

# LONG-TERM CARE FINANCING

## Long-Term Care Insurance

### Introduction

Access to long-term care services is an increasingly challenging issue in Arkansas as our population ages, particularly in rural areas where outmigration of younger populations is accelerating. This explainer is the second installment in a two-part series on financing long-term care needs. The first installment focused on Medicare and Medicaid; this installment discusses long-term care insurance.

### Background

Long-term care in the United States is cost-prohibitive for many, with average out-of-pocket costs estimated to be approximately \$140,000 per person from the age of 65 until death.<sup>1</sup> Medicare offers limited duration long-term care services if an individual has certain medical needs and meets other requirements, and Medicaid has strict eligibility criteria for long-term care services based on an individual's financial needs. For those with means, long-term care insurance (LTCI) plans can close coverage gaps and provide benefits specific to the long-term care needs of policyholders.

### LONG-TERM CARE INSURANCE

LTCI plans cover out-of-pocket costs associated with traditional long-term care services and supports (see Table 1).<sup>2</sup> Long-term care services covered by plans typically include non-medical care, also known as

**TABLE 1: CARE ARRANGEMENTS COVERED BY LONG-TERM CARE INSURANCE**

- Nursing homes
- Assisted living
- Adult day care services
- Home care
- Home modification
- Care coordination
- Future service options

custodial care (such as assistance with dressing or bathing), which is not covered by traditional health insurance. Although the majority of medical care costs for older Arkansans (e.g., inpatient hospital care) are covered through Medicare, Medicare does not provide custodial care coverage unless medical care is also required, and even then, only for a limited time.

There are two major components to consider when purchasing an LTCI plan — the daily benefit limit and the maximum lifetime benefit. The daily benefit limit is the maximum amount you will be reimbursed by your LTCI plan for each day that you receive long-term care services. The maximum lifetime benefit is the total amount that an LTCI plan will pay for long-term care coverage in a person's lifetime. For these reasons, it is important to research local long-term care costs and account for inflation and length of anticipated custodial care in order to select an LTCI plan with adequate coverage.<sup>3</sup>

With respect to length of custodial care, the majority of LTCI plans have lifetime benefits of two to five years of coverage, although some plans have no lifetime limits. The cost of an individual policy varies based on an individual's age, the daily benefit limit, the number of covered days, the maximum lifetime benefit, and any additional optional benefits that the individual chooses, such as benefits that offset inflation.<sup>4</sup>

LTCI policies may be obtained on the open market, from an employer, or through a professional or service organization. Plans may be purchased as single policies or as joint policies covering more than one person, such as a husband and wife.<sup>5</sup> Individuals who already have complex health needs or are already receiving long-term care services may not qualify for LTCI policies. Unlike most health insurance plans, LTCI policies require medical underwriting, which is the review of an applicant's medical history to determine eligibility and cost. While medical underwriting standards vary by insurer, some pre-existing medical conditions such as dementia or kidney failure may deem an individual ineligible for a LTCI policy. Consequently, some individuals may not be able to obtain LTCI due to eligibility exclusions or affordability. For these reasons, it is necessary to consider purchasing LTCI while in good health and at a younger age.

For individuals with LTCI, two criteria must be met before payments for long-term care benefits will begin. The first, benefit triggers, are criteria an individual must meet to activate an LTCI policy. Benefit triggers typically begin when an individual is determined to need assistance with two or more activities of daily living based on an assessment by a social worker or a nurse. The second, an elimination period, refers to the period that must lapse before an individual's policy

will begin payment for services. Because LTCI policies generally pay a daily amount, the elimination period operates like a health insurance deductible that the insured individual pays before the insurer begins payment.<sup>6</sup>

## **COST OF LONG-TERM CARE INSURANCE**

LTCI premiums averaged \$2,700 per year in 2018, putting them out of reach for many Americans.<sup>7</sup> A 2012 study estimated that only 8 million of the more than 300 million people living in the United States have LTCI.<sup>8</sup> Medical inflation, sharp annual premium increases, and abrupt policy cancellations are barriers to LTCI coverage access.

Premium increases have become particularly problematic. Massachusetts Mutual Life Insurance Company recently requested and was approved for a 77% average increase in LTCI premiums, impacting about 54,000 of its policyholders.<sup>9</sup> Extraordinary premium hikes such as this may result in covered individuals reducing coverage or cancelling policies altogether. Cited causes for such drastic premium increases include underestimation of payment for nursing home costs and longer lifespans of aging adults.<sup>10</sup> Some insurers offering LTCI plans, including General Electric, have come under criticism for not having adequate funds to protect against potential losses. Market analysts have identified concerns about the fiscal solvency of these plans due to below average reserves and high-risk exposure to long-term care needs of their insured.<sup>11</sup>

## **POLICY OPTIONS**

Policy solutions to address gaps in access to long-term care services have been elusive. Although the Affordable Care Act introduced a voluntary, publicly administered system of long-term care insurance, it was abandoned as not financially viable. Some states, including Arkansas, have developed partnership programs that link qualified long-term care policies offered by private insurance companies with Medicaid. In the event the private LTCI benefit is exhausted, qualifying state partnership plans allow an individual to maintain a specified amount of assets and still be eligible for Medicaid to pay for their additional long-term care costs. However, individuals are still required to meet all other Medicaid eligibility criteria, and purchasing a LTCI plan through a state partnership does not guarantee access to Medicaid.<sup>12</sup>

Aside from strengthening long-term care coverage through Medicare and Medicaid, policy options include allowing employees to use retirement funds without tax penalties and creating

incentives for employers to offer LTCI. Comprehensive support for family caregivers regardless of the coverage source should also be explored as a lower-cost alternative to facility-based coverage benefits.

## CONCLUSION

With limited long-term care coverage through Medicare and strict medical and financial criteria to receive services through Medicaid, LTCI is an available option for individuals to manage future long-term care costs. However, it is important for consumers to research available plans and determine what their future needs may be before selecting an LTCI plan. Consumers should also be aware that LTCI policy premiums can significantly increase over time, requiring them to pay higher premiums to maintain their LTCI coverage as they age. Finally, as state and federal policymakers continue to debate access to medical coverage, they should not ignore but should address head-on the growing need for long-term care services.

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<sup>1</sup> Stark, E., “5 Things You Should Know About Long-Term Care Insurance.” AARP Bulletin, March 1, 2018. Retrieved from <https://www.aarp.org/caregiving/financial-legal/info-2018/long-term-care-insurance-fd.html>

<sup>2</sup> Favreault, M. & Dey, J., “Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief.” Office of the Assistant Secretary for Planning and Evaluation & The Urban Institute. July 1, 2015. Retrieved from <https://aspe.hhs.gov/basic-report/long-term-services-and-supports-older-americans-risks-and-financing-research-brief>

<sup>3</sup> LongTermCare.gov, “What is Long-Term Care Insurance?” Accessed December 16, 2019. Retrieved from <https://longtermcare.acl.gov/costs-how-to-pay/what-is-long-term-care-insurance/>

<sup>4</sup> LongTermCare.gov, “Buying Long-term Care Insurance.” Accessed on January 8, 2020. Retrieved from <https://longtermcare.acl.gov/costs-how-to-pay/what-is-long-term-care-insurance/buying-long-term-care-insurance.html>

<sup>5</sup> AARP, “Understanding Long-Term Care Insurance.” Accessed July 21, 2018. Retrieved from <https://www.aarp.org/health/health-insurance/info-06-2012/understanding-long-term-care-insurance.html>

<sup>6</sup> LongTermCare.gov, “Receiving Long-Term Care Insurance Benefits.” Accessed December 16, 2019. Retrieved from <https://longtermcare.acl.gov/costs-how-to-pay/what-is-long-term-care-insurance/receiving-long-term-care-insurance-benefits.html>

<sup>7</sup> Stark, E., “5 Things You SHOULD Know About Long-Term Care Insurance”

<sup>8</sup> Geewax, M., “Part 4: Long-Term-Care Insurance: Who Needs It?” National Public Radio (NPR), May 8, 2013. Retrieved from <https://www.npr.org/2012/05/08/151970188/long-term-care-insurance-who-needs-it>

<sup>9</sup> Scism, L., “MassMutual Seeks to Raise Long-Term-Care Insurance Rates.” Wall Street Journal, May 15, 2018. Retrieved from <https://www.wsj.com/articles/massmutual-seeks-to-raise-long-term-care-insurance-rates-1526415144>

<sup>10</sup> Konrad, W., “The ever-rising cost of long-term-care insurance.” CBS News, May 23, 2018. Retrieved from <https://www.cbsnews.com/news/the-ever-rising-cost-of-long-term-care-insurance/>

<sup>11</sup> Scott, A. (2019). General Electric ranks among riskiest long-term care insurers—Fitch. Reuters. Retrieved from <https://www.reuters.com/article/ge-insurance/general-electric-ranks-among-riskiest-long-term-care-insurers-fitch-idUSL2N25F138>

<sup>12</sup> LongTermCare.gov, “Where to Look for Long-Term Care Insurance Benefits.” Accessed January 8, 2019. Retrieved from <https://longtermcare.acl.gov/costs-how-to-pay/what-is-long-term-care-insurance/where-to-look-for-long-term-care-insurance.html>