

Long-Term Care Insurance: 2012 Update

Kathleen Ujvari
AARP Public Policy Institute

Long-term care insurance (LTCI) plays a limited role covering overall long-term care costs because high premiums keep most people from purchasing it. Yet, for those who own LTCI and receive benefits, the policies pay for a significant portion of care received.

Paying for Long-Term Care

Without private insurance or public program coverage, the high cost of long-term care is unaffordable for most Americans.

The average private pay cost of a nursing home stay in 2012 was about \$88,000 per year and exceeded \$100,000 in 10 states. The base rate for assisted living facilities averaged \$41,000 per year in 2012, and adult day services averaged \$66 per day. During the same period, hourly home care agency rates averaged \$20 for a licensed non-Medicare-certified home health aide.¹

The market for private long-term care insurance (LTCI) developed as an alternative to public program coverage or direct payments for services. Products range from standard LTCI to products that link LTCI with an annuity or life insurance.

Despite the availability of LTCI since the late 1970s and increased sales in the 1990s, its overall role is still limited. Private LTCI currently pays for less than 12 percent of all long-term care costs.²

However, for those who own private LTCI and are receiving paid care, one study finds that these benefits pay for between 60 and 75 percent of care at any given time.³

Who Buys Long-Term Care Insurance?

Relatively few older people have private insurance that covers the cost of long-term care.

In 2010, between 7 and 9 million people had private LTCI in the United States.⁴ In 2010, 95 percent of the policies provided coverage for long-term care services in a range of settings, including nursing homes, assisted living facilities, and in the home.

Typically, policies reimburse the insured for long-term care expenses up to a fixed benefit amount, such as \$100, \$150, or \$200 per day.

In 2010, the typical purchaser was age 59 and had fairly substantial income and assets. More than half (57 percent) of purchasers had incomes over \$75,000 per year, and 79 percent had more than \$100,000 in liquid assets. By comparison, only 44 percent of the general population age 50 and older had liquid assets in excess of \$100,000.⁵

To receive benefits, the insured must meet the policy's disability criteria. Nearly all policies define disability as either severe cognitive impairment or the need for help in performing at least two "activities of daily living" such as bathing and dressing.

According to a study that tracked new claims opened in 2010 from four leading insurance

carriers, 73 percent of LTCI claims were for paid care at home or in an assisted living facility. The remaining claims were for care in a nursing home.⁶ A review of claims data shows that 67 percent of new claims were for people age 80 and over, and 64 percent were paid to women.⁷

Cost of Long-Term Care Insurance

The high cost of LTCI is the reason that most people give for not purchasing coverage.⁸ Factors that affect the policy's premium include the individual's age at time of purchase, the amount and length of coverage, the length of any waiting period before benefits are paid, the stringency of benefit triggers, whether policyholders can retain a partial benefit if they let their policy lapse for any reason, including inability to pay ("nonforfeiture benefit"), whether the policy's benefits are adjusted for inflation, and death and lapse rate actuarial assumptions.

Table 1 shows the national average annual premium, by age at time of purchase, for policies sold in 2010.

These policies provided a daily benefit of \$150, –four to five years of coverage in home and institutional settings with a 90-day waiting period, and 5 percent automatic compound inflation protection.

Private LTCI is priced differently from most other types of insurance. While health

Table 1
Average Annual Premiums, 2010

Age	Premium
Under 55	\$1,831
55–64	\$2,261
65–69	\$2,781
70–74	\$3,421
75 and over	\$4,123

Source: Based on premium quotes reported in the 2012 America's Health Insurance Plans "Guide to Long-Term Care Insurance."

and life insurance policy premiums generally increase as the policyholder ages, most LTCI policies offer the purchaser a level premium that will not increase as a result of individual circumstances, such as age or health condition.

Insurance companies can, however, increase premiums for entire *classes* of individuals (e.g., all policyholders age 75 or older) based on their experience in paying benefits.

Premium Rate Stability

An important issue for consumers is whether premiums will increase beyond what they can afford. In August 2000, the National Association of Insurance Commissioners (NAIC) adopted standards designed to help protect consumers from excessive or unjustifiable premium increases.

To date, 41 states have adopted this provision (see table 2).^{9,10}

Premium stability depends largely on the accuracy of insurers' predictions regarding the cost and number of future claims, the return on investment income, and the number of people who will allow their policies to lapse.

Table 2
States That Have Adopted NAIC
Premium Rate Stability Provisions

Alabama	Kentucky	Oklahoma
Arizona	Louisiana	Oregon
Arkansas	Maine	Pennsylvania
California	Maryland	Rhode Island
Colorado	Minnesota	South Carolina
Connecticut	Missouri	South Dakota
Delaware	Montana	Tennessee
Dist. Columbia	Nevada	Texas
Florida	New Hampshire	Utah
Georgia	New Jersey	Vermont
Idaho	New Mexico	Virginia
Illinois	North Carolina	West Virginia
Iowa	North Dakota	Wisconsin
Kansas	Ohio	

Source: NAIC (2009) and LexisNexis (2012).

If insurers miscalculate or if returns on investments are lower than expected, premiums may need to be increased in order to pay claims. According to the American Association of Long-Term Care Insurance (AALTCI), every 1 percent decline in long term interest rates or investment return, could lead to a 10–15 percent increase in LTCI premiums.¹¹

With the decline in long-term interest rates resulting from the economic recession, many insurance carriers increased premiums to offset the decline in earnings needed to pay long-term care claims. Many policyholders have been affected by premium increases, including federal employees age 65 and younger, who were subject to a 25 percent in 2010.¹²

Lapse Rates

There has been a downward trend in LTCI voluntary lapse rates for more than a decade. Voluntary lapses have decreased from 7.6 percent between 1984 and 1999 to 3.8 percent from 2005 to 2007.^{13,14}

However, this average masks significant variations. During the first year of purchase, almost 9 percent of all buyers let their policies lapse.¹⁵ Lapse rates in the first year also are substantially higher among policies with lower benefits. For example, almost 19 percent of Home Healthcare Plan (HHP) policies with a lifetime maximum benefit under \$100,000 lapsed in the first year, compared to approximately 7 percent of HHP policies with a lifetime benefit over \$250,000.¹⁶

Inflation Protection

Inflation protection is an important policy feature because the cost of long-term care has increased significantly over time. An individual who purchases LTCI in his or her 60s may not need benefits for 20 or more years. Without inflation protection, the value of the insurance benefits is likely to erode.

Different types of inflation protection riders are available, including fixed annual 3 or 5 percent (simple or compound) benefit increases or an option that is based on annual changes in the Consumer Price Index (CPI).

Given that the cost of long-term care has historically outpaced the overall rate of inflation, a 5 percent automatic, compounded adjustment provides the greatest protection. Even at this level, a policy will cover, on average, just 70 percent of estimated lifetime nursing home costs. However, it will cover more than 90 percent of typical home care or assisted living costs.¹⁷

Even though inflation protection increases the cost of a policy, 79 percent of buyers with incomes of \$75,000 or more purchase inflation protection. However, only 38 percent of buyers with incomes below \$25,000 do so. Buyers age 55 to 64 are also more likely to purchase inflation protection (82 percent) than older buyers. Only 22 percent of buyers age 75 and over purchased inflation protection.¹⁸

Another option for addressing future cost increases is called the future purchase option (FPO) or guaranteed purchase option. With an FPO, policyholders can elect to periodically increase their LTCI coverage (e.g., every two years based on changes in the CPI) without having to undergo additional medical underwriting.

However, premiums on the additional coverage will be based on the policyholder's age at the time additional coverage is purchased. Some insurance carriers will limit the number of times (e.g., two or three times) that a policyholder can opt out of an FPO offer to increase coverage benefits.¹⁹

While initial premiums for an FPO are much lower than for a policy with automatic inflation protection, if the policyholder elects to increase coverage, the premiums will grow to be substantially higher. If the policyholder declines to increase coverage, his or her benefit may not keep pace with the rising cost of services.

Tax Treatment

Nearly all policies sold today meet federal standards, specified by the Health Insurance Portability and Accountability Act of 1996, for favorable tax treatment.

Individuals with qualified LTCI policies can deduct their premiums, up to a maximum limit that increases with age. For example, in

2011 taxpayers age 40 or younger could deduct \$340, whereas taxpayers ages 70+ could deduct up to \$4,240.

However, to be eligible, the taxpayer must itemize deductions and have medical costs in excess of 7.5 percent of adjusted gross income—a standard that relatively few taxpayers meet.²⁰

Endnotes

¹ Genworth Financial, Inc., “Genworth 2012 Cost of Care Survey” (Richmond, VA: Genworth Financial, Inc., April 2012).

² The George Washington University, National Health Policy Forum, “National Spending for Long-Term Services and Supports (LTSS)” (Washington, DC: The George Washington University, February 2012).

³ Assistant Secretary for Planning and Evaluation, “Private Long-Term Care Insurance: Following an Admission Cohort over 28 Months to Track Claim Experience, Service Use and Transitions” (Washington, DC: Assistant Secretary for Planning and Evaluation, April 2008).

⁴ AHIP, “Who Buys Long-Term Care Insurance in 2010-2011?” (Washington, DC: AHIP, March 2012).

⁵ Ibid.

⁶ AALTCI, “The 2011 Sourcebook for Long-Term Care Insurance Information” (Westlake Village, CA: AALTCI, 2011).

⁷ Ibid.

⁸ AHIP, “Who Buys Long-Term Care Insurance in 2010-2011?”

⁹ NAIC, Compendium of State Laws on Insurance Topics, Updated February 2009 (Washington, DC: NAIC).

¹⁰ LexisNexis. AARP research on individual state insurance regulations, May 7, 2012, <https://www.lexis.com/research>.

¹¹ AALTCI, “Long Term Care Insurance Sourcebook” (Westlake Village, CA: AALTCI, 2009).

¹² U.S. Office of Personnel Management Benefits Administration Letter 09-901 (Washington, DC, September 25, 2009).

¹³ Society of Actuaries, Long Term Care Experience Committee, “Intercompany Study 1984–2001” (Schaumburg, IL: Society of Actuaries, November 2004).

¹⁴ LIMRA International and the Society of Actuaries, “U.S. Long-Term Care Insurance Persistency Experience” (Windsor, CT: LIMRA, December 2010).

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Marc Cohen et al., “Inflation Protection and Long-Term Care Insurance: Finding the Gold Standard of Adequacy” (Washington, DC: AARP, August 2002).

¹⁸ AHIP, “Who Buys Long-Term Care Insurance in 2010-2011?”

¹⁹ Insure.com, “Selecting an inflation rider for long-term care insurance,” December 7, 2009, <http://www.insure.com/articles/longtermcare/inflation-riders.html>.

²⁰ IRS Revenue Procedure 2010-40 (Washington, DC: Internal Revenue Service, November 2010).

Fact Sheet 261, June, 2012

AARP Public Policy Institute,
601 E Street, NW, Washington, DC 20049
www.aarp.org/ppi
202-434-3890, ppi@aarp.org
© 2012, AARP.
Reprinting with permission only.