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Health Insurance Association of America

An Employer's Guide to Long-Term Care Insurance

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Long-term care — it may well be the nation’s greatest uninsured need. In fact, the U.S. Department of Labor’s Advisory Council on Employee Welfare and Pension Benefit Plans describes “a potentially… serious long-term care crisis in the United States.”

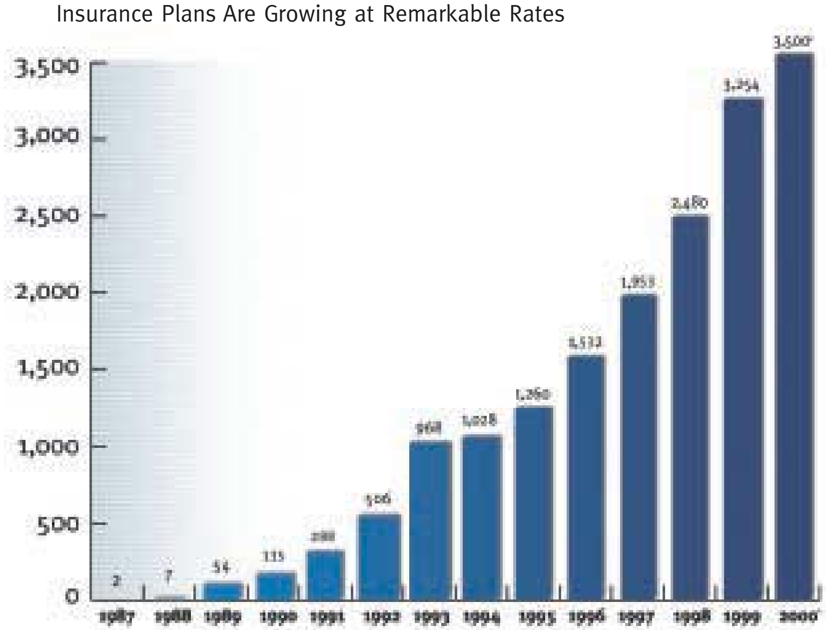
One reason for the concern is that Americans are getting older. The U.S. Census Bureau expects today's 65 or older population to double to about 70 million in 2030, and the 85 and older population to nearly double to about 8.5 million. An aging population means greater health care needs, particularly for long-term care services.

And actually, the need for long-term care can come at any age, no matter what a person’s health status. The U.S. General Accounting Office estimates that 40 percent of the 13 million Americans receiving long-term care services are between the ages of 18 and 64, during one’s prime working years.

The need for long-term care — for ourselves or a family member — is a difficult issue to face both financially and emotionally. Yet planning early is essential. That’s where long-term care insurance can play a critical role. According to Cheryl DeMaio, TIAA-CREF’s second vice president for long-term care, “More than half of the long-term care insurance buyers have had some personal long-term care experience caring for family and/or friends. Those buyers understand the need to purchase long-term care insurance.”

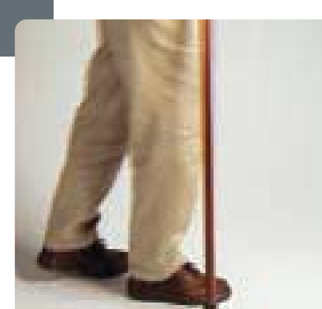
More and more employers are seeing the value of offering this key benefit to workers. In fact, today more than 1 million policies have been sold through 3,500 employers according to the Health Insurance Association of America (HIAA). Through employer plans, a large number of people have access to long-term care insurance during their working years when premiums are more affordable.

FIGURE 1
Employer-Sponsored Long-Term Care
Insurance Plans Are Growing at Remarkable Rates



*HIAA estimates.
Source: HIAA LTC Survey, 2000.

This guide offers basic information about long-term care, long-term care insurance, the benefits to employers and employees, and some ways to begin putting together a benefit program.



What is long-term care?

Long-term care is different from traditional medical care. Long-term care goes beyond medical treatment and nursing care to helping people cope in the face of a chronic illness or disability. Long-term care is help in performing everyday tasks.

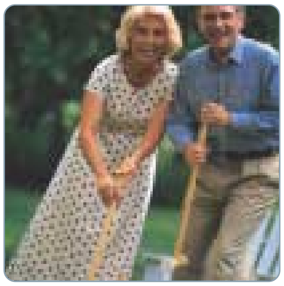
People need long-term care for a number of reasons. They might be recovering from a serious illness or accident or simply going through the natural, but often debilitating, process of getting older.

Long-term care services are typically needed by individuals unable to perform "activities of daily living" (ADLs) or who become cognitively impaired as a result of senile dementia or Alzheimer's disease. Most commonly, the ADLs used to determine the need for services include bathing, dressing, transferring (getting from a bed to a chair), toileting, eating, and continence.

You can receive long-term care services in a nursing home or in your own home. There are also services available in the community to help meet long-term care needs. Visiting nurses, home health aides, home-delivered meals, adult daycare centers, or other local programs can supplement care given by family members.

What does long-term care cost?

According to the American Association of Retired Persons (AARP), the average cost of nursing home care is more than $50,000 a year. Home health care can be less expensive, but still adds up. Bringing an aide into your home just three times a week to help with dressing, bathing, preparing meals, and other household chores can easily cost $1,000 a month. Physical therapy or other skilled care helps drive these costs even higher. In 2001, the National Center for Assisted Living estimated that assisted living facilities charge an average monthly fee of $1,873, including rent and most additional fees. Some residents in the facility may pay significantly more if their care needs are higher.



Who pays for long-term care?

People have many misconceptions about how they could pay for long-term care. Some think they can just pay for what they need using their personal savings. But the expenses can be overwhelming and may mean using up years of savings or selling assets — perhaps even a home — to pay bills.

What about government assistance with the cost of long-term care? You can't rely on Medicare to help with your long-term care bills. Although Medicare, the federal health insurance program for the elderly, does cover some skilled care services that may be delivered in a nursing facility or in the home, the program does not cover long-term help with activities of daily living.

Medicare supplement insurance (private policies bought individually or offered through an employer) helps fill many gaps in health coverage, but not long-term care.

Almost half of all nursing home costs is picked up by Medicaid. Medicaid steps in immediately for people meeting federal poverty guidelines. Middle-income participants must exhaust their personal assets to become eligible. In addition, those covered under Medicaid usually don't have a choice of where they get their long-term care services. That may mean going to a facility away from home or family that may not provide the preferred quality of service.

What is long-term care insurance?

People buy insurance to protect themselves against risks. You insure your home and your car against damage or theft. You have life insurance to help your family financially in case you die unexpectedly.

Long-term care insurance is a way to protect your assets against the significant financial risk posed by the potential need for long-term care. By paying a known premium, you can protect yourself from the risk of much larger out-of-pocket expenses if you need long-term care. According to Susan McGory, chief operating officer of CNA Life/LTC, "Long-term care insurance is really about protecting quality of life — the quality you choose."

Long-term care planning is becoming an important workplace issue, and employer-sponsored long-term care insurance benefits are gaining popularity. In fact, in recent years, roughly one in four policies were sold in the employer-sponsored market.

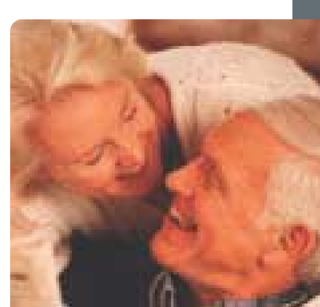
Insurance companies offer employers a wide range of benefit options and design flexibility at moderately priced premiums. For example:

- All companies offer plans covering nursing home, assisted living facility, home health care, hospice care, and alternate care services.
- Other common benefits include care coordination services, homemaker or chore services, bed reservation reimbursements, medical equipment coverage, home-delivered meals, spousal discounts, survivorship benefits, and caregiver training.
- Criteria used for benefit eligibility are deficiency in performing ADLs and determination of cognitive impairment.
- All plans are guaranteed renewable, have a 30-day "free look" period, cover Alzheimer's disease, have a waiver of premium provision, and offer unlimited or lifetime nursing home maximum periods.
- All plans offer inflation protection and nonforfeiture benefits.

Long-term care insurance not only allows you to pay for these services without depleting or exhausting your retirement assets or personal savings, it offers you flexibility. Policies allow you to keep your options open and to maintain some control during what could certainly be a difficult time. For instance, do you want to stay at home and out of a nursing home for as long as possible? Would you prefer an assisted living facility?

> **"People want** to stay in their own homes — even when they need assistance with some of the activities of daily living. Long-term care insurance can allow individuals to remain in the comfort of their own home, and receive care services that may otherwise be cost prohibitive."
>
> **– Ken Grubb**
> Senior vice president of New York Life Long-Term Care

Long-term care insurance, particularly when bought when you are young, offers an affordable way to plan for your future. And because it's impossible to predict the future, this product is a critical component in any financial plan.



Growth of the employer-sponsored long-term care insurance market

The employer-sponsored long-term care insurance market began in the mid- to late 1980s but really began a pattern of dramatic growth in the 1990s. The passage of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), the shift toward more personal responsibility for financing future long-term care needs, and the economic boom of the late 1990s, meant tremendous sales growth for the product. At the same time, product design continued to improve, resulting in expanded coverage as well as more uniform policies.

Over time, as people have seen the need for this type of protection for themselves, their spouses, or parents, more and more employers have begun to offer this insurance as part of their benefit packages. Many small employers (with between 1 and 100 employees) have also started offering long-term care insurance. In 1990, 58 companies offered the benefit. By 1999, that number had grown to about 2,000. Small to medium-sized employers (with 1-500 employees) represent more than two-thirds of all employers offering coverage to their employees, retirees, or both.

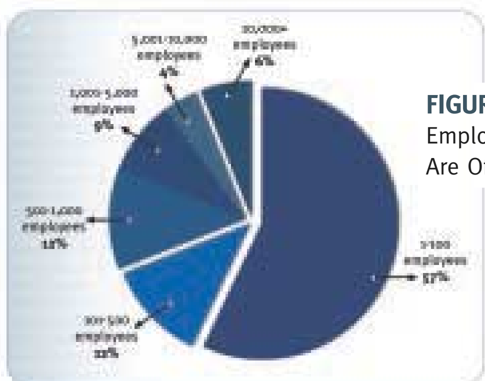


FIGURE 2
Employers of All Sizes
Are Offering Long-Term Care Insurance

Source: HIAA LTC Survey, 2000.

Growth in the employer-sponsored market will no doubt continue. In fact, the federal government has seen the need to offer this benefit. In September 2000, President Clinton signed the Long Term Care Security Act establishing the Federal Long Term Care Insurance Program. With the program, more than 20 million people — federal employees, retirees, members of the uniformed services, spouses, adult children under 18, parents, parents-in-law, and stepparents — will be eligible to buy policies.

"The federal program is raising awareness among a very large number of people about the need for long-term care insurance."

– Eileen Tell
Vice president for product development with the Long Term Care Group, Inc.

The program was the result of a three-year study including discussions with federal employees and retirees, and a wide range of insurance experts. By establishing the program, the federal government recognized the pressing need for this type of benefit.

"We will hold up the Federal Long Term Care Insurance Program as a model program for employers across the country who may want to make this type of insurance product available to their own employees."

– Kay Coles James
Director of the U.S. Office of Personnel Management

States also have begun to make long-term care part of their benefit packages. More than 20 states offer — or plan to offer — their employees the option to buy long-term care insurance.

Why should I offer my employees long-term care insurance as a benefit?

Offering a long-term care coverage program helps employers recruit and retain talented workers. And employees may begin to ask for the benefit.

"As employees become more knowledgeable about the need for, and costs of, long-term care, they will begin to demand benefits programs that offer long-term care insurance," said CNA Life's McGory.

Such a plan offers a number of benefits for both employers and workers.

CRITICAL COMPONENT OF RETIREMENT PLANNING

Long-term care insurance is a good complement to other retirement planning tools offered by a company.

"Long-term care insurance protects the value of retirement savings," said Tell. "A lifetime of savings can be used up very quickly paying for long-term care."

Purchasing this kind of insurance provides tremendous psychological benefits. In a survey conducted by HIAA, those who bought coverage felt that having the insurance made them more secure about their future and feel better about the way they planned to secure that future. They also felt good for having taken appropriate steps to protect their spouses.

> "Employers can offer incredibly flexible products, either partially or fully funded,"
>
> **– Chris Perna**
> President of MedAmerica Insurance Company

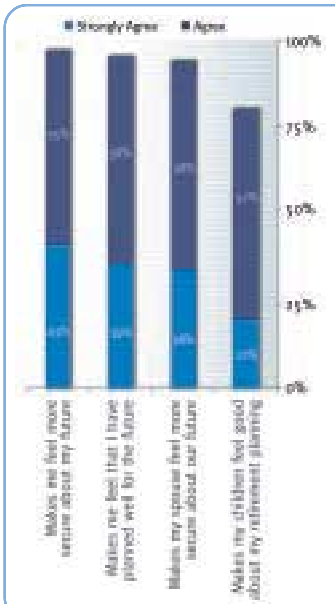


FIGURE 3
Long-Term Care Insurance Provides Tremendous Psychological Benefits to Enrollees

Source: LifePlans, Inc., analysis of 2001 HIAA buyer surveys. Note: Based on sample size of 1,108 enrollees in LTC insurance plans in 2000–2001.

According to Ken Grubb, senior vice president of New York Life Long-Term Care, "By insuring long-term care needs, an individual is minimizing the potential burden they may unintentionally bring their families, while ensuring that they will have the maximum amount of choices available to them should they need care."

Employer-sponsored programs have created an important awareness of the need to protect hard-earned savings against ever-increasing long-term care expenses. By offering these products during the working years, premiums are more affordable.

EASING THE CAREGIVER BURDEN

Beyond facing their own needs, many employees are now becoming caregivers for their parents. Members of this "sandwich generation" find themselves pressed for money and time as they care for aging parents and children at the same time. This can take a toll on both personal and professional lives.

"Long-term care insurance can help relieve the intense pressures caregivers experience. Most policies offer respite care benefits that allow caregivers their much-needed break when taking care of their loved ones. Some policies also enable caregivers to receive regular help from professional care providers, allowing them to take care of other aspects of their lives while still functioning as a primary caregiver," said Grubb.

A survey done by the National Alliance for Caregiving and AARP found that 23.2 percent of households are involved in caregiving. A majority of these caregivers — 64.2 percent — is employed, most of them full time. That means some 14.4 million full- or part-time employed people are balancing work with their caregiving duties.

Along with the impact caregiving takes on a worker's personal life, this burden has an impact on productivity. There are the costs of replacing an employee who must quit his or her job to care for a family member. Caregivers report that they have had to adjust their schedules, arriving late for work or taking long lunch breaks to meet their demanding personal schedules. They also note that their workday is frequently interrupted to handle caregiving responsibilities.

Caregiving imposes a tremendous cost on employers. A 2002 study done for the Alzheimer's Association puts at $36.5 billion the total yearly cost to U.S. businesses of workers who are caregivers for Alzheimer's patients. This cost includes, among other things, absenteeism, productivity losses, insurance for workers on leave and temporary worker replacement fees, and use of Employee Assistance Programs. The 1997 Mature Market Institute study of employer costs for working caregivers pegged the cost of employer accommodations for caregivers at between $11.4 billion and $29 billion per year in lost productivity alone.

A March 2001 follow-up report by the Mature Market Institute concluded that when an employee is a caregiver for a loved one who enjoys long-term care insurance coverage, the employee:

- is twice as likely to stay on the job as a caregiver for someone who does not have private long-term care coverage;
- experiences less stress; and
- faces fewer work disruptions than caregivers for those who lack long-term care coverage.

Because most employer-sponsored plans offer coverage to employee spouses as well as parents and their spouses, this benefit can be a powerful tool to ease caregiving burdens for workers and to gain productivity.

LONG-TERM CARE COVERAGE AND THE TAX CODE

Employers can offer long-term care benefits tailor-made for their employees at a relatively low cost. And the federal tax code allows employers to deduct as a business expense both the cost of setting up a long-term care plan for their workers and any contribution they make toward tax-qualified long-term care insurance premiums.

There are also some long-term care insurance tax benefits for employees. Premiums they pay are treated the same way as medical expenses — they are deductible to the extent that, combined with other unreimbursed medical expenses, they exceed 7.5 percent of a workers' adjusted gross income. Also, employer-paid long-term care benefits are not considered taxable income; out-of-pocket expenses for long-term care are deductible; and long-term care insurance benefits, from a "tax-qualified" policy as defined by HIPAA, are not considered income.

How should I begin to set up a program at my company?

"Employers are in the perfect position to make long-term care insurance available so that their workers can be assured coverage at a reasonable cost," said MedAmerica's Perna. "This fits in so naturally with retirement benefits. In fact, it's protecting those assets."

When considering offering a long-term care program, an employer may first want to gauge employee interest. That can be done with a simple e-mail survey or one offered in an employee publication. The information employers gain will tell them who their employees are, where they are in their long-term financial planning, and what types of coverage they might be willing to purchase. Employers probably shouldn't assume that since employees aren't asking for the benefit, they don't want it.

"Silence may not be an indicator of what employees are thinking about long-term care," said Tell of the Long Term Care Group. "They may need some education to help them understand how important this product can be for them."

Once you determine your workers are interested in the benefit, you should contact an insurance company or benefits consultant to talk about what type of product to offer. With the help of a qualified professional, you can design a benefit that best meets your employees' needs.

> **"We recommend** you find someone who specializes in long-term care. Someone fully versed in long-term care issues and products."
>
> **– AEGON's Bob Glowacki**
> Vice president, government relations, long-term care division

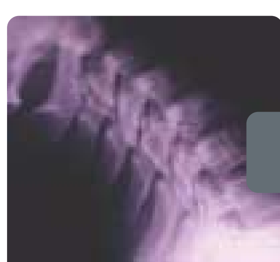
When you choose a benefit, you'll want a product that offers choice, but also is priced right and not too complex. In addition, you'll need to decide whether or not to offer it to all employees or just on a limited basis to some staff members. You can offer this coverage without paying any portion of the premium or, as a growing number of employers are doing, make a contribution. Some employers pay for their workers' base policy and offer them the option to buy greater benefits.

As Perna points out, "There is a broad spectrum with the product that lends itself to variety. It depends entirely on what best suits the needs of the workforce."

Education is a key to the success of a long-term care benefits program. Many employees don't fully understand the benefits of this kind of coverage. Sometimes younger people either believe the need is too far in the future to contemplate or they think they cannot afford another expense in the face of mortgages, childcare costs, or other bills.

"People deny it will happen to them," said Glowacki. "For some, the real wake up call comes when their parents need care."

Your insurance company or benefits consultant can give you tips on how to raise awareness among your employees. Newsletter articles, websites, posters, broadcast e-mails, and forums with senior management — all of these can help inform your employees about this critical product.



Where can I get more information?

WHO BUYS LONG-TERM CARE INSURANCE IN THE WORKPLACE?
A Study of Employer Long-Term Care Insurance Plans, 2000-2001 (HIAA, October 2001).
This survey of enrollees and nonenrollees in employer-sponsored long-term care plans focuses on sociodemographic characteristics, attitudes toward long-term care and insurance, trends in product purchase, understanding the enroll/nonenroll decision, tax deductibility, and attitudes toward the role of the government. View an executive summary at: http://www.hiaa.org/research/research_studies.cfm#longtermcare

BENEFITS OF LONG-TERM CARE INSURANCE: Enhanced Care for Disabled Elders, Improved Quality of Life for Caregivers, and Savings to Medicare & Medicaid (HIAA, September 2002).
These research findings summarize the best recent public policy research regarding private long-term care insurance coverage. Drawing on research commissioned by the U.S. Department of Health and Human Services, the National Alliance for Caregiving, and HIAA, this report details the benefits of private long-term care insurance coverage to policyholders, family caregivers, and taxpayers. View at: http://www.hiaa.org/research/research_studies.cfm#longtermcare

HIAA'S GUIDE TO LONG-TERM CARE INSURANCE (updated June 2002).
Describes the nature of long-term care (LTC), the risk of needing LTC, LTC insurance, and offers guidance on choosing LTC coverage. View at: http://www.hiaa.org/consumer/guideltc.cfm
or to order copies for your employees, call toll-free: 1-877-582-4872.

HIAA'S LONG-TERM CARE INSURANCE DIRECTORY (updated regularly).
Provides a listing of long-term care insurance companies with contact information. View at: http://www.hiaa.org/consumer/ltcdirec.cfm

FAMILY CAREGIVING IN THE U.S.
(National Alliance for Caregiving and AARP, 1997).
This study presents the findings of a national survey on family caregiving. View at: http://www.caregiving.org/

ALZHEIMER'S DISEASE: THE COSTS TO U.S. BUSINESSES IN 2002
(Alzheimer's Association, June 2002).
View at: http://www.alz.org/Media/newsreleases/current/062602ADCosts.pdf

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*** HIAA also offers education courses on long-term care insurance. Visit **www.hiaa.org/insurance** or call 1 800 509-HIAA (4422). ***