal program is underwritten and thus certain medical conditions or combinations of conditions prevent some people from being approved for coverage.

We held an early enrollment period for the program from March 25 to May 15, 2002, for those who were familiar with the product and desired coverage as soon as possible. We followed that with our first open season from July 1 to December 31, 2002. The open season was accompanied by an extensive educational initiative to acquaint the eligible population with the product and the need for the product.

During the early enrollment period and the open season, employees and their spouses could apply for coverage using the abbreviated underwriting application, containing only a handful of health-related questions. The remaining eligible population utilized the full underwriting application, which contains many health-related questions.

Open season ended in 2002, and abbreviated underwriting is still available for a 60-day period to new or and newly eligible employees and their spouses and newly married spouses of employees. Everyone else must use the full underwriting application, but the program remains open to the entire eligible population.

As you can imagine, one of the greatest challenges we faced early in the program's history and continue to face is how best to educate and communicate with the eligible population about what long-term care is and about the need for long-term care insurance. This is not unique to our program.

Long-term care insurance is typically a difficult sell, whether in the Government or the private sector. Some people are hesitant to purchase long-term care insurance because of its expense, as well

as the possibility that they will never need to use the insurance coverage—the gamble that you referred to before.

I personally would rather pay for long-term care insurance and never need it than need it and not have it. I feel the same way about collision insurance on my automobile or fire insurance on my house. Peace of mind is worth a lot.

Over the last 5 years, we have learned a lot about how to encourage people to apply for long-term care insurance. One of the most important aspects of the purchase decision is multiple exposure to the message.

It is very hard for people to project themselves into the future, perhaps 20, 30, or 40 years, and imagine that they may need help with activities that today they take for granted—just caring for themselves, feeding themselves, clothing themselves. So, it is important that they hear the message over and over and over again.

We have continuing educational opportunities at benefits fairs. We distribute materials. We run seminars. We have positive press. We provide education on State tax incentives for purchasing insurance. We have discussions at retirement planning seminars. We have discussions with colleagues. Sessions such as these go a long way to get that message out to the eligible population.

Another important lesson that we learned is nothing can match personal experience. Someone who has seen a loved one spend a lifetime of savings on long-term care services, someone who has nursed a loved one through chronic illness and experienced the emotional and physical stress that caregiving entails will be much more receptive to thinking about long-term care insurance than someone who has not had this type of experience.

Endorsement by the Federal Government also is key. Through focus group surveys, we know that OPM sponsorship and oversight of the Federal program, being established by an Act of Congress and ratified by the President, instantly lend credibility to the program.

The Federal program competes with many other long-term care insurance policies in the marketplace, and sometimes it is hard to compare benefits or to know that you are comparing them accurately. The Federal endorsement itself is sometimes enough to give applicants the peace of mind to believe that they have made the right choice.

Payroll deduction also lends credibility to the purchase decision. Almost 70 percent of the Federal and Postal employees choose payroll deduction at time of application. About 65 percent of enrolled annuitants have annuity deductions for their premiums. It is a distinct competitive advantage.

We know we need to do a better job educating people and reaching out to people about the need for this insurance, especially in venues where we have difficulty getting to the eligible population. This would currently include military bases with limited access to active members of the uniformed services and the Postal Service, where employees are very dispersed and have to attend educational opportunities on their own time.

Some agencies are better than others at distributing information about the program and making educational opportunities available, such as pre-retirement seminars. Contact at the home can be an

effective way of getting to people because they are inundated in the workplace with many messages.

Yet we cannot take advantage of home settings, as private insurance agents can, because we do not have access to non-OPM employee addresses, and we do not have a network of paid agents. We cannot easily reach qualified relatives since we really don't have a way to contact them either.

Given all of these challenges, we firmly believe the Federal program has done a commendable job reaching the eligible population, as evidenced by the 211,000 current enrollees.

In closing, we want to assure you that this program will continue to be a success and a leader in the long-term care insurance marketplace. We are deeply grateful for the support of Congress and believe your active advocacy can be very, very helpful.

Thank you for your time today and for your continued interest in the Federal Long Term Care Insurance Program and in long-term care insurance in general. I would be pleased to answer any questions.

The CHAIRMAN. Thank you, Robert. Your testimony is very helpful and enlightening.

I suppose there is in all of us a sense that we will never die and why bother with an extra insurance policy because of that? Your point that, well, if I do die, I won't get to use it. So, it is a hard sell.

For my own education and perhaps for anyone watching on C–SPAN, what are the relative costs between long-term insurance versus a health care policy for every day care or your care for today? Is it expensive?

Mr. DANBECK. It is expensive.

The CHAIRMAN. OK.

Mr. DANBECK. The exact figures I don't have with me at the time. However, I can get those for you. It is more expensive than normal insurance, if you will, normal health insurance. There are a number of different plans that you can choose. Of course, it also is dependent on your age. So it is, from a comparative point of view, an expensive product.

I do have the figures now, but I can share them with you later.

The CHAIRMAN. If you can share them, that would be fine.

You know, we talk about Federal tax incentives, and obviously, the bill Senator Lincoln and I have is providing yet another tax incentive to get people to make this choice. But frankly, at the current point, Federal tax incentives are fairly minimal to get people to make this choice.

You reference in your testimony that you educate Federal workers about State tax incentives for long-term care insurance. In your position, how often do you feel these State tax incentives move someone to purchase that insurance?

Mr. DANBECK. Well, I don't think that they are the impetus for someone to make that decision based only on that fact. I do think, though, that once the individual has done their homework and assessed the various plans that are available, that they really do have a tremendous impact on the individual. They add to that decision.

They are probably, the crowning point, if you will, for the person's decision making process. So, I think they are very valuable.

Again, this is a unique program, as you mentioned. So people go through quite a bit of thought process before they make a decision. But once they are there, and then you couple that with the tax incentives, that is the thing that closes the deal.

The CHAIRMAN. Should the Federal Government do more in terms of tax incentives, in your view? Would that be the tipping point to get more and more American seniors——

Mr. DANBECK. I certainly think it would help.

The CHAIRMAN. OK. Senator Martinez.

Senator MARTINEZ. I am impressed by the very large enrollment number among your folks. Tell me how that has been accomplished. Understanding what you also have said, which is it is not a cheap product, how have you accomplished that?

Mr. DANBECK. Well, the first thing we have is a very active Web site. I mean, OPM has an active Web site, as well as the Long Term Care Partners.

We do an extensive education program. Every opportunity we get to speak at pre-retirement seminars, we take that opportunity. Every opportunity we have to be at conferences, we will see a booth there from the Long Term Care Partners presenting the product.

We have a call center. We are always reaching out. I mean, we have even gone so far as to send birthday cards to annuitants who might not be covered by the product to just say, "Hey, your birthday is coming up. This is something you might want to think about." So we have an extensive outreach program, and we have completely revamped the way we did it. We have made it much more user-friendly.

As I mentioned earlier, people receive a lot of mail. So what we have done is we have branded, if you will, all of our correspondence so that when they receive that at home, they do know that it is something related to their insurance and something personal to them.

We have done a lot in that area. But I have to tell you, the website, the website gets over 184 million hits a year.

Senator MARTINEZ. Do you have the address for it? It might be good to let folks know what that is and they could address it.

Mr. DANBECK. www.ltcfeds.com.

Senator MARTINEZ. Say it again. I am sorry.

Mr. DANBECK. LTC—long-term care—feds—F–E–D–S—dot-com.

Senator MARTINEZ. In the State of Florida, we have a large population of military retirees with a very integrated community network, and I was wondering if there have been any outreach efforts on behalf of military retiree organizations to try to expand the Federal enrollment program?

Mr. DANBECK. We will submit the answer for the record.

Senator MARTINEZ. OK. Very good. Thank you.

Mr. DANBECK. I am just not personally aware of them at the present time.

Senator MARTINEZ. Right, right. OK. That will be good. Thank you.

That is all I have, sir.

The CHAIRMAN. Mr. Danbeck, thank you very much. We appreciate your role in this important Federal program and encourage you to keep all of those good efforts going and get the numbers up, and we thank you for that and your public service.

Mr. DANBECK. Thank you, Mr. Chairman.

[The prepared statement of Mr. Danbeck follows:]

STATEMENT OF
ROBERT F. DANBECK
ASSOCIATE DIRECTOR
HUMAN RESOURCES PRODUCTS AND SERVICES
OFFICE OF PERSONNEL MANAGEMENT

Before the

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

MARCH 9, 2006

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today to discuss the Federal Long Term Care Insurance Program (the Federal program).

OPM views the Federal Program as a critical component of the Federal Government's efforts to attract and retain a high-caliber workforce. It is the largest group long term care insurance program in the nation, with 211,461 enrollees (as of February 28, 2006). This is a true success story, thanks to the strong Congressional leadership which made the Federal Program possible.

Background

OPM staff worked extensively with Congressional staff and industry representatives to ensure the authorizing legislation for the Federal Long Term Care Program would be viable from both administrative and industry

perspectives. Shortly after enactment of the Long-Term Care Security Act on September 20, 2000, OPM staff began meeting with national experts in the fields of long term care and long term care insurance to help us design a program that would be at the forefront of the marketplace.

On June 20, 2001, OPM issued a request for proposals from qualified carriers to insure and administer the Federal program. After a competitive bidding process and an extensive evaluation of competing proposals by separate technical and financial panels, OPM awarded a contract to Long Term Care Partners, the joint venture formed by John Hancock and MetLife, on December 18, 2001. John Hancock and MetLife are the nation's two largest carriers of group long term care insurance and consistently earn top ratings for financial strength from the major ratings agencies. Both have been in the long term care insurance market for well over 15 years and have a history of rate stability.

Federal and Postal employees and annuitants (including survivor annuitants), active and retired members of the uniformed services, certain District of Columbia employees, and their qualified relatives are eligible to apply for long term care insurance under the Federal program.

The Federal program is underwritten, and thus certain medical conditions, or combinations of conditions, prevent some people from being

approved for coverage. We held an early enrollment period from March 25, 2002 to May 15, 2002, for those who were familiar with the product and desired coverage as soon as possible, and the first open season from July 1, 2002 to December 31, 2002. The open season was accompanied by an extensive educational initiative to acquaint the eligible population with the product and the need for it. During the early enrollment period and the open season, employees and their spouses could apply for coverage using the abbreviated underwriting application, containing only a handful of health-related questions. The rest of the eligible population had to use the full underwriting application, which contains many health-related questions. Since open season ended in 2002, abbreviated underwriting is available for a 60 day period only to new or newly eligible employees and their spouses and newly married spouses of employees. Everyone else must use the full underwriting application, but the program remains open to the entire eligible population.

Federal Long Term Care Insurance Participation

As you can imagine, one of the greatest challenges we faced early in the program's history and continue to face is how best to educate and communicate with the eligible population about what long term care is, and the need for long term care insurance. This is not unique to our program.

Long term care insurance is typically a difficult sell, whether in the government or private sector. Some people are hesitant to purchase long term care insurance because of its expense as well as the possibility that they'll never need to use the insurance and will have paid money for "nothing". Long term care itself is even more expensive, of course. I personally would rather pay for long term care insurance and never need it than find that I need it but don't have it. I feel the same way about the collision insurance on my car and the fire insurance on my house. Peace of mind is worth a lot.

Over the last 5 years, we've learned a lot about how to encourage people to apply for long term care insurance. One of the most important aspects of the purchase decision is multiple exposures to the message are needed. It is very hard for people to project themselves into the future, perhaps 20, 30 or even 40 years hence, and imagine they may need help with activities often taken for granted, such as eating and dressing. Most people will tune out at the first suggestion they may need this help someday. They may even tune out the second time. But after continued education at benefits fairs, distribution of materials, seminars, positive press, education on State tax incentives for purchasing insurance, discussions on retirement planning, discussions with colleagues, etc., they start to listen and think

about how they might pay for such care, if they do, indeed, need it someday. That thought process naturally leads to requesting information about how to apply for insurance under the Federal program.

Another important lesson is that nothing can match personal experience. Someone who has seen a loved one spend a lifetime of savings on long term care services; someone who has nursed a loved one through chronic illness and experienced the emotional and physical stress that care-giving entails –will be much more receptive to thinking about long term care insurance than someone who has not had this type of experience.

Endorsement by the Federal Government is key. Through focus group surveys we've done for the Federal program, we know that OPM sponsorship and oversight of the Federal program on an on-going basis and that it was established by an Act of Congress and ratified by the President instantly lend credibility to the program. The Federal program competes with many other long term care insurance policies in the marketplace. Sometimes it's hard to compare benefits or know that you're comparing them accurately. The Federal endorsement itself is sometimes enough to give applicants the peace of mind they've made the right choice.

Payroll deduction also lends credibility and helps close the purchasing decision. Almost 70% of Federal/Postal employees chose payroll deduction

at time of application, and about 65% of enrolled annuitants have annuity deduction for their premiums. It is a distinct advantage.

We know we need to do a better job educating people about the need for this insurance especially in venues where we have difficulty reaching the eligible population. This includes military bases with limited access to active members of the uniformed services and the Postal Service where employees are very dispersed and have to attend educational sessions on their own time, not "on the clock". Some agencies are better than others at distributing information about the program and making educational opportunities available, such as pre-retirement seminars. Contact at the home can be more effective than at the workplace where employees are inundated with reading material. Yet, we cannot take advantage of home settings as private insurance agents do, because we do not have access to non-OPM employees' home addresses nor do we have a network of paid agents. We cannot easily reach qualified relatives, since we really don't have a way to contact them.

Given all of those challenges, we believe the Federal program has done a commendable job reaching the eligible population, as evidenced by the thousands of applications that Long Term Care Partners receives each year, even without holding an open season.

In closing, we assure you this program will continue be a success and a leader in the long term care insurance marketplace. We are deeply grateful for the support of Congress and believe your active advocacy can be very helpful. Thank you for your time today and for your continuing interest in the Federal Long Term Care Insurance Program and in long term care insurance in general. I will be pleased to answer any questions.

The CHAIRMAN. With that, we will call up our next panel.

Our first witness on this panel will be Ms. Eileen Tell. She is the senior vice president for product development with Long Term Care Group, Inc. Ms. Tell is an expert on the long-term care insurance market. In her current position, she has been involved in research, education, and product development strategies for insurers and Government agencies.

She will be followed by Mr. Malcolm Cheung, who works in Prudential's Long-Term Care Division as an expert in pricing, product development, contracts, compliance, financial reporting, and risk management. Today, Mr. Cheung is here to discuss current trends in the long-term care insurance market and how, as Government, we could help these markets become more robust.

He will be followed by Ms. Joanne Vidinsky. She is here to share her personal experience with long-term care. She has a mother-in-law with Alzheimer's disease, and she learned firsthand of the challenges of financing long-term care.

Finally, Robert Friedland is the founding director at the Center on an Aging Society. Mr. Friedland has written on issues pertaining to the financing and delivery of health care, long-term care, and retirement income security. He is the author of "Facing The Costs of Long-Term Care." So, we welcome each of you here. Eileen, why don't we start with you?

STATEMENT OF EILEEN TELL, SENIOR VICE PRESIDENT, LONG TERM CARE GROUP, INC., NATICK, MA

Ms. TELL. Thank you.

Good morning, Mr. Chairman, members of the Committee. I am very pleased to be here. Thank you for the opportunity.

Really important to talk about the greater consumer awareness and incentives to encourage people to take personal responsibility to planning ahead for their long-term care needs. Over the last 21 years, I have worked in various capacities to educate consumers about the risks and costs of long-term care and to help them understand the advantages of planning ahead.

My work has also focused on creating and enhancing a variety of private finance options and products to meet those needs. Through this work, we talk every day with people who planned ahead for long-term care for themselves and for their loved ones, and we hear what motivated them to obtain insurance, to plan ahead, and, more importantly, how having that insurance has impacted their lives.

Specifically, planning ahead and having insurance can make a significance difference to the financial well-being, quality of care, control over care choices, and peace of mind. I have included in my written testimony some personal statements from individuals who have gone through the long-term care need and made some planning choices.

Despite these compelling advantages, however, the number of people with private insurance is still small. The magnitude of this problem is captured in a tool developed in 2003 called the Index of the Long-Term Care Uninsured. Specifically, we see that 87 percent of the eligible population age 45 and older are currently uninsured for long-term care.

Last year, for the first time, this index was also used to take a look at some State-specific trends to identify State-level activities that can possibly encourage private responsibility for long-term care. These include State tax incentives, a public-private partnership initiative, public education, a long-term care insurance program for public employees and retirees such as the Federal plan, speed to market, and others.

We do see that these State activities appear to be making a difference. You asked about State tax incentives, and one thing we looked at is for those States that have adopted State tax incentives, they do have a higher market penetration for long-term care insurance than those that don't. Specifically, a tax credit seems to have a stronger impact than a tax deduction.

Specifically, market penetration among those States with a long-term care tax credit or a deduction is 8.1 percent, compared with 6.7 percent in States without such tax treatment. Similarly, in States with a State-sponsored long-term care insurance program like the Federal program for public employees, retirees, and their families, we see market penetration as 8.1 percent, compared with 4.6 percent in States without such a program.

So that general education that happens in an area really rises and spreads across to populations beyond those just eligible for that program and makes a difference.

With respect to the partnership program, we see among the 18 States that have above average market penetration for long-term care insurance, 3 of the 4 partnership programs are among those. So it does look like national expansion of a partnership kind of concept, which is a key component of the deficit reduction act, is an important element that is going to help the marketplace.

Finally, we know that raising consumer awareness and education is critical. If individuals are more aware of their potential need for long-term care and the options for addressing it, they are much more likely to take steps to prepare for the future. This, in fact, is the key premise behind the Department of Health and Human Services long-term care consumer awareness initiative.

Called "Own Your Future," the campaign represents a unique partnership between the Federal Government and States to offer a consistent message about personal responsibility and planning ahead for long-term care needs.

Another element of the campaign, which we feel has been vital to consumer acceptance of this message, is the objective sponsorship, providing information and education product-neutral, but from an independent Government source. It is really the concept of planning and knowledge about how to plan for long-term care needs that is being sold through this education.

Phase 1 of the demonstration launched in January 2005 in five States—Arkansas, Idaho, Nevada, New Jersey, and Virginia. In each State, the Governor sent a letter to every household with an individual age 50 to 70, offering them a long-term care planning kit. The response rate to the campaign was an impressive 8 percent. For a direct mail campaign, when we hear about all the mail clutter and information that people get, we were very pleased with that result.

The CHAIRMAN. With 8 percent?

Ms. TELL. Eight percent was the response rate. Eight percent of the people that got that letter asked for the planning kit.

The CHAIRMAN. That is a good rate?

Ms. TELL. That is an excellent rate for direct response mail, even for a social awareness kind of program.

Also individuals from every demographic segment responded. So there was something relevant about the planning message, and it was designed this way, across the age spectrum from 50 to 70. The kind of planning people would do at those different ages is very different.

We have seen anecdotally a favorable impact on awareness, on inquiries to insurance companies, and, in some cases, sales. Our own research supports these findings. We have done some survey work with the people that have received the planning information and those that have not, and we see a significant impact.

Individuals who received the planning material were more than twice as likely to take some kind of planning action as a result. That might include talking to an agent or a financial planner about long-term care, looking at their existing coverage to see if, indeed, they do have a gap that needs to be addressed, or, more specifically, buying long-term care insurance.

The campaign is an important model and a great start, but States and the Federal Government need to expand on these and other efforts to make consumers more aware and motivate and enable them to plan ahead. The deficit reduction act includes a very important consumer awareness campaign, which you referenced in your opening remarks, the National Clearinghouse for Long-Term Care.

We are fortunate to have learned from Phase 1 of the Own Your Future campaign that this model is effective in raising consumer awareness and also in encouraging planning behavior. This gives us a tested and effective infrastructure as we implement the National Clearinghouse for Long-Term Care.

Thank you for the opportunity to share these remarks, and I will be happy to answer any questions.

[The prepared statement of Ms. Tell follows:]

TESTIMONY

to the

Senate Special Committee on Aging

Submitted by

Eileen J. Tell

Senior Vice President

Long Term Care Group,Inc.

1 March 2006

Testimony to the Senate Special Committee on Aging

Submitted by Eileen J. Tell, Senior Vice President, Long Term Care Group, Inc.
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Introductory Remarks

Good morning, Mr. Chairman and members of the Senate Aging Committee.
I am Eileen J. Tell, Senior Vice President of Long Term Care Group, Inc.

I appreciate the opportunity to speak to you today about the importance of greater consumer awareness and incentives to encourage people to take personal responsibility for their long term care needs.

Over the last 21 years, I have worked in various capacities to educate consumers about the risks and costs of long term care and the advantages of planning ahead for those needs. My work has also focused on creating and enhancing private financing products and services to meet those needs. These options include new designs for affordable continuing care retirement communities (CCRCs), a variation on that concept for those who wish to age in place called "Life Care Without Walls," and a variety of long term care insurance products across all market segments including the current public-private Medicaid Partnership model, as well as products that combine insurance with other financial instruments.

Since 1990, Long Term Care Group (LTCG) has been involved in research, education, product development and administration focused exclusively on long term care. LTCG is a full-service third-party administrator and outsource partner for long term care insurers. We currently have over 30 insurance company clients and the scope of our business represents long term care insurance policies in force of close to 1,000,000. We provide a broad range of services to our clients including product design, compliance, marketing support and services, underwriting, claims and care coordination, billing and customer service. LTCG is also the architect and administrator for the nation's largest not-for-profit, self-funded long term care program – the California Public Employees' Retirement System (CalPERS) Long Term Care program. In the group market, it is second only to the Federal Employees' Long Term Care Insurance Program, in terms of premiums in force.

LTCG
Long Term Care Group, Inc.

Value of Planning Ahead

Through this work, we talk every day with people who planned ahead for the long term care needs of themselves and their loved ones. We hear their stories of what motivated them to obtain long term care insurance and, more importantly, how it impacted their lives to have this protection. While no one wants to think about a time when they might need long term care, planning ahead and having insurance can make a significant difference to financial well-being, quality of care, control over care choices and peace of mind. I have included with my written testimony an example of some of the personal stories our claimants have shared with us over the years – illustrating the difference that having insurance has made for them and their loved ones.

The Uninsured

Despite these compelling advantages, the number of people today who plan ahead and obtain private insurance is small. The magnitude of this problem is captured in a tool developed in 2003 called the Index of the Long Term Care Uninsured. (I have shared with the Committee a press release from the Long Term Care Financing Strategy Group focusing on the large portion of Americans who do not have financial protection against the risk of needing long term care.)

Specifically, 87% of the population age 45 and older (who are not currently receiving Medicaid and who have incomes of $20,000 or more) are uninsured for long term care. Since sales have historically focused on "seniors," the proportion of people age 65 and older who are uninsured is slightly lower – just about 80%. But for the rapidly growing "baby boomer" generation – those adults ages 45 to 64 – 90% are without insurance against long term care costs. While the average age at which people are purchasing long term care insurance is decreasing significantly – reaching more effectively into the baby boomer market – the rapid rate of population growth in that cohort is off-setting gains in policy purchase. So the net effect is that the vast majority of boomers still lack protection against this risk.

Last year, for the first time, the Index of the Long Term Care Uninsured also looked at state-specific trends, identifying the proportion of older adults who are uninsured for long term care within each state. The state-specific analysis focuses on the adult population age 45 and older with incomes of $20,000 or more. We find tremendous variations across states. Specifically, the percent of older adults who are uninsured for long term care ranges from a low of 78% to a high of 97% across the 50 states and the District of Columbia. Eighteen states have a market penetration of long term care insurance that is above the national average. (A copy of the Press Release on the Index of the Long Term Care Uninsured is attached.)

State Initiatives and Incentives

We are only beginning to identify and understand the many diverse factors influencing these trends. The variables at work across the states with the highest and lowest market penetration are complex. First, there are differences across these states in terms of the size, education, age distribution and income among their older adults. Also, some states have adopted one or more of several specific initiatives to reduce reliance on Medicaid or to encourage and enable more adults to obtain long term care insurance. While we have only begun to try to isolate and understand all these factors, a very preliminary analysis suggests that raising awareness and providing incentives to promote the purchase of long term care insurance are important elements.

There are many things a state can do to encourage private responsibility for long term care planning. State tax incentives, a public-private Partnership initiative, public education and awareness, a long term care insurance program for public employees and retirees, speed to market activities and others are among those we hope to encourage states to consider.

One very important finding, however, is that we see greater market penetration for long term care insurance in states that have adopted tax incentives for long term care, with a tax credit having a greater impact than a tax deduction. Specifically, market penetration among states with a tax credit or deduction for long term care is 8.1% compared with 6.7% in states without such incentives. Similarly, in states with a state-sponsored long term care insurance program for public employees and retirees, market penetration is 8.1% compared with 4.6% in states without such a program. Also, of the 18 states that have "above average" market penetration for long term care insurance, three of them (California, Connecticut and New York) have the "Partnership for Long Term Care" Program, which combines Medicaid and private long term care insurance. Many states already have passed legislation to develop a Partnership Program for when the Federal law would be changed. A national expansion of the Partnership concept is a key component of the just-passed Deficit Reduction Act of 2005.

"Own Your Future" – The U.S. Department of Health & Human Services' (HHS) Long Term Care Consumer Awareness Campaign

We know that awareness is a critical element in this dilemma. Too many people learn about long term care the hard way – when they and their loved ones need care. That's often when they become aware of the harsh realities of paying for care. Many people don't think about their future long term care needs and therefore fail to plan appropriately. If individuals and families were more aware of their potential need and the options for addressing it, they would be more likely to take steps to prepare for the future.

These are the critical premises behind the Department of Health and Human Services' (HHS) Long Term Care Consumer Awareness Initiative. The Campaign represents a unique partnership between the federal government and states to offer a consistent and long overdue message about personal responsibility and planning ahead for long term care needs. Another key element of the Campaign and one which has been vital to consumer acceptance seems to be the objective sponsorship, providing education and awareness from an independent government source.

Phase I of this awareness demonstration project launched in January 2005 in Arkansas, Idaho, Nevada, New Jersey and Virginia. Governors from those states each sent letters to about 2.1 million households with consumers ages 50 to 70 encouraging them to plan for their long term care needs and offering a Long Term Care Planning Kit which provides basic information on how to plan for a broad range of long term care issues including private finance. The response rate to the direct mail and media campaign was an impressive 8% across these states.

Also, individuals from every demographic segment found relevance in the campaign. Industry representatives have indicated that they have seen a favorable impact on awareness, inquiries and in some cases sales of private long term care insurance in the campaign states. And our own research supports this finding. Individuals who received the "Own Your Future" materials were about twice as likely to take some kind of planning action as a result; this includes examining their current coverage to see if it includes long term care, talking to a financial planner or agent about long term care insurance, or buying a policy.

Following the success of Phase I, three additional states, Kansas, Maryland and Rhode Island have been added as Phase II of the campaign. With the passage of the National Clearinghouse for Long Term Care which is a component of the Deficit Reduction Act, this successful model, along with other valuable education and information on long term care, will be extended to all 50 states.

Conclusion

The Awareness Campaign is an important model and a great start. But it will be important for states and the federal government to expand on these and other efforts to make consumer more aware and motivate them to plan ahead for their future long term care needs. The Deficit Reduction Act includes a very important consumer awareness component, the National Clearinghouse for Long Term Care, which allocates $3,00,000 per year for the next fives years to foster consumer awareness. We are fortunate to have learned in Phase I of the pilot demonstration for the "Own Your Future" campaign that this model is effective both in raising awareness and encouraging planning behavior. This gives us a tested and effective infrastructure on which to build as we implement the National Clearinghouse for Long Term Care.

Thank you for the opportunity to share these remarks with you today.

LTCG

Long Term Care Group, Inc.

Attachment One

NEWS RELEASE

THE LONG TERM CARE FINANCING STRATEGY GROUP

For Immediate Release
October 12, 2005

Contacts:
Christine Bonney, MetLife, - 212-578-9558 or cbonney@metlife.com
Tom Burke, American Health Care Association (AHCA), 202-898-2814 or tburke@ahca.org

MOST AMERICANS ARE NOT PROTECTED AGAINST THE RISK OF NEEDING LONG TERM CARE, ACCORDING TO THIRD ANNUAL STUDY

Washington DC. Just as Congress is preparing to take up long term care policy issues, more Americans than ever lack the insurance protection they need against a catastrophic long term care event. As baby boomers begin to move into retirement and the costs of care are rising, the third annual Index of Long Term Care Uninsured released today indicates that more than eight out of every ten Americans over the age of 45 are not insured against the costs of long term care. The national Index looks at adults ages 45 and older with incomes such that they could theoretically afford long term care insurance.

This year, the Index also looks at state-specific trends, identifying the proportion of older adults who are uninsured for long term care within each state, revealing tremendous variation across states. The analysis indicates that:

- The percent of older adults who are uninsured for long term care ranges from a low of 78% to a high of 97% across the 50 states and the District of Columbia.

- Eighteen (18) states have a market penetration of long term care insurance that is above the national average (see map attached).

- These 18 states, in terms of the percent of older adults having long term care insurance protection, make up 68 percent of the total long term care insurance coverage in force across the U.S. These states, however, account for only 41 percent of the nation's older adults.

- Of these 18 states, three of them (California, Connecticut and New York) have a "Partnership for Long Term Care" program, a model initiated with funding from the Robert Wood Johnson Foundation, combining Medicaid and private long term care insurance that is being considered for national expansion.

These eighteen states in order of market penetration for long term care insurance are:

North Dakota, Nebraska, South Dakota, Iowa, Texas, District of Columbia, Virginia, Maine, Kansas, Missouri, Minnesota, Florida, California, Wisconsin, Connecticut, Colorado, New York and Illinois.

The state-specific analysis focuses on the adult population ages 45 and older with incomes of $20,000 or more. The national analysis focuses on adults age 45 and older with incomes of $20,000 or more who are not currently covered by Medicaid.

The Index of Long Term Care Uninsured, produced by the Long Term Care Financing Strategy Group of Washington D.C., also shows the following:

- 90 percent of persons between the ages of 45 and 64 (not currently on Medicaid) are uninsured for long term care. This represents only a slight increase in the proportion of "boomer" age adults without long term care protection, compared with 89 percent uninsured in 2003.

- For those age 65 and over, 81 percent are uninsured for long term care, compared with the 2003 figure of 77%.

The Index is based on a concept developed by John A. Cutler, J.D., a long term care policy expert currently at the U.S. Administration on Aging, with research analysis originally conducted by Marc Cohen, Ph.D., President, LifePlans Inc. This third annual report was created by John Cutler, Marc Cohen and Eileen J. Tell, Senior Vice President, Long Term Care Group, Inc. The Index was compiled using Census data and information on policies in force as of December 2004 from LIMRA, a market research trade group. The state distribution of policies in force is based on information from the National Association of Insurance Commissioners, the Federal Long Term Care Insurance Program and the CalPERS Long Term Care Program.

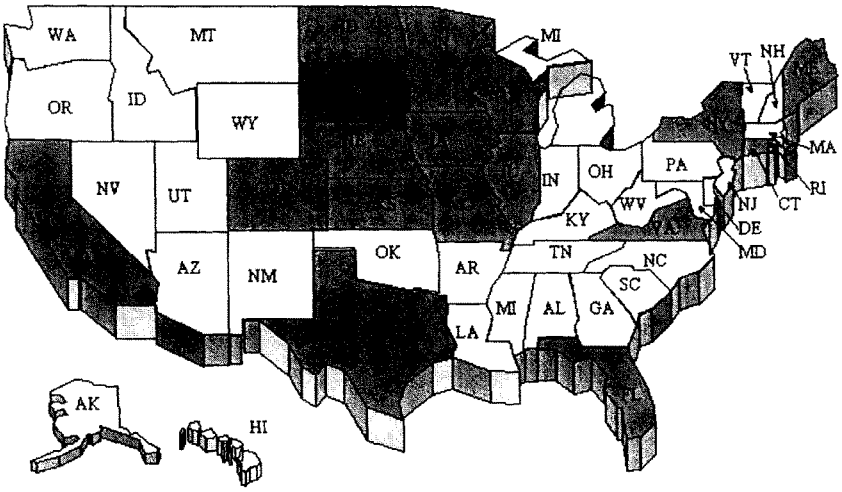
The percent of population that is uninsured for long term care nationally has increased slightly, based on the 2005 Index compared with the 2003 findings. The recent decline in policy sales, coupled with strong rates of population growth among those ages 45 and older is a major factor. Marc Cohen of LifePlans further explains, "While policy sales to younger buyers are increasing as a percent of the total, policy sales overall are down. This, coupled with the fact that boomers are one of the fastest growing population segments explains this downturn in market penetration for those ages 45 to 64."

"There are many things a state can do to encourage private responsibility for long term care planning," said Cutler. "State tax incentives, a public education and awareness initiative and long term care insurance for public employees and retirees are just some of the options."

Tell added that "these states are probably doing something right, but we all have a long way to go. The variables at work across the states with the highest and the lowest market penetration are complex. First, there are differences across these states in terms of the size, education, age distribution and income among their older adults. Also some states have adopted specific initiatives to reduce reliance on Medicaid for long term care by tightening Medicaid eligibility rules or encouraging and enabling more adults to obtain private long term care insurance."

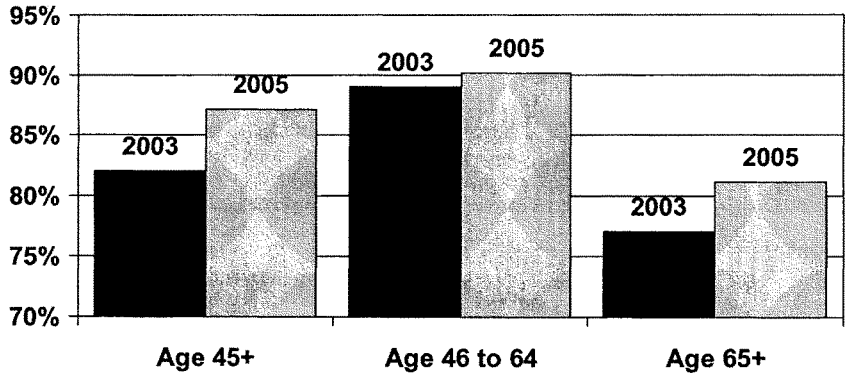
"It is important to take these national issues and begin to look at them state by state, and this is a first step in that process," noted Joyce Ruddock, Vice President, Long Term Care, MetLife, and the founder of the Long Term Care Financing Strategy Group. "Many states are taking action, but there is still more to be done."

States With "Above Average" Market Penetration



Persons Without LTC Coverage*

*(No Medicaid and No Private LTC Insurance) 2003 vs. 2005 Index



The Long Term Care Financing Strategy Group is a non-profit, non-partisan think tank comprised of academics, researchers, policy analysts, and individuals representing aging organizations, providers, insurers and others. It brings together public and private perspectives, and provides a forum to address long term care financing issues and offer solutions.

LifePlans, Inc. is a recognized leader in long-term care, providing more than 80 writers of long term care insurance with a comprehensive range of risk management and consulting services.

Long Term Care Group, Inc. is a full service third party administrator with over 1,000,000 policies under management, 30 insurance company clients and 600 employees. LTCG offers a complete portfolio of long term care insurance services, including product development, compliance, actuarial, underwriting, claims, care management and full policy administration for both the group and individual markets

The Mature Market Institute is MetLife's information and policy resource center on issues related to aging, long term care, retirement, and the 50+ marketplace. The Institute, staffed by gerontologists, provides research, training and education, consultation and information to support MetLife, its corporate customers and business partners. The Institute commissions studies and polls, working with academic institutions and independent research organizations to analyze trends and patterns related to the aging of America and its application to business.

Long term care is defined as a wide range of supportive and health services for persons who have lost the capacity for self-care due to illness or frailty. Need for long term care is measured by how much assistance is needed with Activities of Daily Living (ADLs) such as eating, dressing, bathing, toileting and transferring from a bed to a chair. According to the Congressional Research Service, in the year 2000 national spending of all forms for long term care was $137 billion. About 9 million persons over age 18 currently receive long term care assistance.

Note: The Index excludes those with incomes under $20,000 which necessarily includes those individuals on Medicaid. This is a generally accepted absolute minimum threshold for suitability, though it should be noted that $35,000 is used by the National Association of Insurance Commissioners as a suggested income criteria for purchase.

Attachment Two

Fact Sheet on Planning for Long Term Care Needs

Too many people learn about long term care the hard way, when they or their loved ones need care. That's often when they become aware of the harsh realities of paying for care:

However, long term care needs are best met when they are planned for. Planning ahead gives an individual time to talk with his/her family about preferences and concerns, to research care options in his/her community, and to give some thought to preferred types of services and providers. Furthermore, planning ahead gives individuals the time to plan for how they will pay for care – which can be very costly – in a way that does not deplete the financial resources available for a spouse or other family members.

Some of the specific advantages of planning ahead include:

- Preserving assets and income for uses other than paying for long term care services. This allows one to ensure quality of life for a spouse or other family member and allows one to preserve and pass on an estate to heirs.

- Providing choice over care options and control over where and how one receives long term care.

- Improving quality of life for yourself and family. This results in less emotional and financial distress on an individual and his/her family.

- Easing the burden of providing care from loved ones. Family members can still be involved in the daily care routine, but they can be a supplement rather than being the only source of care, which is emotionally and physically demanding.

- Maintaining independence. Your choices for care outside a facility and being able to stay at home as long as possible are enhanced if you planned ahead, including a plan for how to pay for care options that are less likely to be covered by payers of last resort such as Medicaid.

Why People Do Not Plan Ahead

Even though there are important advantages of planning ahead, people still often do not do so. Even when people are aware of and acknowledge these advantages, there are still emotional and logistical barriers to planning ahead. Some factors are more important for certain people than others. But all play some part. They include:

- **Lack awareness of the risks of needing care.** While awareness is growing, many people still do not realize that the chance of needing long term care in the future is as high as six out of 10. Considering the "risks" that people insure and plan for everyday, it is extraordinary to think that people are not planning for something with such a high probability of taking place.

- **Lack awareness of the costs of care and who pays.** Even if people do acknowledge the risks, many people do not realize that long term care is expensive and that existing insurance such as Medicare, health plans, or disability coverage do not pay for long term care. Some people understand that Medicaid pays for long term care, but do not understand the eligibility requirements and the nature of choice and coverage available under Medicaid.

- **Most people do not realize that, if they need long term care for an extended time, it is most likely to be paid for out-of-pocket.** Consumer publications review the "government programs" that pay for long term care, but people are likely to skip the "fine print" that goes into more detail about when government programs will and will not pay. People do not understand that long term care is much more than skilled care. They often think that Medicare will cover most of their long term care needs because skilled care is paid for by Medicare. Another source of confusion is the "pie chart" showing that Medicare and Medicaid pay for the majority of care. While this is true on an aggregate basis, most people with income and assets will pay for extended long term care out-of-pocket.

- **Denial also plays a role.** Many people avoid thinking about or discussing the possibility that they might be disabled or dependent. Many hope that it will not happen to them.

- **Competing planning priorities.** There are many day-to-day issues as well as long-range plans that require attention, such saving for college or handling a pressing medical or financial situation. Because people tend to avoid planning for long term care, it often takes a back seat to these other planning priorities.

- **Difficulty in discussing long term care issues.** While it is difficult for people to acknowledge that long term care is a possibility in the future, it is also especially difficult to talk with family about long term care issues. However, talking with family about care options for example is an important part of planning. Adult children feel "guilty" prying into their parents' lives by discussing plans they may have made. Will their parents think they are trying to shirk their responsibilities to care for their aging parents? Or that they are trying to "insure their inheritance?" Similarly, elderly parents do not want to burden their adult children with the responsibilities for care-giving as they age. Thus, both elderly parents and adult children avoid discussing this important issue.

- **Understand the benefits of planning.** While many people do acknowledge the benefits of planning or at least recognize them, they may not have internalized the benefits enough to act on them. Often other barriers to planning interfere with that. In focus groups, many people can name advantages of planning ahead – citing many of the items raised above. However, knowing that those benefits are there, and then knowing how to get there, are two different things.

- **Understand how to plan.** The "How To" is an important place where people need help in planning ahead for long term care. Fear of doing it wrong, or making a mistake or simply not knowing how to begin can hold someone back. People are concerned with "scams" preying on worries around health and getting older, so they may be additionally skeptical of information or products targeted to help them plan ahead and think about long term care needs.

Attachment Three – PERSONAL PLANNING STORIES

spotlight on health

(NAPS)—Kathi Gallay, a Plainsboro, New Jersey resident, is getting ready for retirement. In addition to savings and retirement plans, she has purchased long-term care insurance (LTCI).

But Gallay is 55 and has no plans of leaving the workforce anytime soon. In fact, she's on her way back to school to get another degree. Why would anyone in her position be thinking about long-term care, let alone purchasing insurance?

She credits one person, whose experience made her realize how important it is to plan ahead.

"This is all because of my Mom," Gallay explains.

After her father passed away, Gallay's mother Edith refused to move closer to her family. A strong-willed and independent woman, Edith was in her early 70s, in good health and had numerous friends in her community. Despite the efforts of Gallay and her sister to change her mind, Edith was determined to remain in Florida.

"Since she wouldn't move, we insisted that she purchase long-term care insurance," Gallay explains. "Just in case."

Because of Edith's age at enrollment, the premiums were considerably higher than for a younger person. However, the family made the investment because it gave them peace of mind concerning their mother's future.

Three years later, Edith went blind.

"We never expected that," Gallay recalls. "Despite this setback, Mom was still in good health and wanted to remain in Florida. The only way to make it work was to use the insurance."

Long-term care insurance enabled the family to hire a nurse's aide to visit Edith several times a week. This benefit meant Edith could continue to live at home in Florida near her friends. It also helped preserve Edith's dignity and independence while she adjusted to the loss of her sight.

In light of this experience, Gallay and her sister made an important decision. After investigating several different policies three years ago, both sisters purchased long-term care insurance for themselves.

"When I turned 50, I just started thinking that I needed to move in a new direction," Gallay explains. "I wanted the assurance that I will be taken care of adequately and comfortably. I wanted the same peace of mind that we had when our mother was suddenly taken ill."

Many people want that same kind of assurance but know little about long-term care or the variety of resources which are currently available. Many assume that Medicare or their personal savings will be more than sufficient. Gallay strongly disagrees.

"Long-term care can cost over $80,000 a year," Gallay explains. "I like to know that whatever I have, my family will have when I'm gone. I want my savings to go to my family."

"What happened to my Mom could happen to you or to any member of your family," she says. "Everyone needs to talk about this with loved ones and to understand the issues involved. The way to start is to ask questions and to find answers that work for you."

"Own Your Future," a new program sponsored by federal government and coordinated by the New Jersey Department of Health and Senior Services, is a good place to begin to learn about long-term care planning. By dialing a toll-free number, New Jersey residents can receive a free planning kit, including a guide for long-term care and an audio CD with helpful information about this issue.

The toll-free number for "Own Your Future" is 1-866-PLAN-LTC (1-866-752-6582).

Planning Ahead for Long-Term Care:

The Key to Preserving Financial Security, Choice, and Dignity

(NAPS)—Most people have to learn about long term care the hard way—when they or a loved one has an illness or injury requiring extensive, or even life-long care. That's when they learn that the need for long-term care can strike anyone; that care is expensive; and that long-term care isn't covered by traditional medical insurance or by Medicare.

Fortunately for Sandra Smoley, former California Secretary of Health & Welfare, she learned about long term care before the need arose within her own family—in time to plan ahead. A few years after Sandra purchased long-term care insurance—through her employer—for herself and her husband, Sandra's husband was diagnosed with a rare but serious medical condition.

As a result, he now requires 24-hour care to assist him with basic activities such as bathing, dressing, meals, and getting to and from the toilet. But private long-term care insurance coverage allows Sandra's husband to receive the long-term care he needs in his own home, during the day from a home health aide and at night from his wife and daughter.

Without the insurance, they might have had to consider a nursing home—or Sandra might have had to quit her job. But, as Sandra puts it, "Having coverage affords me the privilege of being able to keep him at home. And—I'm able to work and have a semblance of a life . . . It allows me to stay balanced so that I am a much better caregiver because I don't have it 24 hours a day. I have some relief. It's allowed me to get my arms around what's happening in our lives."

If you want to make a start at planning ahead, call toll-free 1 877 582-4872 for a free Guide to Long-Term Care Insurance or click on the consumer information section of http://www.hiaa.org.

"Having long-term care coverage affords me the privilege of being able to keep my husband at home. And, I'm able to work and have a semblance of a life....Long term care insurance let me get my arms around what's happening in our lives."

Sandra Smoley
former California Secretary of Health & Welfare

Photo by Dick Schmidt, courtesy of the Sacramento Bee

Having Long-Term Care Insurance:

- Improves access to quality care and lets you choose where you get care.
- Cuts out-of-pocket costs and keeps you from having to rely on the government's program for the poor. U.S. Dept. of Health & Human Services studies estimate that people with LTC insurance save between $60,000 and $75,000 in nursing home costs, and more than $100,000 for assisted living.
- Ensures quality of life for your caregiver.

Long-Term Caregiving: One Man's Story

(NAPS)—A growing number of American men provide long-term care (LTC) for a loved one. One man, who started helping to care for his mother in 1997 when she suffered a stroke, has some advice for the government on how to make this easier on everyone involved.

According to a study by the National Alliance for Caregiving:

• Many men struggle to balance employment and eldercare responsibility.

• Men are just as likely as women to be the primary caregiver.

• More men than women reported having to forgo work-related travel. One-quarter considered a job change to better accommodate eldercare demands.

• More men than women provide long distance care.

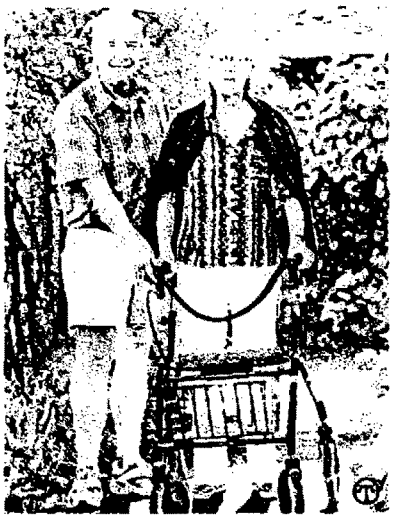
Fortunately for one such caregiver, Steve Kahn, his mother has LTC coverage through the California Public Employee Retirement System (CalPERS) to help pay for a team of caregivers.

Private coverage can mean a richer range of choices, takes the burden off family finances, and keeps policyholders from having to rely on Medicaid.

"Without CalPERS long-term care coverage, Mom would have had to move into a facility," Kahn says. "I don't think she would have survived the move. CalPERS LTC coverage helped save my mother's life."

With private coverage, The MetLife Study of Employed Caregivers found, family caregivers suffer less stress, have twice the odds of staying in the workforce, and face fewer workplace disruptions and less social stress.

Kahn is also working to change federal public policy to encourage more Americans to secure the protection of private LTC insurance. He joined U.S. Representatives Nancy Johnson (R-CT) and Earl Pomeroy (D-ND), AARP, and AAHP-HIAA to increase awareness of the difference LTC coverage can make.



Long-term care insurance can be a lifesaver for many families.

Congress is considering a bill sponsored by Johnson and Pomeroy, the "Long-Term Care and Retirement Security Act of 2003" (H.R. 2096). Senators Chuck Grassley (R-Iowa) and Bob Graham (D-FL) have introduced corresponding Senate legislation (S. 1335). These bills would strengthen federal tax incentives for private long-term care insurance coverage and provide tax relief to families already struggling with long-term care needs.

If you have views or experiences regarding long-term care, you can share them with your representatives in Washington by writing to the U.S. Senate, Washington, DC 20510 and the House of Representatives, Washington, DC 20515.

The CHAIRMAN. Eileen, how expensive are your products for a 45-year-old as opposed to a 65-year-old?

Ms. TELL. Well, my company doesn't have a single product. We represent about 40 different insurers. We are an outsource partner for them. I believe in the industry, the average premium across all ages, across all types of products is about $1,500, $1,700 a year. That is the average annual premium that is being spent.

People seem to focus on a price point of what they can spend, and younger people buy richer coverage, which makes sense for the needs they might have. More uncertainty about what they might need. Older people have perhaps a finer focus on what their needs are going to be and are able to pinpoint their coverage more cost effectively.

The CHAIRMAN. Do you think that most people who have health care coverage, they just assume that that includes long-term coverage?

Ms. TELL. To a great extent, that is true. That is why we found if people said to us, "I am looking at my health plan to see if it covers long-term care," we thought that was a great planning action. Trying to get the message to people that small steps make a big difference.

Talk to your family about what your preferences are. There is a real disconnect between adult children feel like they are abandoning their parents if they talk about insurance products or other options for planning ahead. The parents want a lot of financial and emotional independence from their children. They want loving relationships, not hands-on caregiving and financial support.

The CHAIRMAN. I believe you referenced that tax credits are better than tax deductions. Is that because it is found money and it is now as opposed to later?

Ms. TELL. I think that is a part of it. There may be other factors at work that we have not yet analyzed. For example, how well it is communicated.

The State of Minnesota did an enrollment, and the first sentence of the letter told people there is a $500 tax credit in your State. That makes this insurance program an even better deal for you. Look at it carefully.

So the more strongly it is presented is also going to make a difference. Not all States have done the work around communicating that feature that perhaps they can.

The CHAIRMAN. You note in your testimony that 87 percent of people age 45 years and older are uninsured for long-term care. That 80 percent, only a 7 percent difference, are insured for long-term after they are 65. Those aren't very impressive figures, are they?

Ms. TELL. They are not. In fact, comparing this year's index to the previous one, we have lost a little ground. Now, to be frank, we have lost some ground because population growth is outstripping purchase and policies, and there is a switch in the dynamics of who is buying.

The over 65 population has about I think it is 80 percent uninsured, compared to 90 percent for the baby boomer population. So, we have done a better job reaching the older population. That is where the focus of attention was in the early years. But now, as

work site products have grown and programs like the Federal program and State employees programs, we are more effectively reaching the baby boomer population.

So the average age at which people buy is coming down, which is also a really good thing for affordability. So, those dynamics have changed the comparison in numbers over time as well.

The CHAIRMAN. You also reference, I think, in your statement that the Deficit Reduction Act does do more to incentivize through education and also making it more affordable, long-term care. Are you optimistic that we are going to see some improvement?

Ms. TELL. I am. I am also optimistic from the indirect education that will come as another element of the deficit reduction act are the Medicaid changes.

I think you already see the media sending a message about the importance of planning for long-term care and taking a different focus on this issue than perhaps they have before. I think they are a really important intermediary to reach consumers as well.

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

Mr. Cheung.

STATEMENT OF MALCOLM CHEUNG, VICE PRESIDENT, LONG-TERM CARE PRUDENTIAL FINANCIAL, LIVINGSTON, NJ

Mr. CHEUNG. Good morning, Mr. Chairman.

My name is Malcolm Cheung, and I am vice president and actuary for long-term care at Prudential.

Today, I am representing the American Council of Life Insurers, a Washington, DC-based national trade association representing more than 350 member companies that offer life insurance, annuities, pensions, long-term care insurance, disability income insurance, and other retirement and financial protection products.

We are delighted that this Committee is addressing an important issue facing this Nation—long-term care insurance—through the hearing process. We applaud Chairman Smith and Ranking Member Kohl for drawing attention to this matter, and we are pleased to discuss with the Committee the role that private long-term care insurance plays in helping to provide the retirement security of millions of middle-income families.

Currently, about 55 percent of those aged 85 and older require some form of long-term care, and about 19 percent of all seniors—these are individuals over the age of 65—suffer some degree of chronic impairment. By the year 2050, it is estimated that up to 5.4 million seniors will need the services of a nursing home, the most costly form of long-term care, and another 2.4 million will require home health care.

The cost of long-term care is high and increasing, averaging more than $60,000 annually for a semi-private room in a nursing home, $18.50 per hour for a visit by a home health aide, and an annual base rate of more than $30,000 for the services of an assisted living facility.

Since 1990, the price of nursing home care has increased at an average annual rate of 5.8 percent, which is almost double the overall inflation rate. Private long-term care insurance currently pays for only 8 percent of total nursing home expenditures, but 36 percent of overall health expenditures. There is clearly a large gap

in the financing of long-term care services that long-term care insurance can help fill.

Currently, almost 75 percent of all nursing home expenditures are paid by Medicaid or out of pocket by those needing the care. If three quarters of individuals between the ages of 40 and 65 who can afford long-term care insurance—we define affordability as 2 percent of your income at age 40 grading up to 5 percent of your income starting at age 60—were to purchase and maintain a policy throughout their senior years, then by the year 2030, annual savings in Medicaid nursing home expenditures would total about $19 billion a year, and annual savings in out-of-pocket expenses would total $41 billion per year.

Both the individual and the group, or the employer-sponsored, segments of the long-term care insurance market are evolving and growing. The American Council of Life Insurers, with the assistance of America's Health Insurance Plans, recently surveyed long-term care insurance providers and found that the market has grown to nearly $7 billion in annual premiums and now covers over 5 million Americans.

Between 2003 and 2004, the individual long-term care insurance market grew 7.5 percent, and the group market grew 25 percent, in large part due to the enrollment at the Federal long-term care plan. The amount paid out in claims has also increased, with carriers paying a little over $2 billion in benefits in 2004, which was about 20 percent more than what they had paid in the previous year.

Because private long-term care insurance is priced on the assumption that an individual will hold the same policy and pay the same premium until they need long-term care, premiums vary significantly depending on the age of the policyholder at policy issue and the specific benefits and coverage chosen.

Additionally, younger candidates for policies are much more likely to pass underwriting screens than are older candidates. For these reasons, consumers are encouraged to purchase insurance while they are in their 40's and 50's, when premiums are lower and more affordable.

The CHAIRMAN. How much lower, and how much more affordable?

Mr. CHEUNG. Depending on what plan design you buy, you can pay as low as $500 per year for a fairly comprehensive plan at age 40, but you would need to pay about $1,500 per year at age 60 or 65.

The CHAIRMAN. If you buy it at 40, does that rate stay relatively static or——

Mr. CHEUNG. The premiums are intended to be level. So that is why they are so much lower. You are paying for your coverage over a longer period of time.

The CHAIRMAN. I think that would be a real selling point.

Mr. CHEUNG. Yes, it is.

Long-term care insurance products continue to evolve to give policyholders more choices and flexibility at the time of claim. When long-term care insurance was first offered, most plans were nursing home only. Recently, more flexible care options and consumer protections have become available. Today, most policies provide cov-

erage for care received at home, in an adult day care facility, in an assisted living facility, or in a nursing home.

Additionally, plans are now guaranteed renewable. They have a 30-day "free look" period. They offer inflation protection. They cover Alzheimer's disease. They have a waiver of premium provision, and some plans actually offer unlimited lifetime benefit periods. Benefits are paid when a person needs help with two or more activities of daily living or is cognitively impaired.

There are many ways that public policy can better encourage individuals to prepare for their future needs by purchasing long-term care insurance. The recent passage of provisions in the Deficit Reduction Act to allow for the expansion of the Long-Term Care Partnership is a great example.

Consumers that purchase long-term care insurance policies in the Partnership program would fully utilize their benefits prior to qualifying for Medicaid. They will be allowed to protect personal assets on a dollar-for-dollar basis as defined in their policy.

The momentum continues with other important proposals to encourage more Americans to prepare for their future long-term care needs. Another way to encourage the purchase of long-term care insurance is by passing H.R. 3912. This bill would make product combinations possible, satisfying the evolving needs of some individuals by facilitating the addition of a long-term care rider to either a life insurance or an annuity contract.

It would also update the tax code to include long-term care insurance contracts and riders among the insurance products that can be exchanged on a tax-deferred basis. Such provisions are also found in Senator Santorum's Aging With Respect and Dignity Act, and we commend him for that.

Although product combinations may prove to be an effective and attractive alternative to stand alone long-term care insurance for many individuals, even more broadly appealing solutions to the financing of long-term care would be the passage of an above-the-line deduction for long-term care insurance premiums and measures to permit long-term care insurance policies to be offered under employer-sponsored cafeteria plans and flexible spending accounts.

Long-term care insurers are also closely evaluating other recent legislation that recognizes the importance of the tax incentive component to encourage the purchase of long-term care insurance, such as Chairman Smith's long-term care trust accounts proposal. We applaud Chairman Smith and his staff for their leadership on long-term care insurance issues and look forward to a continued strong working relationship.

Congress should not pass on this opportunity to definitively help Americans plan for their long-term care costs by allowing individuals to pay for long-term care insurance through cafeteria plans and flexible spending accounts, as well as through combination products for those paying for long-term care insurance outside of employer-sponsored plans.

These would enable more Americans to pay privately and to have the choice of a variety of services and care settings and would have a significant impact on the public policy challenges related to the combination of rising long-term care costs, rising long-term care needs, and rising strains on the Medicaid budgets.

In conclusion, ACLI looks forward to working with this Committee to help Americans protect themselves against the risks and high cost of long-term care.

Thank you.

[The prepared statement of Mr. Cheung follows:]

My name is Malcolm Cheung and I am Vice President and Actuary for Long-Term Care at Prudential. Today I am representing the American Council of Life Insurers (ACLI), a Washington D. C.-based national trade association representing more than 350 member companies that offer life insurance, annuities, pensions, long-term care insurance, disability income insurance and other retirement and financial protection products.

By way of background, I joined Prudential's Long-Term Care Division in June of 1999. My current responsibilities for Prudential include pricing, product development, contracts, compliance, financial reporting, and risk management (underwriting and claims) for Prudential's group and individual long term care insurance products. I am also a Fellow of the Society of Actuaries, where I serve as the Secretary of the Long-Term Care Insurance Section Council; a member of the American Academy of Actuaries, where I serve on the Federal Long-Term Care Task Force; and am the current chairman of the American Council of Life Insurers' Long-Term Care Policy Committee.

Prudential Financial has been in the long-term care insurance business since 1986 when it issued its first group long-term care insurance contract. Prudential entered the individual long-term care insurance market in 1999 offering one of the first comprehensive products with a cash payment option. Today, Prudential is one of the fastest growing long-term care insurance carriers and is firmly committed to helping Americans achieve and maintain financial security in retirement.

We are delighted that this Committee is addressing an important issue facing this nation – long-term care – through the hearing process. We applaud Chairman Smith (R-Oregon) and Ranking Member Kohl (D-Wisconsin) for drawing attention to this matter, and we are pleased to discuss with the Committee the role that private long-term care insurance plays in helping to provide the retirement security of millions of middle-income families.

ACLI recently released a comprehensive update on its landmark study titled "Long-Term Care Insurance or Medicaid: Who Will Pay for Baby Boomers' Long-Term Care?". Many of the statistics I will share with you today come from this important research, which can be found at www.acli.com.

Currently, about 55 percent of those 85 and older require some form of long-term care and about 19 percent of all seniors suffer from some degree of chronic impairment. By 2050, it is estimated that up to 5.4 million seniors will need the services of a nursing home – the most costly form of long-term care – and another 2.4 million will require home health care.

The cost of long-term care is high and increasing, averaging $69,422 annually for a private room or $61,116 annually for a semi-private room in a nursing home, $18.58 per hour for a visit by a home health aide, and an average annual *base* rate of $30,265 for the services of an assisted living facility. Since 1990, the price of nursing home care has increased at an average annual rate of 5.8 percent – almost double the overall inflation rate.

Current Financing for Long-Term Care Services

Total annual expenditure on long-term care for the elderly is estimated to be $135 billion, which accounts for over 9.7 percent of total spending on health care for persons of *all* ages. This is roughly 1.2 percent of the U.S. GDP. Because baby boomers are aging and the cost of care is increasing, total spending on nursing home care is expected to more than triple over the next 25 years and to increase more than five-fold in the next 45 years. These increases will place a heavy burden on Medicaid and ultimately on taxpayers, most of whom are working-age adults. Currently, there are about 5 working-age adults per senior, but by 2030, there will only be 2.9 – a 40 percent decline. This decline will occur while both the need for and cost of long-term care increase.

Given the strong possibility that the typical senior will require long-term care, and given the escalating costs of that care, whether elderly boomers enjoy a comfortable retirement or suffer economic hardship may depend largely on their ability to afford long-term care. Most boomers have not planned for this reality and face the prospect of paying large sums out-of-pocket or relying on Medicaid. (In its current form, Medicaid only covers the cost of long-term care after a senior has spent down virtually all assets and retirement income.) Neither option is very appealing and may leave seniors and their spouses impoverished, with few long-term care choices.

- **Long-Term Care Insurance**

Private insurance currently pays for 8 percent of total nursing home expenditures but 36 percent of overall health expenditures. There is clearly a large gap in the financing of long-term care services that private insurance can fill.

If three-quarters of individuals between the ages of 40 and 65 who can afford long-term care insurance were to purchase and maintain a policy throughout their senior years, then by 2030, annual savings in Medicaid nursing home expenses would total $19 billion, and annual savings in out-of-pocket expenses would total $41 billion.

Both the individual and group (employer-sponsored) segments of the long-term care insurance market are evolving and growing. The American Council of Life Insurers, with the assistance of America's Health Insurance Plans, recently surveyed long-term care insurance providers and found:

- The market has grown to nearly $7 billion in premiums, and now covers over 5 million people.

- Between 2003 and 2004, the individual long-term care insurance market grew 7.5 percent and the group market grew 25 percent.
- The amount paid out in claims has also increased with carriers paying $2.1 billion in benefits in 2004, about 20 percent more than in the previous year.

Because private long-term care insurance is priced on the assumption that an individual will hold the same policy and pay the same premium until they need long-term care, premium rates vary depending on the age of the policyholder at policy issue and the specific benefits and coverage chosen. Additionally, younger candidates for policies are much more likely to pass underwriting screens than are older candidates. For these reasons, consumers are encouraged to purchase insurance while they are in their 40s and 50s, when premiums are lower and more affordable.

The typical buyer of long-term care insurance is aged 55-60 (although the average age of those who enroll in group plans is in the forties), married, college educated, with an annual income in excess of $50,000. Women are more likely to buy coverage than men. Although the market for long-term care insurance is growing, most Americans have not yet purchased this insurance protection. Impediments to even greater market growth include competing demands for discretionary income, limited tax incentives to purchase long-term care insurance, and the lack of awareness of the need to plan for potential long-term care expenses.

Long-term care insurance products continue to evolve to give policyholders more choices and flexibility at the time of claim. When long-term care insurance was first offered, most plans were nursing home-only. Recently, more flexible care options and consumer protections have become available. Today, most policies provide coverage for care received at home, in an adult day care facility, in an assisted living facility, or in a nursing home. Additionally, plans

are now guaranteed to be renewable, have a 30- day "free look" period, offer inflation protection, cover Alzheimer's disease, have a waiver of premium provision, and offer unlimited benefit periods. Benefits are paid when a person needs help with two or more activities of daily living (such as eating, dressing, or bathing) or is cognitively impaired.

- **Long-Term Care Partnerships**

One way to ease budget burdens for the government and individuals is through the Partnerships for Long-Term Care program. The United States Congress passed important provisions to allow for the expansion of long-term care partnerships in the recent Deficit Reduction Act, which was signed by President Bush on February 8.

The Partnerships allow consumers to purchase a long-term care policy whose benefits must be fully utilized prior to qualifying for Medicaid. Because consumers utilized their insurance coverage under the Partnership, they can protect assets equal to the amount of Partnership plan benefits received. The Partnership concept is currently operational in four states: California, Connecticut, Indiana, and New York.

Many states are now vigorously working to seize this new public policy opportunity by passing state plan amendments to their Medicaid programs and creating implementation frameworks. Insurers anticipate that the Partnership, in addition to the changes to Medicaid eligibility standards that were also a part of the Deficit Reduction Act, will provide greater incentive to purchase long-term care insurance in new states that choose to participate, as it has in the four current states.

- **Flexible Retirement Security Proposal**

Many Americans preparing for their future recognize retirement security has multiple components—there is a need to accumulate assets while working, manage those assets in retirement, prepare for premature death, and be financially prepared in the event that long-term care is needed. Currently, there are a limited number of products available to accomplish all of these different goals. In fact, the tax code limits the ability to combine different products.

H.R. 3912, The Flexible Retirement Security for Life Act of 2005, introduced by Reps. Nancy Johnson (R-Conn.), Phil English (R-Pa.), and Stephanie Tubbs Jones (D-Ohio), would make product combinations possible—satisfying the evolving needs for some individuals by facilitating the addition of a long-term care rider to either an annuity or a life insurance contract. It would also update the tax code to include long-term care insurance contracts and riders among the insurance products that can be exchanged on a tax-deferred basis. Under the leadership of House Ways and Means Chairman Thomas (R-Calif.), this bill was incorporated into the House's pension reform bill and ACLI strongly urges Members of this Committee to support it as the House and Senate meet in conference.

This proposal would create more flexibility and choice for American consumers. During working years, individuals could accumulate assets in an annuity; at retirement, depending on the needs of the individual, that annuity could be used to provide lifetime income. Throughout, a long-term care insurance rider to the annuity would pay long-term care benefits. For the long-term care/life insurance combination, the life insurance would serve its critical function of death protection, while also being available to provide funds for payment of long-term care costs.

While stand-alone long-term care insurance is key for many individuals, others may be deterred due to the absence of a savings accumulation feature within the product. Permitting long-term care coverage to be combined with the

savings and asset management available in an annuity, as well as the death protection in a life insurance policy, enhances the ability of Americans to structure their long-term care planning to suit their retirement planning and estate planning needs.

- **Tax Incentives**

Although product combinations may prove to be an attractive alternative to standalone long-term care insurance for some individuals, an even more broadly appealing and effective solution to the financing of long-term care would be the passage of S. 1244, the "Long-Term Care and Retirement Security Act of 2005." Cost is a major reason why more Americans have not yet purchased long-term care insurance. This measure provides individuals with a phased-in above-the-line federal income tax deduction for the eligible portion of the premiums they pay to purchase long-term care insurance. In addition, the measure would permit long-term care insurance policies to be offered under employer-sponsored cafeteria plans and flexible spending accounts; and would clarify that a qualified long-term care policy could be exchanged tax-free for another qualified long-term care policy better suited to the insured's needs. Finally the bill includes a phased-in tax credit to individuals with long-term care needs or their caregivers of up to $3,000.

Long-term care insurers are also closely evaluating other recent legislation that recognizes the importance of the tax incentive component to encourage the purchase of long-term care insurance, such as Chairman Smith's Long-Term Care Trust Accounts proposal. We applaud Chairman Smith and his staff for their leadership on long-term care issues and look forward to a continued strong working relationship.

Congress should not pass on this historic opportunity to definitively help Americans plan for their long-term care costs by allowing individuals to pay for

their long-term care insurance premiums through cafeteria plans and flexible spending accounts, as well as through flexible retirement security combination products for those paying for long-term care insurance outside of employer-sponsored plans. This could have a significant impact on the public policy challenges related to the combination of rising long-term care costs, rising long-term care needs, and rising strains on the Medicaid budget. Individuals will have the ability to pay privately and have the choice of a variety of services and care settings. Such provisions are also found in Senator Santorum's (R-Penn.) Aging with Respect and Dignity Act (S.2281) and we commend him for it.

Future Financing for Long-Term Care

Insurers continue to educate Americans that a financially secure retirement includes a plan to cover future long-term care expenses. To help educate consumers on how to select and purchase a long-term care insurance policy, ACLI maintains educational brochures and information on its website that encourage consumers to do their homework when considering the purchase of long-term care insurance. For example:

1. Look for insurance companies that are reputable, consumer oriented, financially sound and licensed in their particular state;
2. Take time when making a purchase, ask for and read the outline of coverage of several policies;
3. Understand what the policy covers and ask questions to be clear about what the policy is not intended to cover; and
4. Understand when the policy becomes effective, what triggers benefits and if it is tax deductible at the state and/or federal level.

The federal government and the states have also recognized the need to educate individuals in the workplace to plan to cover their future long-term care needs. The federal government, by Act of Congress, has taken the lead and set

the example for other employers by offering federal employees and their families the protection of long-term care insurance. Through this program, federal employees are able to help 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.

States Promoting the Purchase of Long-Term Care Insurance

Last year, the Department of Health and Human Services began a federal project to increase awareness among retirees and near-retirees about the need to plan ahead for potential long-term care needs. Governors of five pilot states conducted long-term care awareness campaigns over a three-month period, starting in January 2005. The campaign included press conferences, mailings to 50- to 70 year-olds in each state, advertising and follow-up mailings. The five states include Arkansas, Idaho, Nevada, New Jersey, and Virginia. Phase 2 of this "Own Your Future" Campaign, which began this January, includes Kansas, Maryland, and Rhode Island – and is designed to reach 5 million households in the target market.

States are supporting the purchase of long-term care insurance in a number of ways. About half the states have implemented long-term care insurance programs that offer state employees/retirees the opportunity to purchase long-term care insurance coverage. Twenty-four states provide tax incentives for purchasing long-term care insurance. Most state tax deductions share some features with federal rules – allowing all or part of premiums and expenditures to be deducted. Three states provide a tax deduction or credit for employers offering group long-term care insurance policies. As more than 77 million baby boomers approach retirement, the rapidly aging workforce, together with more employees caring for elderly parents, heighten the importance of long-term care planning as a workplace issue.

Private Long-Term Care Insurance: An Important Part of the Answer

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 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 moves into retirement, unless middle-income workers are encouraged to purchase private insurance now to provide for their own eventual long-term care needs. Education, options, incentives and the efficient use of both public and private resources are critical to our nation's ability to finance long-term care in the decades ahead.

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

The CHAIRMAN. Malcolm, I want to highlight something from your testimony that you indicated that the annual savings in Medicaid nursing home expenses would total $19 billion. That is assuming all seniors got into this, right?

Mr. CHEUNG. That is based on the assumption that 75 percent of people between the ages of 40 and 65 who could afford it had long-term care insurance. Roughly half of Americans would be able to afford it, based on the definition that I mentioned previously.

The CHAIRMAN. So if 70 percent of those between 40 and 65——

Mr. CHEUNG. Who could afford it.

The CHAIRMAN. Who could afford it, got, bought long-term care, Medicaid would save $19 billion. But a lot more importantly to those individuals, they would save $41 billion?

Mr. CHEUNG. Over 40 billion, right. Yes.

The CHAIRMAN. That is a staggering amount of savings that would flow from obviously doing everything we can to get that 70 percent to participate.

Mr. CHEUNG. Yes, it is.

The CHAIRMAN. Now you also mentioned that you are no longer in your policies requiring seniors just to go into a nursing home?

Mr. CHEUNG. Correct.

The CHAIRMAN. You are giving them choices of other, you know, home care and——

Mr. CHEUNG. Yes. Most people want to receive their care for as long as possible in a home-like setting. So home health care is very important.

The CHAIRMAN. Assisted living?

Mr. CHEUNG. Those are becoming much more popular. They are expanding very significantly, and most policies, especially the newer policies that are being sold today, would provide coverage in an assisted living facility as well.

The CHAIRMAN. What does that mean in terms of expense to your company? Giving those seniors the choice, don't those choices result in lower cost to you?

Mr. CHEUNG. Depending on what choice they make, they could result in either lower or higher costs. I mean, if somebody went into an assisted living facility as an alternative to a nursing home, that would be lower in cost. If someone went into an assisted living facility as an alternative to home care, that might actually increase costs.

So when insurance companies design their products and price their products, they have to take into account where they think people who are buying these policies will be getting their care, in which site, and for how long in each site.

The CHAIRMAN. Would it be correct to assume that home care is less expensive than assisted living?

Mr. CHEUNG. Home care is usually less expensive than assisted living unless you get home care for 12 to 24 hours a day, in which case it tends to be more expensive.

The CHAIRMAN. Assisted living is less expensive than nursing home?

Mr. CHEUNG. Generally, yes. It is about roughly half the cost of a nursing home, yes.

The CHAIRMAN. Well, that is what I have been trying to preach around here is at least to eliminate the Federal bias. I have nothing against nursing homes, but we have a bias toward driving Medicare and Medicaid folks into nursing homes. Whereas giving them the choice, they may choose to be at home, and the savings are there for the Government.

Mr. CHEUNG. Yes, I think there are some States that are experimenting and reimbursing or paying for care in sites other than a nursing home. But there is still a strong institutional bias in the Medicaid program.

The CHAIRMAN. Thank you very much, Malcolm.

Mr. CHEUNG. You are welcome.

The CHAIRMAN. Joanne Vidinsky, thank you very much for being here, and we are anxious to hear your testimony.

STATEMENT OF JOANNE VIDINSKY, INSURANCE PURCHASER, SAN FRANCISCO, CA

Ms. VIDINSKY. Thank you.

Good morning, and it is an honor be here representing the Alzheimer's Association and to discuss my in-laws' heroic efforts to cope with the ravages of Alzheimer's disease and the effect of their experience on my mother.

In 1993, my mother-in-law, Velma, then age 78, showed the initial signs of confusion and memory loss that began her battle with Alzheimer's disease. Over the next 6 years, my father-in-law, Joe, cared for her at home in Ohio. It was hard——

The CHAIRMAN. How many years?

Ms. VIDINSKY. Pardon?

The CHAIRMAN. How many years did he care for her?

Ms. VIDINSKY. Oh, at home?

The CHAIRMAN. Yes.

Ms. VIDINSKY. He cared for her at home for 6 years.

The CHAIRMAN. Wow. OK.

Ms. VIDINSKY. Yes. It was hard for me and my husband to help Joe because we live in California, and he also disguised the difficulty of the situation to spare us the pain.

At 83, Velma began behaving irrationally and could not take care of her most basic daily needs. It was a matter of honor for Joe to care for Velma himself.

However, like many Alzheimer's families, after years of caring for her, he could no longer do it alone, and he had to place Velma in the best nursing home he could find. He paid for it at a cost of approximately $60,000 a year. Velma died after two years in the facility. She was 86 years old.

Joe had been a coal miner and a chemical plant supervisor. He was not wealthy. But he was able to pay for all of Velma's care, and he started working in the mines when he was in eighth grade. He left school. He and Velma lived simply and saved money from every paycheck throughout their marriage of 63 years.

In addition to their savings, Joe had excellent pension and retiree benefits from the United Mine Workers Union. Joe, at age 91, now lives with Alzheimer's disease, and he pays for his care himself in an assisted living facility.

My in-laws' story has had a profound effect on my mother. Although she and my father worked hard in sales positions all their lives, their incomes were never high enough for them to save much for their retirement. As is common in the service industry, my parents did not retire with pensions or health benefits.

My mother lives modestly on Social Security and a small amount of savings from a life insurance policy that my father had. My mother does not have a spouse to help her remain at home, and her financial resources would be drained paying for care. She would face impoverishment if it were not for the help she receives from my brother and me.

At age 78, my mother heard about long-term care insurance from friends. We respected my mother's desire to avoid becoming a burden and remain at home as long as possible and helped her buy a long-term care insurance policy. We knew that she could not afford the annual premiums herself, nor could she have waded through the complicated information available about long-term care insurance.

Luckily, my mother was in good health at age 79. If she were experiencing symptoms of Alzheimer's disease or another chronic illness, we would not have been able to purchase a policy for her. The policy we purchased costs $10,000 a year and covers the care at home that my mother wants. We also made sure that the policy would pay benefits if my mother had cognitive impairment.

For us, placing $10,000 a year in other investments might have been more financially sound. But the tradeoff is that our mother will not view herself as a burden to us with the long-term care insurance policy that she has.

My in-laws represent the end of the long-term care financing spectrum that can self-insure for long-term care. My mother represents the other end of the spectrum. If she did not have children with the financial resources to care for her, she would have to rely on Medicaid if she acquired a disability.

Unfortunately, most older people in this country cannot afford the average annual cost of $76,000 for nursing home care out of their own savings. Nor do they have children who can afford to buy long-term care insurance for them. The majority of older people must rely on Medicaid to help with long-term care when informal caregiving is no longer enough.

As a nation, we are only beginning to wake up to the long-term care crisis that is brewing. The Alzheimer's Association is pleased that the Government is addressing the issue through public education and expansion of the Long-Term Care Partnership Programs.

While education and incentives to purchase insurance are important steps, the current long-term care system does not work for millions of people who cannot access or afford insurance or are forced into poverty in order to get help. We should initiate a national dialog immediately to reach consensus on a viable solution to the long-term care financing problem.

In the meantime, Congress could take some incremental steps toward meeting families' long-term care needs. Simple caregiver interventions, such as respite and counseling, can have a major impact on health care costs by delaying nursing home placement.

Providing care management for Medicare beneficiaries with multiple chronic conditions would save health care costs and delay the need for institutionalization. In addition, requiring health and long-term care plans and providers to identify people with dementia would improve care and treatment for this population.

Chairman Smith, thank you for holding this hearing on private long-term care insurance. While it may seem slightly off point, I am compelled to plead with you to support funding for Alzheimer's research through the National Institutes of Health.

I am a grandmother of an adorable toddler, David. He is cute.

The CHAIRMAN. Yes, he is adorable.

Ms. VIDINSKY. Thank you.

The CHAIRMAN. For the record, he is adorable. [Laughter.]

Ms. VIDINSKY. Thank you so much. I am not proud, right?

But shown here on the cover of the Alzheimer's Association annual report. To think that this beautiful child may become a victim of Alzheimer's disease and travel the same journey that his great-grandmother Velma did overwhelms me with sadness.

If we could prevent Alzheimer's disease or even just slow its progression and delay its onset for a few years, we could take a huge step toward relieving a staggering burden on our families and our long-term care system. That, perhaps more than anything else, could help us address the looming long-term care crisis.

On behalf of the Alzheimer's Association, all of the individuals and families we represent, I thank you again for your commitment to these issues and for giving me the opportunity to be here today.

Thank you.

[The prepared statement of Ms. Vidinsky follows:]

alzheimer's association

Testimony of Joanne Vidinsky
San Francisco, California
Before the Senate Committee on Aging
March 9, 2006

Good morning Chairman Smith and members of the Committee. It is an honor to be here before you this morning, representing the Alzheimer's Association and its views on the role of private insurance in long term care financing. My family's experiences with Alzheimer's disease and the enormous cost of long term care illustrate the need for a comprehensive solution to the long term care challenges created by an aging population and increasing numbers of people of all ages with disabilities.

I am in Washington today to tell you the story of my in-laws and their heroic efforts to cope with the ravages of Alzheimer's disease and the effect of their experience on my brother and me as we helped our mother cope with her desire to avoid becoming a burden on her family.

In 1993, my mother-in-law Velma, then aged 78, showed the initial signs of confusion and memory loss that began her battle with Alzheimer's disease. Over the next 6 years, my father-in-law Joe cared for her at home in Ohio. It was hard for me and my husband to help Joe with the care, both because we were living in California and because he disguised the difficulty of the situation to spare us pain.

Two years after the initial signs of the disease, Velma developed significant cognitive impairment that affected her judgment and ability to take care of herself and her home. At age 83, Velma began behaving irrationally and could not take care of even her most basic daily needs. It was a matter of honor for Joe to take care of Velma himself. However, like many other Alzheimer's families, after years of caring for her, Joe could not do it alone. He had to place Velma in the best nursing home he could find and he paid for her care himself at a cost of approximately $60,000 a year. In 2001, Velma died after 2 years in the facility, visited every day by her devoted husband.

Joe had been a coal miner and chemical plant supervisor, he was not wealthy. But, he was able to pay for all of Velma's nursing home care because of his savings, Social Security, and retiree benefits. He started working in the mines in 8th grade, and he and Velma lived simply and saved money from every paycheck during their marriage of 63 years. In addition to their savings, Joe had excellent pension and retiree health benefits from his membership in the United Mine Workers union. Joe, at age 91, now lives with Alzheimer's disease in an assisted living facility in San Francisco; his remaining savings pay for his care.

My in-laws' story has had a profound effect on my mother. She wants to avoid becoming a burden to me and my brother. Although she and my father worked hard in sales positions all their lives, their incomes were never high enough for them to save much for their retirement. And, as is common in the service industry, my parents did not retire with pensions or health benefits. My mother lives modestly on her Social Security benefits and a small amount of savings that came from a life insurance policy that my father had when he died from cancer 18 years ago. My mother is typical of most elderly women who live alone; should she become disabled she does not have a spouse to help her remain at home and her financial resources would be drained after only a few months in a nursing home. Despite working her whole life and raising her two children, she would face impoverishment, if it were not for the help she receives from my brother and me.

At age 78, my mother heard about long term care insurance from friends of hers who were buying it to preserve their independence and ability to remain at home. We respected my mother's desire to avoid becoming a burden and remain at home as long as possible and helped her buy a long term care insurance policy. We knew that she could not afford the annual premiums herself. Nor could she have waded through the complicated information available about long term care insurance to arrive at a good decision about which policy to purchase.

So my brother and I took on the responsibility of finding and paying for a policy. We received a brochure in the mail from the government that described the need for long term care insurance and visited several governmental and non-governmental websites that only had general information available. Most of what we learned about specific policy options came from insurance agents.

Luckily, my mother was in good health at age 79. If she already were experiencing symptoms of Alzheimer's disease or another chronic illness, we could not have purchased the policy for her. The policy costs $10,000 a year and covers the care at home that my mother wants. We also made sure that the policy would pay benefits if my mother had problems with two or more daily activities or the equivalent in cognitive impairment. We decided not to purchase inflation protection or non-forfeiture benefits because of my mother's age and our certainty that we would be able to continue paying premiums or supplement the long term care expenses if necessary. For us, placing $10,000 a year in other investments might have been more prudent economically, but the trade off is that our mother will not view herself as a burden to us with the long term care insurance policy she has.

My in-laws represent the end of the long term care financing spectrum that can self-insure for long term care, due to prudent budgeting and good retiree benefits. My mother represents the other end of the spectrum. If she did not have children with the financial resources to care for her, she would have to rely on Medicaid if she acquired a disability.

Unfortunately, most older people in this country cannot afford the average annual cost of $76,219 for nursing home care (*Genworth Cost of Care Study*, 2006) out of their own savings, nor do they have children who can afford to buy long term care insurance for them. The majority of older people must rely on the governmental Medicaid benefits to help them meet their long term care needs, when informal caregiving is no longer enough. This program requires impoverishment of its beneficiaries. There are very few options for those who cannot pay their way, other than to rely on Medicaid.

As a nation, we are only beginning to wake up to the Long Term Care crisis that is brewing. Our Association is pleased that the government is addressing the issue through public education and expansion of the Long Term Care Partnership programs. The Deficit Reduction Act has two important new provisions. The Act creates a National Clearinghouse for Long Term Care Information that will educate consumers about the limitations of Medicaid and provide information that will help consumers choose among private long term care financing options. The Act also allows all states to implement Long Term Care Partnership programs. These programs, which have been piloted in five states for more than a decade, permit people who are able to buy qualified long term care insurance to keep some of their assets, if at some future time they must rely on Medicaid for help with long term care expenses. Creative solutions like the partnership program and education to help people plan for their long term care needs are an essential part of any solution to the challenge of long term care financing. It is important that states and the federal government move as quickly as possible to implement these programs nationwide.

While education and incentives to purchase insurance are important steps, we need to think beyond the current long term care system because it does not work for millions of people who cannot access or afford insurance or are forced into poverty in order to get any help from the government. We believe that the crisis in long term care, fueled by a large and rapidly aging population, requires action now. We should initiate a national dialogue immediately to reach consensus on a viable solution to the long term care financing problem. The exact form of the solution is not clear, though it is clear that current budgetary constraints make it difficult to discuss additional governmental expenditures at this time.

The Alzheimer's Association envisions a public/private partnership for long term care financing that assists people before they are broken by the costs and consequences of their long term care needs. The partnership should ensure that those with few financial resources have access to a means-tested safety net, that people who can plan ahead for their long term care costs are encouraged to do so, and that there is a public sector program that provides a stable base of support and wraps around private benefits. It is important for private sector and public sector benefits to complement one another, with proper incentives and regulations to ensure affordable, meaningful protection.

In the meantime, Congress could take some incremental steps toward meeting families' long term care needs. Simple caregiver interventions, such as respite, counseling, and supportive services can have a major impact on health care costs by delaying nursing home placement. Providing care management for Medicare beneficiaries with multiple, chronic conditions would save hospital and home health costs, and delay the need for institutionalization. In addition, requiring health and long term care plans and providers to identify people with dementia would improve care and treatment for this population. Increased efforts to educate the public about the financial risk of long term care and financial incentives may induce those who can afford it, to do the necessary planning or purchase private insurance.

Chairman Smith, thank you for holding this hearing on private long term care insurance and giving me an opportunity to testify. While it may seem slightly off the point, I am compelled to plead with you and your colleagues to support funding for Alzheimer's research through the National Institutes of Health. I am a grandmother of an adorable toddler, David with another grandbaby due this summer. This is a photo of David on the cover of the Alzheimer's Association Annual Report. To think that this beautiful child may become a victim of Alzheimer's disease and travel the same journey as his great-grandmother Velma overwhelms me with sadness. If we could prevent Alzheimer's disease, or even just slow its progression and delay its onset a few years, we could take a huge step toward relieving a staggering burden on our families and our health and long term care systems. That, perhaps more than anything else, could help us address the looming long term care crisis.

On behalf of the Alzheimer's Association and all the individuals and families we represent, I thank you again for your commitment to these issues and for giving me the opportunity to be here today. I am happy to answer any questions you may have.

The CHAIRMAN. Thank you very much, Joanne. That was a very heart-warming story of your family.

As you relate the experience of your mother-in-law and father-in-law, that is a very noble story. We salute your father-in-law for caring for his wife in those circumstances of many years, and then you and your brother for making the provident choice of providing a policy for your mother.

No doubt, she is relieved of a lot of anxiety that comes because, obviously, the cost to her would have been prohibitive if she had not that care or going into Medicaid, and that may not have been as good care as she deserves.

Yours is a good story, and I think your admonition about Alzheimer's research is one that we need to heed. So thank you very much.

Robert Friedland.

STATEMENT OF ROBERT B. FRIEDLAND, Ph.D., FOUNDING DIRECTOR, CENTER ON AN AGING SOCIETY, WASHINGTON, DC

Mr. FRIEDLAND. Good morning, Senator, Chairman Smith. Thank you for the opportunity to appear here and submit testimony for the record.

I am Robert Friedland, a researcher and a professor at Georgetown University.

Most people are not prepared for long-term care, but it seems that perhaps not enough people know it or are doing something about it. In one survey, 63 percent identified either with the statement, "I really haven't given any thought to how I would pay for long-term care," or "I don't have a plan to pay for long-term care because I don't expect I will need it."

It is worth noting the similarity with retirement planning. For example, in a different survey, 58 percent of workers age 45 or older said that they had not tried to calculate how much money they would need to have saved by the time they retired. Yet 67 percent of workers expressed confidence that they would have enough to live comfortably in retirement.

Everyone knows they should eat right, exercise regularly, and save for retirement. Yet nearly half the population is overweight, does not exercise regularly, and does not regularly save for retirement. Only 65 percent of workers with an employer-sponsored plan participate. Virtually all workers can contribute to an individual retirement account, and yet less than 10 percent do.

While, fortunately, participation rates increase with age and income, far too many workers withdraw funds when they change jobs, and most IRA participants were already saving, simply transferring their taxable savings to tax advantaged accounts.

So despite the encouragement and the incentives, much stands in our way, even for goals to which we aspire. Nobody aspires to physical dependency. Nobody is looking forward to needing long-term care. So why should we expect people to be better prepared for the things in life that we seek to avoid than for the things to which we aspire? Thank goodness for Social Security.

It troubles me deeply that far too many people end up with so little in savings. Social Security ensures that they will not be poor,

but their inability to effectively build on this base has kept them from living well.

It is a mixture of private insurance, employer efforts, the discipline to save, and social insurance that helps pool the financial risks of many of life's contingencies, that is, contingencies other than long-term care. For these contingencies, it is the social insurance that sets the terms for the private market.

Since most long-term care is provided by family, financed out of pocket, or supplemented by Medicaid, the payer of last resort, the long-term care system is fragmented, inefficient, inequitable, and, in most places, inadequate.

In 15 years, there could be dramatic increases in the size of the long-term care population. There will be dramatic declines in family size and in the rate of growth in the labor force. Whether you are rich or poor, have private insurance or Medicaid, access to needed long-term care will be dearer than it is today.

This is likely to be true even if everyone has purchased long-term care insurance. In fact, as the proportion of the population with insurance increases, the price of care is likely to increase faster than the supply of services, resulting in the possibility of making access worse for everyone.

We witness this market force in health care, but long-term care insurance has a fundamentally different role in the market than does health insurance. Health insurance covers medically necessary care. Long-term care insurance is merely a fixed-dollar benefit, chosen by the consumer decades earlier.

Health insurers have financial incentives to work toward a more effective and efficient health care system. No such similar market forces are at work with long-term care insurance. There is nobody in charge within the system the way physicians are in our health care system.

Because we use public resources to encourage long-term care insurance, it is incumbent on us to work toward developing a more effective delivery system and a more effective structure in which long-term care insurance can insure the risks we face.

While I wish we could encourage people to save more for retirement—and I commend you for putting your efforts in that direction—and I wish more people would insure more of the insurable risks, simply encouraging more people to purchase long-term care insurance is not sufficient to improve the delivery of long-term care.

Premiums paid today will do nothing for the system. We need to address the organization, delivery, and financing of care now if we are to ensure that insurance will be even more effective in the future when insurance claims are paid.

Thank you for holding this hearing, and thank you for allowing me to comment.

[The prepared statement of Mr. Friedland follows:]

Long-Term Care: Are American's Prepared?

Testimony of:

Robert B. Friedland, Ph.D.
Director,
Center on an Aging Society
Associate Professor,
Department of Health Systems Administration
Georgetown University

Prepared for:

The Special Committee on Aging
March 9, 2006
Dirksen Senate Office Building, Room 138

A growing demand for long-term care

The diagnosis and treatment of disease and disability continues to change dramatically. These advances have not only resulted in increases in life expectancy but also have increased the likelihood that we will need long-term care at some point in our lives. Many more people are living longer with chronic health conditions as well as with physical and cognitive frailties resulting in more people who need help, over an extended period, with the tasks of daily life. It is the nature of this assistance that is commonly called "long-term care."

Anticipated demographic trends ensure that the number of people needing long-term assistance is likely to double between now and 2030.[1] Increasingly, after 2015, those needing care will be more likely to not have any children or certainly fewer children, on average, to depend on for assistance than in previous generations. Moreover, the decline in fertility rates which are the root cause for the relative decline in adult children will have also slowed the growth in the labor force, making it more difficult for long-term care providers to find workers.

Without changes in financing arrangements that lead to changes in the organization of service delivery, access to needed care could be more difficult to obtain, even for the well to do, than it is today. State Medicaid programs, which pay for a substantial share of long-term care, will feel even greater pressure, finding it necessary to finance more care among a growing number of people

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[1] U.S. Department of Health and Human Services (HHS) & U.S. Department of Labor (DOL) *The Future Supply of Long-Term Care Workers in Relation to the Aging Baby Boom Generation: Report to Congress* (Washington, DC: Office of the Assistant Secretary for Planning and Evaluation, 2003), http://aspe.hhs.gov/daltcp/reports/ltcwork.htm.

desperate for assistance. Providers of long-term care will face the challenge of delivering quality care from within an exceptionally tight labor market. Unfortunately, simply getting more people to purchase long-term care insurance will not by itself change this situation. A much more concerted effort is likely to be necessary.

Defining long-term care

Long-term care is the assistance that people need when they are no longer able to fully function on their own for a substantial period of time. People who need long-term care may need hands-on assistance or stand-by supervisory assistance to eat, use the toilet, get out of bed, get dressed, bathe, take their prescription drugs, go shopping, get to the doctor, obtain groceries, cook meals, clean laundry, manage their money, or maintain their home. Many who need long-term care are no longer physically able to undertake these tasks while others are physically capable but due to cognitive impairments, need what is called either visual or verbal queuing as well as continual supervision in order for it to get done.

While some of life's tasks can be scheduled there are critical tasks that cannot. Shopping for groceries, paying bills, and doing the laundry for example are less time sensitive and therefore are referred to as Instrumental Activities of Daily Living (IADLs). Other limitations such as eating, toileting, bathing, or moving about are more time sensitive. These tasks are referred to as Activities of Daily Living (ADLs).

Public programs and private insurance use measures of Activities of Daily Living to trigger minimum eligibility criterion. For example, many long-term care insurance policies do not pay benefits until after a claimant has limitations in two or more activities of daily living and after a waiting period in which they have been purchasing services to provide assistance for those limitations. Families, however, often step in to provide assistance long before someone has limitations in two or more ADLS. Hence someone might be in need assistance for many years prior to meeting this trigger and then, although they have been getting assistance from family would need to purchase assistance, for 30 to 90 days, prior to being able file an insurance claim. Similarly, Medicaid will not process an application until the person has limitations in 3 or more Activities of Daily living regardless of the needs prior to this point.

The risk of needing long-term care

We are all at risk of needing long-term care. Genetic abnormalities at birth, cognitive imperfections, accidents, degenerative chronic conditions, as well as strokes and frailty have resulted in a diverse population in need of assistance. In 2000, an estimated 9.5 million people nationwide needed long-term care.[2] Although the risk does increase with age, about 38 percent of the long-term care population is under the age of 65. Both the incidence and prevalence are, however, quite low until about age 75 or older. In 2000, for example, about 2

[2] Rogers, S. & Komisar, H. (May 2003) *Who needs long-term care?* Fact Sheet (Washington, DC: Georgetown University Long Term Care Financing Project), http://ltc.georgetown.edu/pdfs/whois.pdf.

percent of the population age 18 to 64 needed long-term care; whereas nearly two-thirds of people age 85 or older needed care.[3] (See Figure 1).

Over a lifetime, at least one study, based on micro-simulations predicted that after age 65, 70 percent of people will at some point over the remainder of their lives need long-term care.[4] The variation in the scope and depth of care, however, is considerable. For example, in this particular simulation it was estimated that between age 65 and the end of their life, about 10 percent were likely to need less than one year of long-term care; 40 percent might need between one and four years, but that about 20 percent were likely to need care for five or more years.

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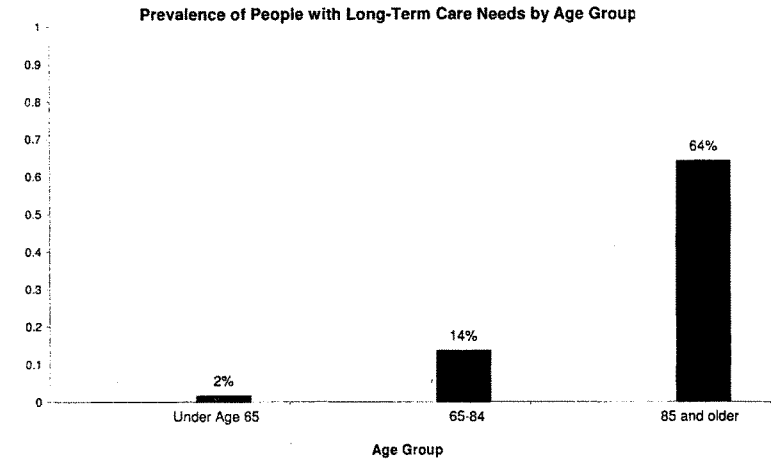
[3] Georgetown University Health Policy Institute's analysis of data from the 2000 National Health Interview Survey (NHIS)

[4] Presentation of forthcoming paper by Peter Kemper and Harriet Komisar from the Georgetown Financing Long-Term Care project.

Figure 1



Source: Georgetown University Health Policy Institute analysis of data from the 2000 National Health Interview Survey; and Centers for Disease Control and Prevention: The National Nursing Home Survey: 1999 Summary.

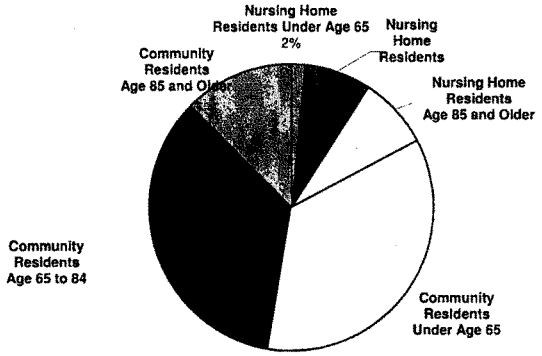
Nationwide about 83 percent of those who need long-term care live in the community, not in a nursing home.[5] Figure 2 provides a breakdown of where the long-term care population lived in 2000. Where people live, however, is not a good proxy for their level of needed assistance. There is no question that people in nursing homes need a tremendous amount of assistance, however, there are people living in the community who need just as much help. About 24 percent of assisted living residents, for example, were found to have cognitive impairments analogous to the level of impairment that is found in more than one-third – 38

[5] Georgetown University Health Policy Institute analysis of data from 2000 National Health Interview Survey (NHIS) and the National Nursing Home Survey: 1999 Summary, Centers for Disease Control and Prevention (CDC).

percent – of nursing home residents.[6] Similarly, about 12 percent of residents age 65 or older in community housing with services received assistance with 3 or more ADLs.[7]

Figure 2

People Living in the Community or a Nursing Home with Long-Term Care Needs by Age, 2000



Total = 9.5 million

Note: Long-term care population among community residents is defined as someone three and older who responded that, due to a physical, mental, or emotional problem, they needed the help of another person with personal care needs, such as eating, bathing, dressing, or getting around inside the home; or someone 18 and older who needs the help of another person in handling routine needs. Anyone in a nursing home is considered part of the long-term care population.
Source: Rogers, S. & Komisar, H. (May 2003) *Who needs long-term care?* Fact Sheet (Washington, DC: Georgetown University Long Term Care Financing Project), http://ltc.georgetown.edu/pdfs/whois.pdf.

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[6] Office of Disability, Aging, and Long-Term Care Policy, Assistant Secretary for Planning and Evaluation (July 2003) *Estimates of the Risk of Long-Term Care: Assisted Living and Nursing Home Facilities* (Washington, DC: U.S. Department of Health and Human Services), http://aspe.hhs.gov/daltcp/reports/riskest.htm.

[7] Federal Interagency Forum on Aging Related Statistics (November 2004) *Older Americans 2004: Key Indicators of Well-Being* (Washington, DC: Federal Interagency Forum on Aging Related Statistics, p. 55).

Long-term care: An insurable event

The annual risk of needing long-term care is very low, only becoming modest at very old ages. However, both the duration and scope of long-term care services needed is extremely variable. Two people with limitations in 2 or more ADLs may have very different needs resulting in extremely different expenditure levels, even if the duration of their long-term care needs were to be the same. For example, five years of nursing home care today might cost around $325,000. Five years of home care, at 40 hours a week might cost between $125,000 and $150,000; while five years of assistance for one day during the week in order for the caregiver to get a break might cost about $50,000. The expected cost of five years of care therefore might be about $160,000 plus or minus $120,000. Availability of family, the ability to modify the home and incorporate various technologies, the physical layout of the home, the availability and type of paid assistance, and even the personality of the person in need of assistance could all have a bearing on the costs. Given this variability, it would be far more efficient if everyone in the community contributed the expected cost of care into a pool that then financed the actual care that is needed by those in the community who turn out to need care.

The low risk but potentially expensive cost of care makes long-term care analogous to health care. Over a lifetime we can all expect to use health care, but at any point in time, the vast majority of health care use is attributable to a relatively small percentage of the population. Whether or not we are looking at a group of healthy workers or groups of persons at greater health care risk such as

those enrolled in either Medicare or Medicaid, this general phenomenon holds. Generally, about 80 percent of the group expenditures are usually undertaken on behalf of about 20 percent of the group. This is why medical care is an insurable event.

Planning for long-term care

Most people probably do not have realistic plans for how they are going to pay for long-term care. In a 2004 survey conducted by the Peter D. Hart Research Associates for the National Academy of Social Insurance, people were asked: "Which of the following statements best describes your planning for long-term care?" About 37 percent responded: "I have developed a plan to pay for long-term care if I need it." Among the remaining 63 percent most said, "I really haven't given any through to how I would pay for long-term care," or "I do not have a plan to pay for long-term care because I don't expect I will need it." [8]

While it is likely that there is a modest degree of hubris on the part of those who say they do not need a plan as well as those who say they have a plan, we are left with the impression that nearly 40 percent think they are prepared and 60 percent know they are not prepared. Interestingly, it is not a simple case of denial, since 35 percent of respondents said that it was very likely that they or their spouse might need long-term care someday. And when asked how they might pay for it, 32 percent said they would rely on long-term care

[8] Tabulated survey results from Peter D. Hart Research Associates, Inc., March 2004 Study #7172

insurance, 28 percent said they would pay for it out of savings, and 23 percent said they would rely on a government program.

It is worth noting the similarity between thinking about long-term care and retirement income. For example, in a survey conducted by the Employee Benefit Research Institute, 58 percent of workers age 45 or older said that they had not tried to calculate how much money they would need to have saved by the time they retired. What raises concerns of hubris is that, although 42 percent of workers said they had calculated how much they would need, about 66 percent of workers expressed confidence that they would have enough money to live comfortably in retirement.[9]

About half of all workers have access to an employer sponsored retirement plan, and yet only 65 percent of workers participate. Virtually all workers can contribute to an Individual Retirement Account (Roth or Regular) and even if they can't deduct their contributions they can take full advantage of the tax deferral on the funds' earnings, and yet less than 10 percent of workers do. Fortunately, with age and income, participation rates in both IRAs and employer plans do increase.

Given the relatively late planning for retirement that seems to occur, it is not surprising that long-term care planning would not be any more advanced. After all, retirement is considered a goal, while dependency is not. For most

[9] Encouraging Workers to Save: The 2005 Retirement Confidence Survey, *Issue Brief*, Employee Benefit Research Institute, No. 280, April 2005.

people the "default planning" for long-term care is learning the hard way what it means to apply for assistance from the state Medicaid program.

On the other hand there are really only a few options available to individuals. Clearly a step in the right direction would be to get people to recognize the need to plan for this contingency within their retirement planning. Saving more, generally, might be a good option. But saving for long-term care is not efficient and is likely to not be sufficient. Hence, even if one could save for long-term care, it would not be clear how much to save. Invariably savings will be either too little or too much.[10]

Beyond increasing savings one can buy into an insured "life-care community," or "continuing care community." These communities offer independent living in an apartment with assisted living services, medical services, skilled nursing services and long-term care, usually all in one location. In a true life care community, the community pools the risk of needing long-term care. Everyone is charged the same initial and ongoing fees and it is hoped that these fees will be sufficient to cover the costs of those who end up needing long-term care. Moving into a life-care community not only means leaving one's home but does require that the applicant be in good health and be able to afford both the initial and the ongoing fees. Their primary risk is that the community priced those fees correctly. If the fees are too low there may be the need for additional assessments which in turn can lead to members moving out and perhaps

[10] It should be noted that "reverse mortgages" (which are more expensive than "forward" mortgages), do provide a way of spending the equity in one's home without having to move out of the home.

bankruptcy of the community. Most people have not embraced this option, in part because they either prefer to remain in their current neighborhood or they cannot afford the move, or both.[11]

Another option is long-term care insurance policy. The term, "long-term care insurance'" however, may be a somewhat misleading. Technically these policies insure a fixed benefit amount for a fixed benefit period. Because consumers choose the scope and depth of coverage that they want or can afford, long-term care insurance policies do not necessarily cover the full financial risk of long-term care or all services needed. Nevertheless, long-term care insurance policies do offer the advantage of pre-funding a set amount of the financial risk associated with long-term care and do so on a tax preferred basis.

The market for long-term care insurance, as measured by sales of policies, has been growing rapidly. However, long-term care insurance is not available to children, young adults, or most persons with medical conditions. Moreover, the monthly premiums are not affordable (relative to income) to the majority of older people. Although, it is likely that long-term care insurance premiums may be affordable to nearly half of the population under age 50.[12]

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[11] Center on an Aging Society tabulations of income and assets data suggest that only 8 percent of the population age 65 or older had home equity sufficiently large to finance this move. If people were willing to sell their home and liquidate financial assets then about 35 percent of the population age 65 and older would have total net wealth sufficiently large to afford moving to a life-care community.

[12] For example, a $200/day 5 year comprehensive policy with inflation protection and a 30 day waiting period would cost about 6 percent of gross income for 50 percent of the population age 40 to 50; but would cost 24 percent of gross income or more for 50 percent of the population age 65 and 85 percent of gross income for 50 percent of the population age 75. Center on an Aging Society tabulations based on the premiums for the long-term care insurance policy available to federal employees and Census Bureau estimates of household income.

In 2004 there were an estimated 4.2 million individual and 1.9 million employer-sponsored group long-term care insurance policies in force.[13] While more than 6 million people with a long-term care insurance policy is significant, it is a small fraction of the overall population. In 2002, the largest employer in the United States, the federal government, began offering its workers, annuitants, and family members of workers and annuitant's access to a long-term care insurance policy marketed jointly by John Hancock Life Insurance Company and Metropolitan Life Insurance Company through Long Term Care Partners, LLC. As of March 2005, there were over 208,000 individuals enrolled in the federal long-term care insurance program.[14] While this is a substantial number of policyholders, it is a relatively small percentage of the more than 20 million federal employees and annuitants and their dependents that are estimated to be eligible to purchase this insurance.

These facts underscore how difficult it has been for insurers to get people to purchase a policy. Most sales required the concerted effort of a trusted insurance broker or agent.[15] In part, the difficulties stem from the product itself. Most insurance is purchased based on contemporary facts, like the value of the

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[13] Douglas, J. (2004) *Long-Term Care and Medicare Supplement* (Windsor, CT: LIMRA International). And, Douglas, J. (2004) *U.S. Group Long-Term Care Insurance* (Windsor, CT: LIMRA International, Inc.). See also Friedland, Robert and Stephanie Lewis, *Choosing a Long-Term Care Insurance Policy: Understanding and Improving the Process*, Brookings Institution, November 2004.

[14] At the end of 2004 206,200 policies had been sold. See Long Term Care Partners, January 11, 2005 "OPM Announces Addition of 5,500 Enrollees in Federal Long Term Insurance Program in 2004" Press Release (Washington, DC: U.S. Office of Personnel Management (OPM)),http://www.ltcfeds.com/about/resource_library/press_release/opmannounces2004enrollees.html. Paul Forte, an executive with the combined company selling the policy announced in an April 2005 public meeting that over 208,000 had been sold.

[15] Douglas, J. L & Ash, P. E. (2005) *U.S. Buyers and Nonbuyers of Long-Term Care Insurance* (Windsor, CT: LIMRA International, Inc.)

home, the value of the car, the cost of health care, the anticipated cost of college. Moreover, as contemporary circumstances change, there is at least annually an opportunity to change the policy. The fact that the policy can be changed enables consumers to shop around and compare published service records of insurers. This is not true for long-term care insurance. Long-term care insurance is purchased once. Moreover, while our understanding of the nature of the long-term care may change, contemporary facts, like the cost of nursing home care, are barely relevant. Nevertheless, the purchase of a policy means having to decide critical factors like the elimination or waiting period, the benefit period, and the daily benefit amount. How does one make a rational choice about whether or not they should have a 30 or 90 day waiting period, a 3 year, 5 year, or lifetime benefit period, or whether the daily benefit should be $200 or $400 a day? Once the choice is made, the premiums will continue until the policy is dropped. Changing policies is very expensive, particularly after you have held a policy for 10 or more years.[16]

Without an immediate and dramatic increase in the proportion of the population buying long-term care insurance, it will probably take another century before long-term care insurance is a substantial source of finance long-term care.

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[16] Level premium policies, like long-term care insurance, ensure that the annual premium will far exceed the risk of needing long-term care in the vast majority of the years in which the policy is in-force. In the first 10 years, most of the premiums being collected are for paying sales commissions and is just beginning to pre-fund the risk that will not be covered in the later years in which the policy is held. So for example, if a 50 year old Federal employee purchases a 3 year, $100 per day policy with a 90 day waiting period, the annual premium would be about $746. Lets assume that after 10 years he decides that what he really should have bought was a $200 a day benefit with a 30 day waiting period since he now realizes that he is not likely to have the extra 60 days of nursing home care in his savings account. So, after 10 years of reflection he now applies for and is new policy and drops the old policy when accepted. The new policy at age 60 is now $2.563 per year and he has just spent $7,460 on a policy that is no longer in-force.

However, even if it were it is not at all clear how a fixed daily dollar benefit would address the fundamental financing and delivery issues of long-term care. Without question, policies, particularly in conjunction with savings, would be of tremendous benefit to individuals. However, there will be market consequences that could easily undermine access to care.

The effect of demographic shifts on the cost and availability of long-term care, even in the presence of long-term care insurance

After 2020, the demographic shifts that are upon us may make it harder for everyone to gain access to long-term care. Generally, after that point in time, the number of people needing assistance is likely to increase faster than the population available to provide assistance. Advances in technology and modifications in homes will help considerably, but most long-term care will still require a person in the same room as the person who needs long-term care.

Those at greatest risk of needing long-term care are people age 85 and older, Census Bureau population projections suggest that between now and 2020, and there will be plenty of adult children potentially available to help their parents.[17] After all, by definition, the baby-boom reflects the fact that mothers of children born between 1946 and 1964 were more likely to have had 3 or more children while mothers prior to 1946 and after 1964 were more likely to have had 1 or 2 children.

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[17] Robert B. Friedland, *Caregivers and Long-term Care Needs in the 21st Century: Will Public Policy Meet the Challenge*, Georgetown University Long-Term Care Financing Project, August, 2004

As more people are able to finance care with a long-term care insurance policy, it is quite likely that the cost of care will increase faster then the supply of available care. If this occurs, any fixed dollar benefit will be worth even less then it would have in the absence of the insurance induced inflation and hence the gap between the daily benefit amount and the cost of care may very well be significantly larger than overall anticipated inflation. As long as the insurance policy is a part of a broader savings plan on the part of the policy holder, then many policy holders should be able to cover the shortfall with savings. However, could also mean that those without insurance and adequate savings may be forced to apply for Medicaid assistance sooner. While Medicaid has always been a very effective payer of last resort, more and more insured people might diminish the state's political leverage.

Most long-term care is provided by family

Most long-term care is provided by family, friends and volunteers and therefore does not get tallied as an expenditure. Some call this informal care; I prefer to call it family care. Over two-thirds of Medicare beneficiaries, age 65 or older with long-term care needs *only* receive family care and 26 percent receive *both* family care *and* some form of paid formal care.[18] Thus, in the community paid care, while critical, is not the dominate source of care.

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[18] Federal Interagency Forum on Aging Related Statistics (November 2004) *Older Americans 2004: Key Indicators of Well-Being* (Washington, DC: Federal Interagency Forum on Aging Related Statistics).

Most families have more than one caregiver, but the primary caregiver, which is typically the spouse or adult child, usually provides the most care and spends considerable effort coordinating the care provided by other family members as well as that provided by paid caregivers. The typical primary caregiver is a 46 year old woman who provides more than 20 hours of care each week to her mother (or mother-in-law).[19] About 41 percent of all primary caregivers to care recipients age 65 or older are spouses and 44 percent are adult children.[20] While for most circumstances paid care provided in the community is supplemental to family care, about 9 percent of persons age 65 and older living in the community do not have any family care and receive *all* of their care through paid providers.[21]

Although most long-term care is provided by family in people's homes or purchased by those who need assistance, long-term care expenditures are dominated by Medicaid and Medicare expenditures on nursing homes. This anomaly occurs because care in a nursing home is substantially different than care purchased to supplement family care at home and care purchased by Medicaid and virtually all of the care purchased by Medicare is for post-acute care or hospice care and not long-term care. All health care payers, including private health insurers as well as Medicaid and Medicare purchase post-acute

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[19] National Alliance for Caregiving (NAC) & AARP (April 2004) *Caregiving in the U.S.* (Washington, DC: NAC & AARP, p.9)
[20] Mack, K. & Thompson, L. (January 2005) *A Decade of Informal Caregiving: Are today's informal caregivers different than caregivers a decade ago?* Data Profile (Washington, DC: Center on an Aging Society), http://ihcrp.georgetown.edu/agingsociety/pdfs/caregivers1-E.pdf
[21] Federal Interagency Forum on Aging Related Statistics (November 2004) *Older Americans 2004: Key Indicators of Well-Being* (Washington, DC: Federal Interagency Forum on Aging Related Statistics).

care services provided by nursing homes and home health agencies as a way of minimizing inpatient hospital care expenditures. Medicaid and most health insurance plans also pay for hospice care which is also provided by home health agencies and nursing homes.

Because the paid providers of long-term care also get paid to provide post-acute care and hospice care and because all health plans cover post acute care and most cover hospice care, it is not at all surprising that people would be confused about how long-term care is financed. While most people probably understand what a nursing home is, I would be surprised if most people could articulate the difference between post-acute care, hospice care, or long-term care – it all looks the same.

Generally, in order of smallest to largest single payer source, long-term care providers are financed by long-term care insurance, health insurance, the Department of Veterans affairs, state programs not affiliated with Medicaid, families, Medicare, and Medicaid. At last count, 34 states had long-term care programs that were not a part of Medicaid.[22] Figure 3 shows the total spending on long-term care providers by payer. Nearly half of all the payments were from Medicaid. Over twenty percent of the payments were directly from persons using long-term care services. Virtually all of the private insurance payments are from health insurance for the coverage of post-acute care.

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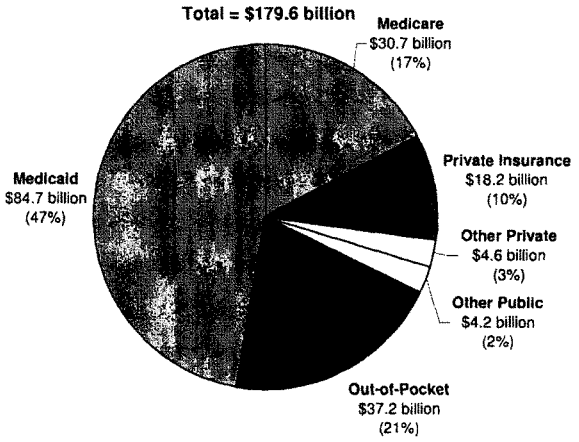
[22] Summer. L. (March 2001) *State-Funded Home- and Community-Based Services* (Washington, DC: National Governors Association), http://www.nga.org/cda/files/031901SERVICEPROG.pdf.

Figure 3

National Spending for Long-Term Care, by Payer (2002)



Source: Komisar, H. & Thompson, L. (July 2004) Who pays for long-term care? *Fact Sheet (Updated)* (Washington, DC: Georgetown University Long Term Care Financing Project), http://ltc.georgetown.edu/pdfs/whopays2004.pdf.

Public discussions about long-term care and State efforts

Although long-term care is an insurable event, for most people, including many with long-term care insurance, most of the risk is not insured. This has put the onus on individual families and state policy makers. States struggle to control their Medicaid expenditures, of which long-term care is a significant share. A central question for state policy makers has been how best to design home and community based programs that will shift expenditures from nursing home care to care at home. Nursing home care is far more efficient than care at home, but nursing home care cannot be

purchased in small increments. Home care, however, can be purchased by the hour. The cost of nursing home care for one person may be equivalent to about one hour of care for nine other people.

At least 26 states have amended their tax code to provide explicit incentives, such as a tax credit or deduction for the premiums paid for long-term care insurance. It is hoped that by providing tax incentives, more people will purchase long-term care insurance. Furthermore, it is either assumed or hoped that insurance will delay or avoid the need for assistance from Medicaid. Obviously the tax incentive means a loss of state revenues and so the empirical question will be whether or not these forgone revenues will be less than or greater than the future Medicaid expenditures.

Four states (CA, CT, IN, NY) established explicit partnerships with insurance companies to sell a policy that if purchased changes the resource test used for Medicaid eligibility.[23] The approach varies slightly in each of the four states, but the basic idea is that those who purchase a state approved long-term care insurance policy would be able to apply for Medicaid assistance without counting some of their financial assets. For example, in Connecticut, if a partnership long-term care policy is purchased that will cover 3 years of long-term care at $200/day then when this policy is exhausted (and $219,000 has been expended) then that policyholder will be able to exclude $219,000 from countable assets when they apply for assistance from

[23] A fifth state (Iowa) had the right to do so, but never did. As of last month all states will have the opportunity to establish partnerships and it has been reported that 16 states passed legislation in past years in anticipation of being able to establish a long-term care insurance partnership with Medicaid. (http://www.iii.org/individuals/longtermcare/ltc_partnership/, accessed 3/6/06)

Medicaid. Note that the Medicaid categorical, functional, and income tests remain the same, however.

It is hoped that by providing Medicaid on the back-end of the *long-term* care risk, people will be encouraged to purchase a policy. In essence the purchase of a 2 to 4 year long-term care insurance policy tied to Medicaid could effectively provide them with lifetime coverage, particularly for nursing home care. Moreover, unlike tax incentives encouraging the purchase of long-term care, there are virtually no up-front revenue losses to the state. States, however, are gambling that the long-term care insurance coverage will delay or even avoid many more middle-income persons from becoming eligible for Medicaid. This will certainly occur if people insure for more than they have in financial assets or if a disproportionate number of people receiving long-term care die prior to becoming eligible for Medicaid, otherwise, it is likely that persons who might never have become eligible for Medicaid will become eligible due to the partnership policy.

It is still too soon to know how successful these four explicit Medicaid partnerships have been. It is worth noting that when the state focused on what should constitute a qualifying long-term care insurance policies, states took on a more protective role in regulating long-term care insurance policies sold in the state.[24]

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[24] Alexis Ahlstrom, Emily Clements, Anne Tumlinson, and Jeanne Lambrew, *The Long-Term Care Partnership Program: Issues and Options*, accessed at www.retirementsecurityproject.org on April 26, 2005.

For a wide variety of reasons, sales for regular long-term care policies have dwarfed partnership policies. Overall, since 1994, about 181,600 partnership policies have been sold in the four states, and as of June 2004, about 149,300 policies were still in-force.[25] At that point, partnership policies represented less than 11 percent of all long-term care insurance policies sold in those four states.[26] But more importantly, there have been few claims from which to firmly know how these policies will affect either Medicaid expenditures or the financing and delivery of long-term care in those four states.

Although there have been broader discussions about financing long-term care in the past, lately most of the discussion has exclusively focused on expanding private long-term care insurance. The insurance industry would like all taxpayers to be able to deduct long-term care insurance premiums from their taxable income. Moreover, they would like all employees to be able to purchase long-term care insurance on a pre-tax basis through their employers' health reimbursement or flexible savings account (or employee benefits cafeteria plan).[27]

Proponents argue that the tax incentives would help to encourage sales by signaling the importance of long-term care insurance. Opponents suggest, citing the empirical literature on Individual Retirement Account

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[25] That is, people were still paying premiums for the policies. Data is from Julie Stone-Axelrad, *Medicaid' Long-Term Care Insurance Partnership Program*, January 21, 2005, CRS Report for Congress.

[26] Based on data provided by America's Health Insurance Plans, 14 percent of all policies ever sold were sold in these four states.

[27] These kinds of tax preferences are currently available to the self-employed and to those with Health Savings Accounts.

participation, which most of the forgone revenue would be on behalf of persons who would have bought the policy anyway.

How will long-term care insurance help improve the organization and delivery of long-term care?

Long-term care remains one of life's greatest insurable contingencies for which virtually no one is insured. This is not surprising, given the confusion and misunderstandings surrounding long-term care, the nature of care itself, and the financing options available.

There has only been one private sector effort to pool the risk. This is through what has been commonly called a Life Care or Continuing Care Community. Such communities have a rich history of success and failures in which the community pools the risk and provides the care that is need. This is done through the admission and monthly fees associated with moving into the community, but it does require moving, and doing so prior to needing long-term care. It also necessitates that the community price this risk properly or else face the risk of having to raise prices forcing out the healthy and leaving those in need of care. Too often this has resulted in bankruptcy.

The only other option is to purchase long-term care insurance. But while long-term care insurance can effectively pool a portion of the risk, it is not the same as insuring the risk. As currently structured, long-term care insurance pools a fixed dollar amount that can be used to finance needed care, but there is no assurance that the amount selected will be right. It will either be too much or

too little. Of course these are not asymmetrical outcomes. Purchasing too much is inefficient but purchasing too little can be financially catastrophic for the policy holder. Anyone who purchases a long-term care insurance policy should consider the use of the policy as a part of an overall strategy that includes saving for long-term care. Of course, saving for long-term care is not the same as insuring the risk, either.

Long-term care is almost entirely a personal and familial responsibility. It is, only after reaching a very high level of dependency and when all other familial and financial resources are gone do we then see appeals for help through the state Medicaid programs. The variation in state efforts to provide long-term care has affected the market for care in each state. As a consequence there is tremendous variation in access to care.

The long-term care system is fragmented, inefficient and in most places inadequate and yet in some ways better than it has ever been. For the next 15 years or so, there will be far more family and long-term care workers, relative to the size of the long-term care population than there has ever been. But unless there are dramatic improvements in the productivity among providers or a dramatic decline in disability rates, then in about 15 years, the relative size of the family and the paid caregiver labor-force will be dramatically smaller than the potential size of the long-term care population.

After 2021, whether you are rich or poor have private insurance or Medicaid, access to needed care will be dearer than it is today. This will be true even if everyone went out and purchased a long-term care insurance policy

tomorrow. In fact, as the proportion of the population with long-term care insurance increases, without improvements in the way long-term care is organized and delivered, the price of care is likely to increase even faster than the supply of services resulting in the possibility of making access worse for everyone, including those with long-term care insurance.

Expanded long-term care insurance sales will not necessarily improve the delivery of care. There are no market forces to improve delivery stemming from the insurance itself. Long-term care insurers, similar to life insurers, are simply insuring a fixed dollar amount. Policy holders are not indemnified – that is made whole – like they are with other insurance. They are not assured access to needed care, like health insurance. And, unlike other insurance, the purchase of long-term care insurance is made once, with premiums paid the rest of the policy holders' life.

Private long-term care insurance could serve a more effective role in improving the delivery of long-term care, but this would require a much larger role for the public sector. Public policies that encourage the sale of private insurance might be helpful to those who purchase the policy, but it is not completely clear to what degree this will lower future Medicaid expenditures or lessen the financial risk faced by those who need care. It is even less clear how such sales, decades away from the possibility of a claimant, will result in improving the organization or delivery of long-term care now.

The CHAIRMAN. Thank you, Robert. You have some wonderful insights.

I agree with your testimony that saving for long-term care is not efficient and may not be sufficient. But I guess I am wondering how can we incentivize young people to get into programs or policies that are inexpensive to them now?

Mr. FRIEDLAND. Let me speak to the savings part. I think we have realized or I should say there is a collective opinion in public policy efforts moving forward to automatically enroll people in 401(k) plans. So, I am hopeful that those kinds of legislation will pass, and that will make a huge difference.

This is, as OPM spoke, this is a hard sell. OPM does all the right things, and of course, the numbers are quite impressive. But it is such a small percentage of that population, the 20 million that are eligible.

I think the Government has a role in education, in making that point. I think when you use tax incentives, you do send a very clear signal that it is important.

The CHAIRMAN. Well, I share your comments about Social Security, too, as being sort of the bedrock of people in retirement and eliminating elder poverty, frankly, in our country.

But I think it is important for us as part of the education in Government to note the very real arithmetic that awaits us because of the demographics of our country. These great social safety net programs of Medicare, Social Security, Medicaid, in a quarter century, they are going to be the only programs left in the Federal Government on the current course.

Now lest anyone be alarmed, I don't think we will get to that point when we destroy the rest of the Federal Government over these three programs. I only say this that I have that confidence because I think, ultimately, Republicans and Democrats, when they are forced by the budgetary demands that are simply inescapable, that we will come together as Americans and figure this out.

But that is going to entail some very, very hard and painful choices, which makes all the more important why we need to do what we can to help people to plan outside of Government for their futures. I doubt you would disagree with that.

Mr. FRIEDLAND. I don't disagree.

The CHAIRMAN. Any comment, any suggestions how we solve all of these issues?

Mr. FRIEDLAND. Well, unfortunately, it will take some investment, I think, and I know how hard that is to do. It would be, in my mind, if we could begin to reorganize where the risks are in much the same way we have done in other sectors, where the public sector takes on a different part of the risk, making it easier for the private sector to insure that risk.

I would love to see a day in which private insurance covers the care that we need when we need long-term care, instead of having to choose a $200 a day benefit and hoping that the inflation will be right so that when we get to making a claim, the $200 a day benefit is now worth $400 and that the cost is only $400.

What happens when the cost is $600 or $800, and we haven't put it in our plan, there is not enough in our savings to cover that gap?

We have got a policy that doesn't cover what we need, and we are not rich enough to cover the gap.

So, to do that, we need to circumvent the risk in a way so that the insurers could actually insure the risk and not just the dollar amount.

The CHAIRMAN. Well, you know what I have said and what I think you are agreeing with, Robert, is while the demographic tsunami is approaching, we don't want to alarm people. This doesn't affect people on Social Security now, on Medicare now, on Medicaid now.

What this affects is people of my age and my children and grandchildren. Your grandchild, Joanne, who faces just a crushing kind of burden in the cost of Government because of the size of our generation and the relative smallness in size of their generation.

So we have got big issues, but I have always taken pride in the fact that America has risen to its challenges, and I think we will again when the economics require us in Congress to deal with it. But the point of this hearing is to deal with it and to use the megaphone of this Committee to call out to Americans to plan, to be prepared on their own, in addition to the programs that the Government provides.

Let me just, in conclusion, thank each of you for taking your time and sharing your stories and your insights and your programs. We commend them all, and we thank you for adding measurably to the public record.

With that, we are adjourned.

[Whereupon, at 11:20 a.m., the Committee was adjourned.]

APPENDIX

PREPARED STATEMENT OF SENATOR HERB KOHL

Thank you, Mr. Chairman. Americans are living longer than ever thanks to tremendous advances in medicine. But this longevity also means that as people age, many will need long-term care in the future, whether it's provided at home, in an assisted living facility, or in a nursing home.

As a nation, we need to develop a comprehensive long-term care policy to care for the 10 million people who need long-term care today and the millions more who will need care in the coming years. It is an important but complicated issue that the Committee should explore, so I thank the Chairman for holding this hearing, as well as the witnesses who are here today to educate us.

It's worth noting that today, the majority of long-term care is actually provided free through family or friends. Caregiving can take a tremendous financial and emotional toll on families. Many older family members who care for a loved one often are forced to miss work or find they simply cannot continue working at all—placing their own economic well-being in jeopardy. They deserve some help, and that is why I have proposed legislation to provide a tax credit for older workers to help cover the costs of caring for chronically ill seniors.

Of course, we know that aside from family caregiving, Medicaid is the largest payor and greatest safety net for long-term care services. Medicaid provides care for millions of elderly and individuals with disabilities that need assistance with basic activities of daily living. It is critical that we preserve and strengthen this important program.

However, we know that public financing is not the only answer to the long term care dilemma. We will also need to find new ways to encourage Americans to anticipate and plan for their future long-term care needs. As we will hear today, some families are turning to long term insurance, which I support as an option that can be helpful under the right circumstances. Unfortunately, for the millions of low and modest income families that are already finding it difficult to secure food, housing, transportation, and health care, along with saving for their retirement, long-term care insurance is unaffordable today. But it's clear that with standardized policies and consumer protections, long-term care insurance can be a good and clear option for some families, and we should work to make it available and affordable.

To help alleviate some of the costs of long-term care and long-term care insurance, I am a cosponsor of S. 602, the Ronald Reagan Alzheimer's Breakthrough Act. The bill would provide a tax credit for individuals certified as having long-term care needs and for whom the taxpayer is acting as a caregiver, as well as a tax deduction for long-term care insurance. I hope the Congress will make this a priority and pass this legislation soon.

I strongly believe we need to develop a coherent long-term care policy that will enable seniors of all incomes to plan for and access long-term care, if and when they need it. I applaud Chairman Smith for having this hearing and look forward to hearing from our witnesses on how we can develop a better plan for the future.

QUESTIONS FROM SENATOR LINCOLN FOR ROBERT DANBECK

Question. What additional tools are available to individuals for whom long term care insurance is not an option? What additional tools should be available to them?

Answer. We cannot comment on additional tools available outside of the programs we manage. The Federal Long Term Care Insurance Program gives applicants who are not approved for long term care insurance an opportunity to purchase a service package. This non-insurance package provides access to care coordination to help the individual plan for addressing his/her long term care needs. It also provides access to a discounted network of long term care providers and services. The Program's care coordinators are registered nurses experienced in long term care situa-

tions who can help determine the appropriate long term care setting and provide information on additional resources that may be available in the community.

Question. How can we better support and assist our nation's caregivers who provide such critical long-term services and supports to millions of Americans? What is the government's role?

Answer. We cannot comment on sources of support for caregivers outside of the programs we manage.

Upon request, the Federal Long Term Care Insurance Program provides care coordination services for non-enrolled qualified relatives of enrollees, which assists our enrollees when they are also caregivers.

The Federal Employees Health Benefits Program also provides caregiver support to enrollees. FEHB plans often include benefits for visiting home health providers who can serve as a respite for the caregiver. FEHB enrollees have access to mental health care for anxiety, stress reduction and depression that can accompany an enrollee's role as caregiver. FEHB plans also provide hospice care, including palliative and supportive care to terminally ill patients and their caregivers. Hospice programs can provide periodic respite for caregivers and bereavement support to help the grieving family and caregiver deal with the loss.

Enrollees in some FEHB plans can receive support and respite from their caregiving duties through plan "care support programs" that include interactions with nurses to make sure patients are taking their medications, visiting the physician when appropriate, receiving answers to medical questions, etc. FEHB case management services coordinate health care services by facilitating access and utilization of available community based resources and services. FEHB disease management programs provide education, monitoring, intervention, counseling and support for enrollees with chronic conditions, working with the enrollee and his/her caregiver directly.

Under the Family and Medical Leave Act of 1993 (FMLA), most Federal employees are entitled to a total of up to 12 workweeks of unpaid leave during any 12-month period to take care of their spouse, child or parent who has a serious health condition. This can help relieve caregiver stress when that care must be performed in addition to job responsibilities.

QUESTONS FROM SENATOR LINCOLN FOR JOANNE VIDINSKY

Question. Long-Term care insurance is a useful way for some individuals to plan and pay for future long-term care needs. However, not everyone can afford long-term care insurance and some people cannot qualify for it due to pre-existing conditions. Individuals need more options to plan and pay for their care. What additional tools are available to individuals for whom long-term care is not an option? What other additional tools should be available to them.

Answer. Unfortunately, most older people in this country cannot afford the average annual cost of $76,219 for nursing home care (*Genworth Cost of Care Study,* 2006) out of their own savings. The majority of older people must rely on the governmental Medicaid benefits to help them meet their long term care needs, when informal caregiving is no longer enough. Medicaid requires impoverishment of its beneficiaries. There are very few options for those who cannot pay their way, other than to rely on Medicaid.

Creative solutions like the Long Term Care Partnership Program and public education to help people plan for their long term care needs are an essential part of any solution to the challenge of long term care financing. It is important that states and the federal government move as quickly as possible to implement these programs, recently passed as part of the *Deficit Reduction Act,* nationwide.

While education and incentives to purchase insurance are important steps, we need to think beyond the current long term care system because it does not work for millions of people who cannot access or afford insurance or are forced into poverty in order to get any help from the government. The Alzheimer's Association believes that the crisis in long term care, fueled by a large and rapidly aging population, requires action now. Congress should initiate a national dialogue immediately to reach consensus on a viable solution to the long term care financing problem. The exact form of the solution is not clear, though it is clear that current budgetary constraints make it difficult to discuss additional governmental expenditures at this time.

The Alzheimer's Association envisions a public/private partnership for long term care financing that assists people before they are broken by the costs and consequences of their long term care needs. The partnership should ensure that those with few financial resources have access to a means-tested safety net, that people

who can plan ahead for their long term care costs are encouraged to do so, and that there is a public sector program that provides a stable base of support and wraps around private benefits. It is important for private sector and public sector benefits to complement one another, with proper incentives and regulations to ensure affordable, meaningful protection.

Question. One of the largest sources of private long-term care financing in this country is the informal, unpaid care provided by family and friends. Family caregivers are the backbone of long-term care in this country, yet they face significant physical, emotional, and financial burdens. How can we better support and assist our nation's caregivers who provide such critical long-term services and supports to millions of Americans? What is the government's role?

Answer. Typically, people with dementia live about 8–10 years from the time of diagnosis until death. Caregivers provide most of the support for their loved ones and in recent years, caregiver efforts have increased. However, the informal caregiving system is fragile and becoming more so because of: 1) the ever increasing complexity of the health and long term care system; 2) the fact that people are living longer with chronic conditions, including dementia; and 3) the erosion of Medicaid over time. Congress should strengthen Medicare, Medicaid, and Administration on Aging programs to support family caregivers.

The Alzheimer's Association has an extensive caregiver policy agenda. We urge Congress to take action on the key elements of this agenda, listed below.

1. Create a Medicare chronic care management benefit to pay physicians and other practitioners to coordinate patients' care with other practitioners and with caregivers. This would help ensure that patients with dementia receive optimal care and help caregivers and beneficiaries navigate the complex health and long term care systems. The benefit would be particularly useful in helping family caregivers manage when their loved ones have multiple chronic conditions, such as heart disease and diabetes, in addition to dementia. In addition, such a benefit could help connect beneficiaries to community services, a connection that has been proven to help keep beneficiaries with dementia out of emergency rooms and hospitals.

2. Require Medicare to reimburse physicians who spend time counseling family caregivers when the patient is not also present. Currently, Medicare will not do so. This situation diminishes the quality of communication between the caregiver and physician and can be detrimental to patient safety and care, as well as to caregiver confidence and wellbeing.

3. Expand the Medicaid hardship waiver provisions so that they apply to caregivers and ensure that the criteria for granting waivers address the burden caregivers face if their loved ones cannot get needed institutional care. Currently, hardship waivers of asset penalties are only available if the individual seeking Medicaid nursing home coverage would lose access to "medical care, food clothing, shelter or other necessities of life."

4. Amend the Medicaid home equity limit to protect caregivers by adopting the protections in current law related to liens and estate recovery. These protections enable siblings or adult children to remain in the home if they lived in it and provided care that allowed the Medicaid beneficiary to remain at home longer. Currently, the new limit on home equity only applies to individuals. But it could deprive a caregiver of a place to live. Take the example of two sisters, one of whom is a home owner with dementia and the other who lives with and takes care of her. The home equity limit would apply and the sister could become homeless as a result.

5. Encourage states to provide more support to caregivers by creating an increased federal Medicaid match for states that assess caregiver need and provide caregivers with respite services.

6. Continue to authorize and fund the Alzheimer's Disease Demonstration Grants to States Program. Since 1992, Congress has funded this program to encourage states to develop and test innovative ways to support people with Alzheimer's disease and other dementias and their family caregivers. States have used these funds to create adult day services ad respite care programs, provide dementia-specific caregiver training, and link families to existing community services that may help them. Many states have used funds from this program to find ways to support culturally diverse, and geographically isolated families that are coping with dementia.

7. Add family caregivers of people under age 60 with Alzheimer's disease and other dementias to the family caregivers who can receive services funded through the Administration on Aging's National Family Caregiver Support Program (NFCSP). The NFCSP provides funds to serve family caregivers of people aged 60 and older and grandparents taking care of grandchildren. Some family caregivers are taking care of a person with Alzheimer's disease or another dementia who is under age 60. Results of a national telephone survey conducted by the National Alliance for Caregiving show that 15% of the family caregivers of people with Alz-

heimer's disease and other dementias were taking of a person age 50–65. The precise number of people with Alzheimer's disease and other dementias that is under age 60 is not known, but it is likely that 5%–8% are under age 60, with some as young as age 38.

8. Add family caregiver assessment as a service that states must provide with National Family Caregiver Support Program funds. The NFCSP does not require or encourage family caregiver assessment as part of any of the five services states must provide through the program, even though an assessment to determine the characteristics, needs, capability, and preferences of the family caregiver would seem to be important for the success of each of the five required services.

QUESTIONS FROM SENATOR LINCOLN FOR MALCOLM CHEUNG

Question. Long-Term care is a useful way for some individuals to plan and pay for future long-term care needs. However, not everyone can afford long-term care insurance and some people cannot qualify for it due to pre-existing conditions. Individuals need more options to plan and pay for their care. What additional tools are available to individuals for whom long-term care is not an option? What other additional tools should be available to them.

Answer. One way to reduce the changes of not being able to afford or qualify for long-term care insurance is to encourage Americans to consider purchasing this insurance when they are still relatively young (ages 35 to 50). Premiums are significantly lower at the younger issue ages, and the chronic medical conditions that may disqualify an individual from private long-term care insurance coverage are much less likely to occur when one is relatively young. Additional tax incentives that would encourage working age individuals to consider purchasing long-term care insurance would help increase awareness of the need to plan for potential long-term care expenses while still young. Such incentives would include allowing employees for pay for long-term care insurance on a pre-tax basis through an employer-sponsored cafeteria plan or Flexible Spending Account.

For those who currently find themselves in the situation of not being able to afford long-term care insurance, consideration should be given to purchasing a policy with less rich benefits. Significant premium reductions can be achieved by reducing daily or lifetime maximum benefit limits, electing a less rich form of inflation protection, or lengthening the waiting period. When reducing benefits, the consumer needs to be aware that the benefits provided by the long-term care insurance policy may ultimately not be adequate to fully fund their long-term care expenses, and that they may need to supplement insurance payments with other sources of income, their own savings, or assistance from family members.

For those who cannot qualify for long-term care insurance due to a pre-existing health problem, there are several potential options. If the health problem is one state still allows the individual to work full time, many employers offer group long-term care insurance coverage to their actively-at-work employees on a guaranteed issue basis without requiring any health history, or on a simplified issue basis with a very limited number of health questions. There are also some long-term care insurers who specialize in substandard long-term care risks. Substandard policies may provide only limited benefits and would cost more than standard coverage, but they may be a viable alternative for those who may be impaired health risks, but not uninsurable.

For those who can't afford or qualify for coverage, one additional option would be to take advantage of the geriatric care management and provider information and referral services that are available today in the marketplace. Although this option would not directly reimburse someone for the costs of long-term care services received, it would provide those needing care with valuable information about, and potential discounts from, local long-term care providers and how best to utilize these providers.

Question. One of the largest sources of private long-term care financing in this country is the informal, unpaid care provided by family and friends. Family caregivers are the backbone of long-term care in this country, yet they face significant physical, emotional, and financial burdens. How can we better support and assist our nation's caregivers who provide such critical long-term services and supports to millions of Americans? What is the government's role?

Answer. One way we can better support our nation's informal caregivers would be to provide a tax credit to help them absorb the sometimes substantial costs of providing long-term care for a family member. Senator Lincoln should be commended for including such a credit in S. 1244, which she introduced last year with Senator Grassley.

Increasing public awareness of the need to plan for long-term care expenses and the value of long-term care insurance, and providing additional tax incentives for the purchase of private insurance will help promote the expansion of the long-term care insurance market. Long-term care insurance provides those needing care with the financial means to utilize formal caregivers, so that the burden on informal caregivers can be moderated.

In addition to the high cost of formal caregivers, another reason informal caregiving is so common is because the supply of formal caregivers, especially home health aides, is very limited in some geographics areas, and the quality of the care can be inconsistent. Anything government (either Federal or State) can do to promote caregiving as a profession, and to establish and enforce quality and training standards for caregivers, would likely encourage greater use of formal caregivers, thereby relieving some of the burden borne by informal caregivers.