Long-Term Care Insurance: An Overview

Information Brief #1

Presented to
The Colorado Health Foundation

By
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Introduction

In an effort to assist the Colorado Health Foundation with gaining a better understanding of the long-term care insurance (LTCI) marketplace and the Foundation's potential role in encouraging Colorado citizens to plan for their long-term (LTC) care needs, LifePlans has prepared a series of three briefs to inform the development of a strategy for the Foundation to consider. In this first brief, we provide background information on the LTCI market and product, as well as summarize the current LTCI market in Colorado.

The second brief provides a detailed description of the challenges faced by the current LTCI market, as well as review a number of common barriers to purchasing the insurance. In addition, this brief will discuss the cost of long-term services and supports (LTSS) nationally and how they compare to the same costs for people needing such care in Colorado.

In the last brief, we provide an overview of what other foundations have done and are currently doing to support the goal of encouraging individuals to assume greater personal responsibility for LTSS costs and the potential expansion of the LTCI industry. In addition, we discuss potential activities and funding ideas that the Colorado Health Foundation can undertake in order to assist Coloradans in preparing for the potential financial risk associated with needing long-term services and supports.

Background on LifePlans

For over twenty years, LifePlans has been the leader in providing the long-term care industry with data analysis and information designed to answer pressing research questions. Our research has established the company as a thought leader and we have become a clearinghouse for industry wide knowledge. We are continuously sought out by existing and former clients, the media, foundations and policymakers when answers about the long-term care insurance market are required.

In addition to our research and analytic services, LifePlans provides assessment services using our national network of over 4,000 nurses–to assist companies in implementing risk management strategies, providing care-management to disabled elders, providing fall prevention programs, and conducting health risk assessments and community assessments. These services are provided to the majority of the largest insurance carriers that sell long-term care insurance and many major health plans, as well.

We have conducted research on behalf of the Department of Health and Human Services, the Robert Wood Johnson Foundation, the SCAN Foundation, America's Health Insurance Plans, AARP and the Society of Actuaries to name a few. Our projects include understanding the characteristics of those who buy and those who investigate but don't buy long-term care insurance, the development and deployment of a fall prevention program targeted to people over age 75 living in the community and understanding the link between cognitive impairment and mortality.

Coupling research with our assessment and care management products has allowed LifePlans to immerse itself in the long-term care and health care industries in a way that enables to the company to put research into practice and keep current with industry trends.

Long-Term Care Insurance: Background

Americans are ill prepared for many of the consequences of aging and possible disability. They save too little, they do not prepare emotionally for separation from work, they are not prepared to absorb the costs of needing long-term services and supports in the event that they experience functional impairments, and they misperceive the government role in funding such care. This leaves most Americans exposed to the potentially catastrophic costs of LTSS. Public programs such as Medicaid pay for care primarily in institutional settings, and the program is targeted to poor individuals or those who impoverish themselves trying to pay for such care. Most other Americans can try to save for this potential liability and/or purchase private long-term care insurance, yet few do so.

Paying for LTSS continues to be one of the great financial risks facing Americans during retirement. Current estimates suggest that the annual cost of care in a nursing home is roughly $85,000 and that home health care can cost upwards of $25,000 per year.[1] Given that one-in five individuals can expect to spend more than two years in need of care, this represents a significant financial risk. In 2010, total spending for LTSS was $208 billion or roughly 8% of all personal health care spending.[2] For the most part, such care is provided and paid for by families whereas the largest public payer of LTSS services is the means-tested Medicaid program, which pays more than 40% of cost while private insurance covers a small -- less than 10% -- but growing share of LTSS expenses.

Throughout the 1980s and 1990s a growing number of private insurers began providing insurance for long-term care, as an alternative to public coverage (i.e., Medicaid) or to out-of-pocket payments by the elderly and their families. At first, such insurance policies covered care provided only in a nursing home. Like many supplemental private health insurance policies, Nursing Home Insurance focused on what Medicare "did not cover." Medicare paid for skilled nursing home care for up to 100 days and private insurance began coverage when Medicare ceased providing benefits. For this reason, early product configurations had elimination periods (i.e. deductibles) that were typically defined as 100 days – the period of care that Medicare covered -- and the coverage was focused exclusively on skilled nursing home care resulting from a prior 3 day hospitalization – precisely in line with Medicare policy. If care was initially considered to be "medically necessary," private insurance carriers would continue to pay benefits even when the need for skilled care ceased and only custodial (i.e. maintenance) care was required. Thus, while these early private policies "keyed off" of Medicare coverage, their innovation was that they paid for custodial care, where Medicare did not. In essence, this extended coverage from a limited amount of skilled nursing care (paid by Medicare) to a much more generous amount of skilled and custodial nursing home care (paid by private insurance and

[1] The 2011 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs. MetLife Mature Market Institute, October, 2011.
[2] O'Shaughnessy, CV. The Basics: National Spending for Long-Term Services and Supports. National Health Policy Forum, February, 2012.

also by Medicaid for selected populations). Over time, long-term care -- and now LTSS -- has come to reflect the reality that the need for care, which is based on functional limitations and/or cognitive impairment, requires a broader set of service responses. Gradually, coverage has expanded to include payments for home care services, assisted living, adult day care, and other community options.

Like other types of insurance, LTCI is sold in a variety of ways and through a number of distribution channels. Most policies are sold by agents and brokers directly to an individual, which is known as the individual market. The distribution channel that is growing the most quickly, however, is the employer group market. Here agents are able to market and sell group policies to a large number of individuals, each of whom receives an individual certificate of insurance under a group plan. Agents are able to sell to a large number of individuals at once because an employer acts as a sponsor and gives agents access to conduct meetings and educate employees. While most agents are independent – this indicating that they can represent and sell policies from a variety of insurers – a number of companies do have what are called "captive agents." In these companies agents can only sell that company's specific policy. Very few companies have specialist long-term care agents, whose sole focus is selling LTC insurance policies. Currently there are fewer than 10,000 agents selling any meaningful number of policies.

It often takes agents two to three visits to close a sale. Still agents are critical in the process and are viewed very positively by buyers; in a study of buyers in 2010, 98% reported that the agent they had dealt with explained the product well, and helped them select a policy that met their needs. Moreover, after a spouse, agents were seen to be the most important in individuals' decision to purchase a policy.[3]

As mentioned above, the group market represents an increasing proportion of sales. In 2000 the group market represented 25% of new sales, and by 2010 it represented 42% of new sales. The group market offers economies of scale in selling, and puts the employer front and center as a trusted educated buyer for major policy options, especially since employees are used to buying a series of benefits (i.e. health benefits) through their employer. Currently, there are approximately 11,000 employer groups that are sponsoring coverage in the United States today.

In total, there are approximately 7 million people who have private LTCI policies. The individual long-term care market consists of roughly 5-6 million policies in force with the annualized in-force premiums totaling over $8 billion dollars, while the group market has between 2.2 and 2.6 million certificates in force with total premiums greater than $2 billion. By the mid to late 1990s more than 100 companies were selling policies to individuals and to individuals in group markets (i.e., employer settings).[4] However, currently there are less than twenty companies actively selling new policies to consumers.

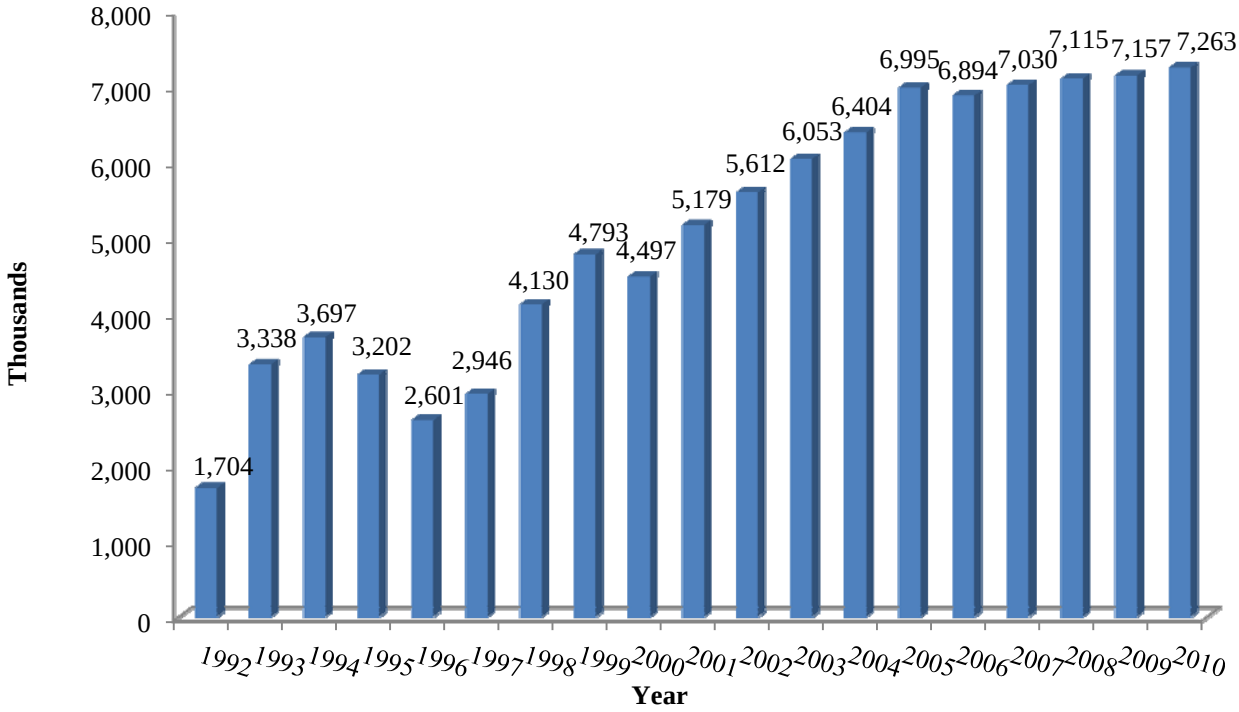
There is a high level of concentration in the market. Roughly 10-15 carriers account for 85-90% of sales over the last twenty years. Based on our calculations, the overall market penetration is

[3] Who Buys Long-Term Care Insurance in 2010-2011: A Twenty Year Study of Buyers and Non-Buyers. America's Health Insurance Plans, February, 2012.
[4] Long-Term Care Insurance in 2002: Research Findings. America's Health Insurance Plans, June, 2004.

less than 10% of the total population. The prime market for this policy is the pre-retirement population age 50 and over. Among individuals age 65 and over, with incomes greater than $20,000 a year, about 16% has a policy. These individuals consist primarily of people that would not immediately qualify for Medicaid LTSS or be close enough that they would spend down in order to qualify. Thus, LTCI has traditionally been targeted to middle to upper income market segment and not to individuals for whom the social safety net represents the only option that they have.

Figure 1 shows the total number of insured lives from 1992 to 2010. It is apparent that since 2005, the number of insured lives has been relatively flat. One explanation is that the number of new sales that are occurring has been offset mainly by the number of people whose policies have lapsed. There are two types of lapse – voluntary and involuntary. Voluntary lapse refers to any policy that is dropped based upon a choice by the policyholder and involuntary lapse is due to death. Lapse rates have led to challenges for the LTCI industry and is discussed further in the second brief.

Figure 1: Number of Insured Lives

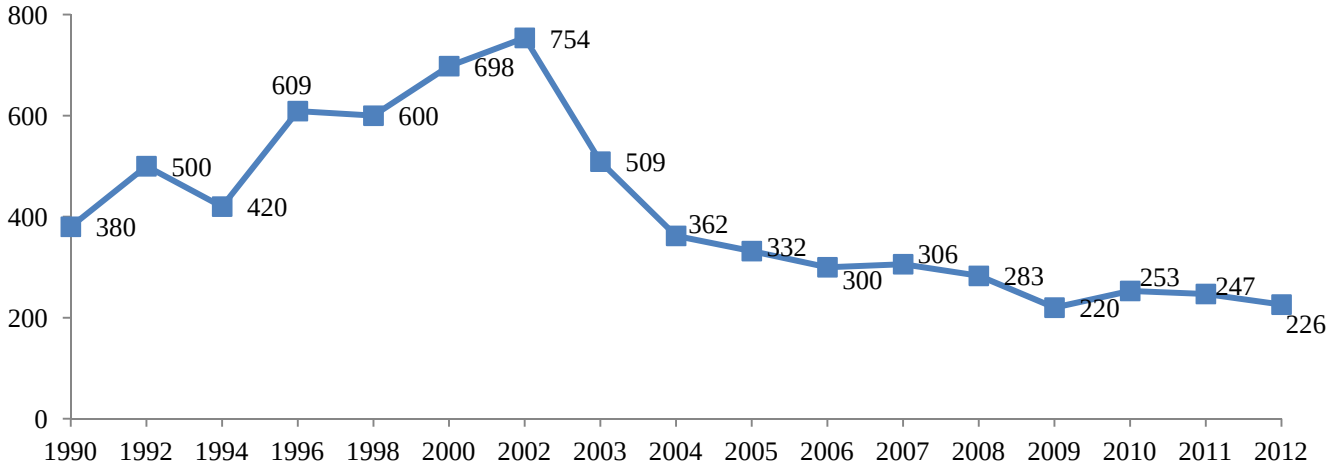


Source: National Association of Insurance Commissioners (NAIC) Experience Reports, 2011

Figure 2 shows the progression, peak and decline of annual sales between 1990 and 2012. When looking at 1994, it is evident that annual sales declined precipitously. At that time, the Clinton health care reform debate was taking place and there was discussion about adding a home care benefit, which caused a pause in market sales. Looking at this figure, it is also noticeable that from 1994 to 2002 there is a steady increase in market sales. In 1994, 420,000 individual

policies were sold; by 2002, 755,000 policies were sold in that year.[5] In 2002, the market peaked in terms of annual sales and this is when the Federal LTC insurance program (an LTCI policy offered by a partnership of two large insurance carriers and sponsored by the Federal government to Federal employees and retirees) was at the height of its marketing efforts. From 2002 to 2012 there is an abrupt and then steady decline in annual sales. Today, and since 2004, there have been fewer sales annually compared to those that occurred back in 1990.

Figure 2: New Sales of Individual Policies (thousands)



Source: LifePlans analysis based on AHIP, LIMRA and LifePlans sales surveys, 2011.

Most companies that sold policies tried to differentiate themselves from their competitors through innovative product design as well as sales incentive plans. Some of the innovation proved to be confusing for consumers, and in particular, competition related to the benefit eligibility trigger. Some companies made eligibility for benefits dependent on the ability to perform varying numbers of activities of daily living (ADLs) and instrumental activities of daily living (IADLs). Yet, it was nearly impossible for an individual to know which set of conditions they were likely to meet 20 years into the future to qualify for insurance payments. Benefit trigger standardization did not occur until the passage of the Health Insurance Portability and Accountability Act (HIPAA) of 1996. Generally, one is entitled to benefits if one cannot perform two or more ADLs without substantial human assistance, or one has a severe cognitive impairment and the disability is expected to last for at least 90 days. To determine whether someone is eligible to receive benefits, a person's cognitive status is measured by standardized tests, typically the short portable mental status questionnaire (SPMSQ) or a similar test. When people become benefit eligible, they typically receive some assistance from the insurance company accessing benefits.

The cost of a long-term care policy (the premium) differs by the different markets, primarily as a result of the fact that individuals purchasing in the group market tend to be much younger than in the individual market and premiums are highly sensitive to age at sale. In the individual market,

[5] 2011 Long-Term Care Top Writers Survey: Individual and Group Association Final Report. LifePlans, Inc., March, 2012.

the average age at purchase is 59 and in the group market the average age at purchase is 46. Thus, premiums in the individual market are significantly higher than that in the group market -- about $189 per month compared to a premium in the group market of about $57 per month.

Premiums are also influenced by the amount and type of benefits a person chooses. Table 1 shows product trends and related premiums since 1990. In 1990 almost two thirds of the policies sold covered care strictly in a nursing home. By 2010, coverage limited to nursing home or institutional alternatives-only virtually disappeared from the market and were replaced by comprehensive policies that covered care across multiple settings.

Typically, when people purchase these policies, they look at the average cost of nursing home care in their area to help them choose their benefit amount and most policies cover up to 5 years of care. Moreover, the percentage of individuals purchasing some level of protection against future increases in long-term care costs has gone up with 92% choosing inflation protection in 2010 – up from 40% 10 years earlier.

The average daily nursing home benefit has increased significantly over time-- by an annual rate of roughly 4%. Given the mix of home care and nursing home service use, this is roughly in line with the rate of inflation in these services over the period; the $153 daily benefit amount in 2010 would cover 70% of the average daily cost of nursing home, 155% of the daily cost of assisted living, and roughly eight hours of home care per day for seven days a week.[6] There has been a decline in the number of policies with unlimited benefits, a particularly risky policy design, given the uncapped liability faced by the insurer. The desire of companies to move away from this policy design stems in part from pressure by ratings agencies and fewer reinsurance options.[7] It represents one of a number of actions insurers have taken to "de-risk" the product.

[6] The 2010 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs. Met Life Mature Market Institute, October, 2010.
[7] Moody's: Long-Term Care Insurers Face Uncertain Future. Moody's Investor Service, Global Credit Research, New York. September 19, 2012.

Table 1: Policy Characteristics, 1990-2010

Policy Characteristics	Average for 1990	Average for 1995	Average for 2000	Average for 2005	Average for 2010
Policy Type					
Nursing Home Only	63%	33%	14%	3%	2%
Nursing Home & Home Care	37%	61%	77%	90%	92%
Home Care Only	---	6%	9%	7%	6%
Daily Benefit Amount for Nursing Home Care	$72	$85	$109	$142	$154
Daily Benefit Amount for Home Care	$36	$78	$106	$135	$153
Nursing Home Only Elimination Period	20 days	59 days	65 days	80 days	86 days
Integrated Policy Elimination Period	--------	46 days	47 days	81 days	89 days
Nursing Home Benefit Duration	5.6 years	5.1 years	5.5 years	5.4 years	4.8 years
Percent Choosing Inflation Protection	40%	33%	41%	76%	92%
Annual Premium	$1,071	$1,505	$1,677	$1,918	$2,268

Source: LifePlans analysis of 8,099 policies sold in 2010, 8,208 policies sold in 2005, 5,407 policies sold in 2000, 6,446 policies sold in 1995 and 14,400 policies in 1990.

Regarding the pricing of early policies, there was little basis on which to develop an estimate for future morbidity (i.e. the chance that someone would develop a condition that required use of LTC services) in the context of private insurance. In order to price these early policies actuaries relied on national data sources like the 1977 and 1985 National Nursing Home Surveys. As they considered home care coverage, they focused on the 1982, 1984, and 1994 National Long-Term Care Surveys for incidence and continuance data; such data was not directly transferrable to the private insurance context since it was neither insured data nor was the underlying population likely to reflect purchasers of insurance. For other pricing parameters, like voluntary lapse rates and mortality, there was a reliance on the experience of Medicare Supplement policies and standard mortality tables. For this reason, voluntary lapse rates priced into initial policies were much higher than what they ultimately turned out to be (In fact, there is no other voluntary insurance product in the market that has experienced lower voluntary lapse rates than what is found in LTC insurance policies). While the challenges that have occurred as a result of lower lapse rates will be discussed in a later brief, you can see from Table 1 that this miscalculation – along with the precipitous decline in interest rates -- has contributed to a significant increase in annual premiums. Clearly new policies reflect a more conservative set of pricing assumptions, especially with respect to interest rates and voluntary lapses.

Since the 1990s, the market has been characterized by a shift toward younger, wealthier and employed individuals purchasing policies. Table 2 shows the key trends since 1990. For

example, the average age of a buyer was 68 years old in 1990 and declined to 59 years by 2010. The percentage of college educated buyers increased from 33% in 1990 to 71% in 2010. Furthermore, almost 70% of people who bought policies in 2010 were employed.

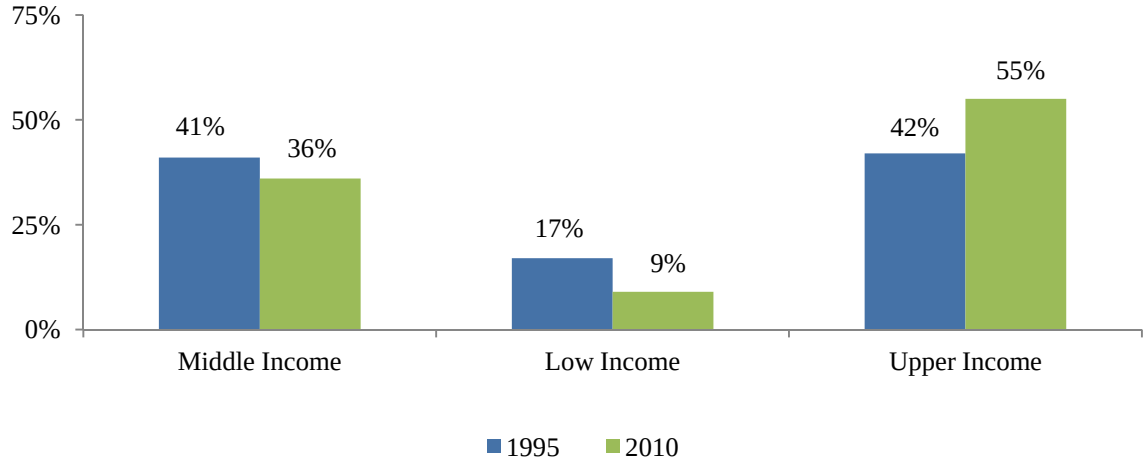
Table 2: Characteristics of buyers from 1990-2010

Characteristic	1990	1995	2000	2005	2010
Average Age	68 years	69 years	65 years	61 years	59 years
%> 70	42%	49%	40%	16%	8%
% Married	68%	62%	70%	73%	69%
Median Income	$27,000	$30,000	$42,500	$62,500	$87,500
% > $50,000	21%	20%	42%	71%	77%
Median Assets	N.A.	$87,500	$225,000	$275,000	$325,000
% > $75,000	53%	49%	77%	83%	82%
% College Educated	33%	36%	47%	61%	71%
% Employed	N.A.	23%	35%	71%	69%

Source: Who Buys Long-Term Care Insurance in 2010-2011: A Twenty Year Study of Buyers and Non-Buyers. America's Health Insurance Plans, February, 2012.

For LTCI to play a meaningful role in financing the nations long-term care bill, middle income elders would need to purchase the product. Yet, as shown in Figure 3 below, the number of purchasers considered in the "middle income" market is declining. Historically, LTCI was considered a product that would be marketed most successfully to the "middle class" as it were. Although over time the definition of middle income may have changed somewhat, the goal of reaching this market has remained constant. As well, most understood -- and this was reflected in regulation and in sales approaches -- that those who could not afford care and would likely qualify for Medicaid shouldn't purchase LTCI; those who could afford to "self-fund" due to their high wealth status had little need to purchase LTCI. That left the substantial middle income market for agents and insurers to pursue. Figure 3 demonstrates that LTCI is no longer a middle market product. It appears that over time, the proportion of people in the middle market that have purchased LTCI has declined – from 41% in 1995 to 36% in 2010. Alternatively, the proportion of buyers that fall in to the "upper income" category has increased significantly – from 42% in 1995 to 55% in 2010. This has important implications for the future of LTSS financing and the role that this insurance is going to play in helping to solve the financing challenge faced by the nation. Finding ways to encourage people to purchase policies well before retirement and also lowering the cost of policies are the keys to assuring that a greater number of middle income people are protected against long-term care costs during retirement.

Figure 3: The share of LTCI sales to the middle market age 40-69

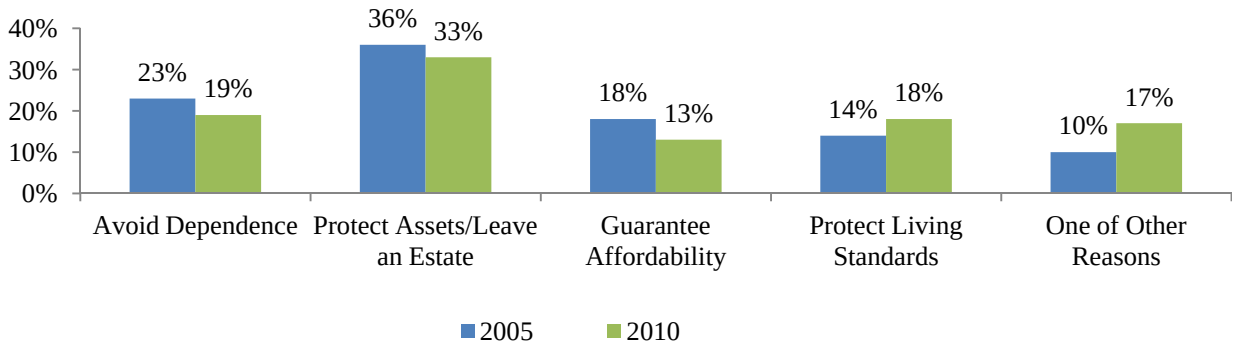


Note: Middle income for 1995 and 2010 was derived by taking the range of income by age group that one-third of households fell into in that particular year. This was then used to get the proportion of LTCI buyers that fell in to that income category in 1995 and in 2010.

Individuals buy LTCI policies for many reasons. In a national study on buyers and non-buyers in the individual market, buyers were asked to indicate how important a particular factor was in their decision to purchase LTCI. According to this study, the reason cited most often between 1995 and 2010 by about one third of the respondents was the desire to protect assets/estates. However, the data demonstrates that individuals are buying the insurance to meet multiple objectives (see Figure 4). Other reasons for purchasing insurance include avoiding dependence, protecting living standards and guaranteed affordability of services. [8] The implication is that people buy the insurance primarily to protect a certain level of consumption and standard of living during retirement and not to protect an estate for the purpose of bequests.

[8] Who Buys Long-Term Care Insurance in 2010-2011: A Twenty Year Study of Buyers and Non-Buyers. America's Health Insurance Plans, February, 2012.

Figure 4: Most Important Reason for Buying Individual Long-Term Care Insurance, by Purchase Year



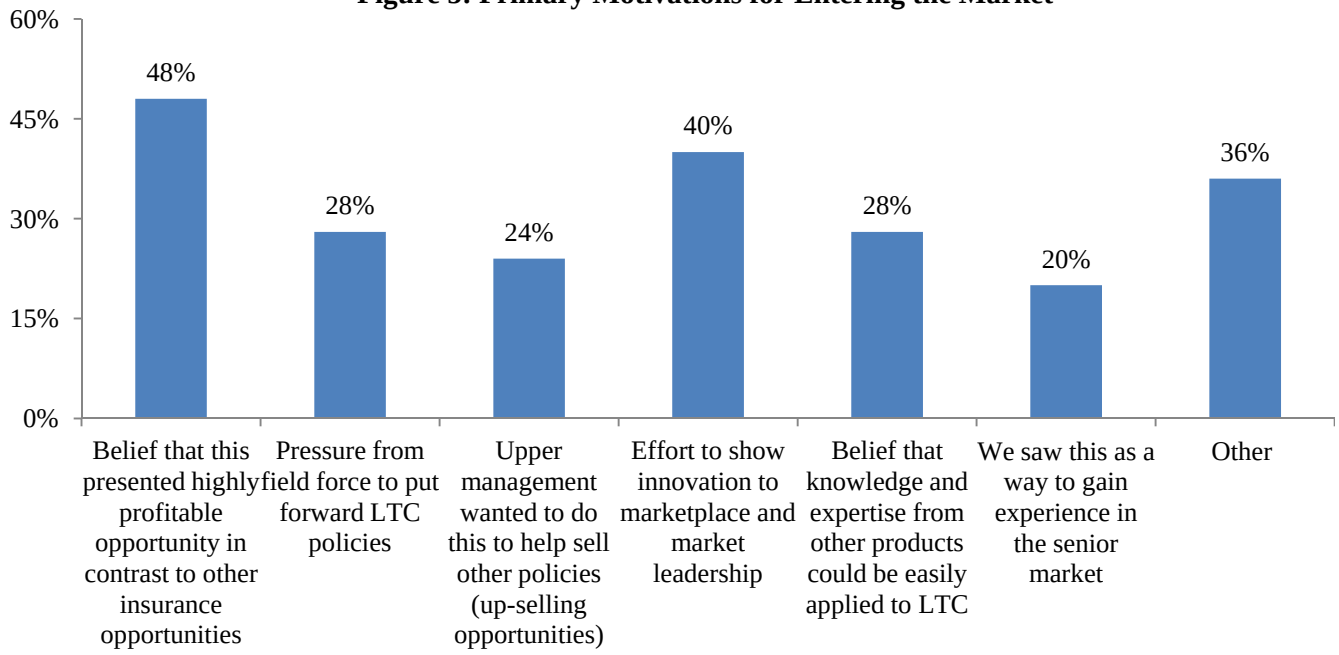
Source: AHIP, 2011

The Contraction of the Long-Term Care Insurance Industry

Even 30 years after the birth of LTCI, the need for a product addressing the catastrophic costs associated with LTSS persists. The consequence of demographic trends, a lack of comprehensive public solutions, and an inadequate private market is that long-term care remains the largest unfunded health-related liability faced by elders during retirement. While demographics and consumer need have remained constant over the period, perceptions about the actual profit opportunity presented by this market have definitely changed, and this has influenced many insurance companies to exit the market.

As mentioned earlier, the number of companies that have exited the market over the last decade has been very large. However, in order to understand why companies left, we need to delve into why they decided to sell policies in the first place. Figure 5 shows that almost half of the companies originally entered the market because they believed it represented a profitable opportunity. However, profit maximization was not the only reason for entering this market. Many companies felt that entering the market supported efforts to show market leadership and to provide a new product to their sales force to keep them engaged and committed to selling the company's other products.

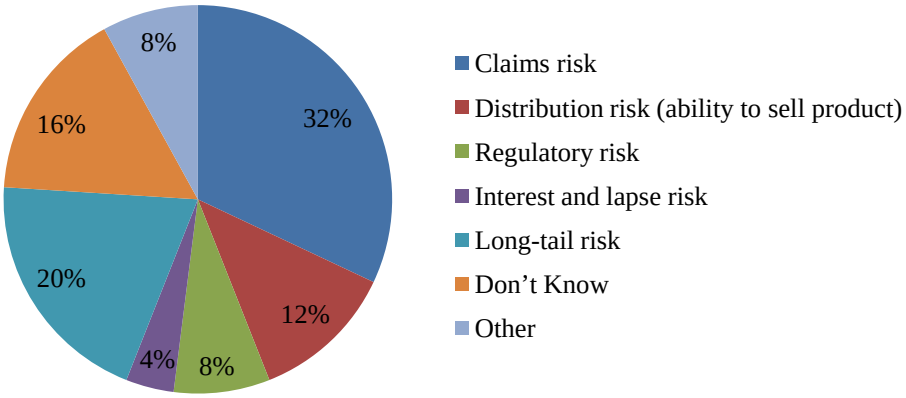
Figure 5: Primary Motivations for Entering the Market



Source: Survey of executives from 26 LTC carriers who exited the market or exited segment of the market
Note: Numbers sum to more than 100% because respondents could check more than a single motivation.

Figure 6 shows how companies evaluated the key risks associated with this product. More than half of companies were most concerned with the future claims risk or the fact that this risk had a "long-tail." In other words, they were not certain how long an individual would require paid LTSS. A relatively high percentage of policies had lifetime or uncapped benefit durations, which meant that they would pay benefits for as long as someone had continued need and this represented an uncapped liability to the company. It is somewhat ironic that few companies were concerned with what turned out to be the two most significant drivers of future poor financial performance – the interest rate and voluntary lapse rate assumptions built into the product (only 4% of companies saw this as the greatest potential future challenge). These two issues have forced almost all companies to seek rate increases, and this may have contributed negatively to sales as well as to the reputation of both the product and a number of companies.

Figure 6: Evaluation of Most Volatile or Greatest "Potential Future Challenge" at the time of Market Entry



Source: Survey of executives from 26 LTC carriers who exited the market or exited segment of the market

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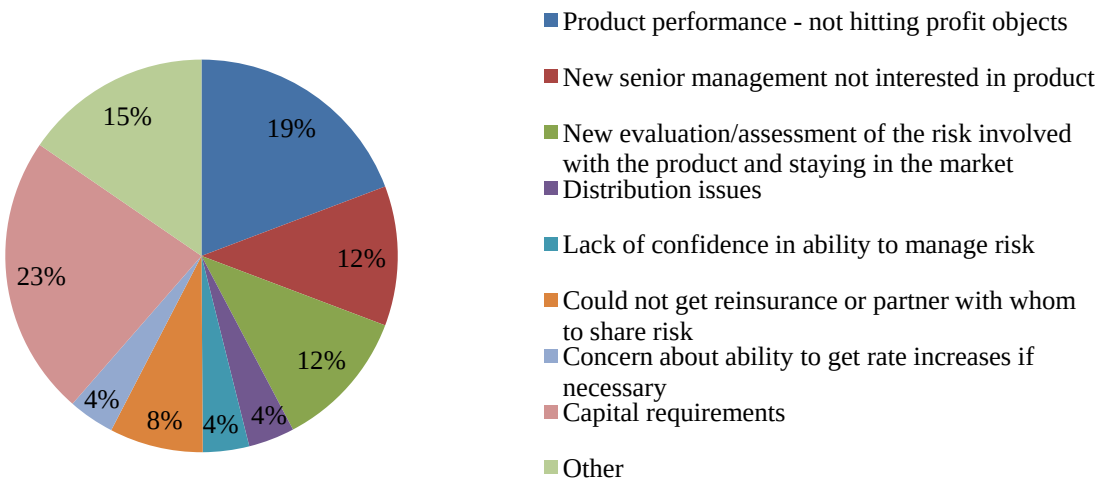
Figure 7 highlights the point that a high capital requirement to support the product was cited most frequently as the most important reason for market exit. Product performance is the second most cited reason. Some of the other reasons cited include a concern that a continued focus on LTC insurance detracted from other core products, that tax qualification guidelines inhibited certain innovative product designs, and others. In terms of classifying these reasons into major categories, slightly less than half are related to profitability, about a quarter to risk issues and a quarter split out across the other reasons.

Figure 7: Single most Important Reason that the Company Left the Market



Source: Survey of executives from 26 LTC carriers who exited the market or exited segment of the market.

At the height of the industry, over 140 companies were selling group and individual LTCI. Today, there is only one insurer actively selling in the group market and less than 20 companies still active in the individual market. The sheer magnitude of the projected growth in the retiree population -- from 12 million today to 27 million by 2050 -- along with the significant exposure to financial risk suggests that there is a great need for people to prepare for potential LTSS and certainly a business opportunity exists for companies to provide LTCI coverage. Additionally, there has been consistent public policy support in the form of state and federal tax incentives, Partnership Programs across a growing number of states, and public awareness and education campaigns in support of private insurance. All of this points to a strong desire on the part of public policymakers to encourage individuals and entities that can reach those individuals to educate, plan and prepare for the need for LTSS and certainly an opportunity for the private market to prosper and grow.

Market Status in Colorado

Although purchasing LTCI is not the only way that someone can plan for LTSS, it is the most obvious way to gauge the current state of preparedness. Table 3 highlights the number of policies in force at the end of 2011 in Colorado, along with the number of incurred claims and the total earned premium. The number of in force policies in Colorado in 2011 was about 138,000 - higher than that of twenty-nine other states. Additionally, Table 4 provides information on the top 10 companies selling LTC insurance by actual earned premiums in the state of Colorado.

Table 3: Insurance Experience by Line of Business

State of Colorado	Earned Premium	Incurred Claims	In force as of 12/31/11
Individual	186,573,661	98,537,064	95,725
Group	27,562,854	12,562,723	42,248
Total	**214,136,514**	**111,099,787**	**137,973**

Source: National Association of Insurance Commissioners, 2012.

Table 4: The Top Ten Companies by Actual Earned Premiums in the State of Colorado

Rank	Company Name	State of Domicile	Lives In force End of Year	Earned Premiums	Incurred Claims
1	Genworth Life Ins. Co.	DE	20,859	$42,992,908	25,262,924
2	John Hancock Life Ins. Co. (USA)	MI	25,277	$38,502,859	7,683,614
3	Transamerica Life Ins. Co.	IA	10,080	$19,334,356	12,907,562
4	Metropolitan Life Ins. Co.	NY	10,776	$14,152,665	4,208,996
5	Bankers Life & Casualty Co.	IL	3,379	$ 8,567,642	6,451,610
6	Continental Casualty Co.	IL	6,016	$ 6,832,040	6,891,773
7	Northwestern Long Term Care Ins.	WI	3,3161	$ 6,650,621	434,902
8	Allianz Life Ins. Co. of N. America	MN	3,197	$ 5,982,436	2,174,637
9	Unum Life Ins Co. of America	ME	10,675	$ 5,377,697	1,861,377
10	Thrivent Financial For Lutherans	WI	2,984	$ 5,133,985	3,231,392
	****STATE TOTAL****		**137,973**	**$214,136,514**	**111,099,787**

Source: NAIC, 2012.

Using ownership of LTCI as a basis for overall preparedness for the cost of LTSS, we calculated a market penetration rate for the state of Colorado. This rate, which indicates the proportion of the "eligible" population that actually own LTCI is derived by taking the population in Colorado (5,029,106 in 2010) and then removing those that we believe would not need to plan for (those below a certain age) or are already prepared for the potential cost of LTSS. To obtain this new population denominator, we removed people under the age of 40 and over the age of 74 and those with incomes below $50,000 (likely to spend down to become Medicaid eligible). Based on our calculation, the current penetration rate of LTCI in Colorado is somewhere between 6.3 and 7.3 percent. On a national basis, market penetration is generally considered to be slightly less than 10% putting Colorado below the average. This suggests that there is significant potential to engage individuals within the state of Colorado to prepare for the possibility of needing long-term services and supports, only one of which is the purchase of LTCI.

Colorado and the Long Term Care Partnership

There has been quite a bit of public support for the development of the LTCI market. HIPAA tax qualifications, Partnership Programs, and state tax incentives for purchasing LTCI are all

examples of support that the private market has been given. Many states currently offer tax incentives in order to encourage individuals to purchase long-term care insurance. Colorado currently offers a credit of 25% of premiums paid for LTCI. This credit applies to individuals who have a federal taxable income of less than $50,000, to two individuals who file a joint return but are only claiming the credit for one policy and have a federal taxable income totaling less than $50,000, or to two individuals who file a joint return, are claiming the credit for two policies and have a federal taxable income of less than $100,000.[9] While more than half of states provide tax incentives, the benefits of these incentives are typically too small to make much of a difference in terms of attracting individuals to the market. Clearly, credits provide more value than deductions, so Colorado is one of the more generous states in this regard.

The Long Term Care Partnership Program (LTCPP) was developed in the 1980s with the assistance of the Robert Wood Johnson Foundation. The policies are a way for states to encourage growth in the LTCI market by allowing policyholders who own a Partnership policy to access Medicaid (if needed) under special and less stringent eligibility requirements in the event that their LTCI coverage runs out while they still require LTSS. Colorado is one of 40 states that currently participate in the LTCPP. Colorado's LTCPP allows individuals to access benefits under the Medicaid program once their insurance benefits have been exhausted without the need to first deplete all of their assets. It is designed to reward those who plan ahead for potential LTSS costs and needs. Policyholders who have a Partnership Policy are able to protect one dollar of their assets for every dollar that a Partnership Policy pays out in benefits. This policy design allows those to become financially eligible if they need, or choose, to apply for Medicaid while maintaining assets well over the $2,000 Medicaid limit that is currently an eligibility requirement.[10]

In addition to Partnership policies protecting assets, these policies also protect policyholders from inflation. According to the federal Deficit Reduction Act of 2005, it is required that all partnership policies include inflation protection unless you purchase the policy on or after the age of seventy-six. Individuals age 76 and older must be offered an inflation protection option but are not required to include it as part of their policy. Individuals who are between the ages of 61 and 75 must have some level of inflation protection, whereas individuals under age 61 are required to have annual compound inflation protection. [11] This allows policyholders to have some level of protection from the continuously rising costs of LTC services. Colorado also participates in a national reciprocity agreement which allows policyholders to keep their Partnership Policy if they move out of the state of Colorado. Additionally, any individual who has purchased a Partnership Policy and moves to a state that participates in the national reciprocity agreement (almost all states that offer Partnership Policies have a reciprocity agreement) must meet all of the Medicaid requirements for their new state of residence.

As of September, 2011, twenty-five companies were selling long-term care partnership policies in the individual market, while two companies were selling LTC partnership policies within the

[9] http://www.aaltci.org/long-term-care-insurance/learning-center/tax-for-business.php/
[10] LTC Frequently Asked Questions (2013). http://www.colorado.gov/cs/Satellite?c=Page&cid=1199869541536&pagename=HCPF-ColoradoLTCPartnership%2FCLTCPLayout
[11] Ibid

group market. Those companies are displayed in the Table below. It is worth noting that by 2013, many of these companies had exited the market.

Table 5: Participating Insurers with Certified Colorado Long-Term Care Partnership Policies (2011)

Individual Policies	
American General Life Insurance Company	Minnesota Life Insurance Company
Assurity Life Insurance Company	Mutual of Omaha Ins Company
Bankers Life & Casualty Co.	New York Life Insurance Company
Berkshire Life Insurance Company of America	Penn Treaty Network America Insurance Company
COUNTRY Life Insurance Company	Physicians Mutual Ins Co
Equitable Life & Casualty Ins Co	State Farm Mutual Automobile Ins Co
Genworth Life Insurance Co. of NY	Sterling Life Insurance Company
Genworth Life Insurance Co.	Prudential Ins Co of America, The
John Hancock Life Insurance Company	Northwestern Long Term Care Insurance Company
LifeSecure Insurance Company	Transamerica Life Insurance Company
Massachusetts Mutual Life Ins Co	United Healthcare Ins Co
MedAmerica Insurance Company	United of Omaha Life Ins Co
Metropolitan Life Insurance Co	
Group Policies	
Genworth Life Insurance Co. of NY	UNUM Life Ins Co of America

Source: http://cdn.colorado.gov/cs/Satellite/HCPF-ColoradoLTCPartnership/CLTCP/1201542640940

The Deficit Reduction Act of 2005 also states that Colorado cannot "grandfather" policies and that all Partnership Policies can only be purchased after the program began in Colorado. The Colorado LTCPP became effective on January 1, 2008.[12] Yet, in 2010 when LTCI buyers in Colorado were asked if Colorado participated in this type of program, 71% of respondents did not know, while an additional 10% of respondents incorrectly believed that Colorado did not

[12] LTC Frequently Asked Questions (2013). http://www.colorado.gov/cs/Satellite?c=Page&cid=1199869541536&pagename=HCPF-ColoradoLTCPartnership%2FCLTCPLayout

participate.[13] Nationally, almost two-thirds of buyers who responded indicated that their state participating in a LTC Partnership Program was an important motivator in purchasing a policy. Thus, one can conclude that greater awareness of Colorado's participation in the Partnership program could have a positive impact on the purchase of long-term care insurance.

Conclusion

The purpose of this brief was to provide an overview of the long-term care insurance industry – how it has evolved, how the products have changed over time, who buys the products and why, as well as some challenges faced by companies that sell this type of insurance. The industry, which began as small and the product, which began as a way to fund nursing home care, has evolved significantly over the last three decades. With sales declining and many companies having exited the market and no longer selling the product, helping individuals understand and prepare for LTSS is now more important than ever. The proportion of the Colorado population that could potentially need LTSS and face catastrophic financial loss in light of it is substantial – even more so than that faced nationally. Understanding what keeps people from taking the actions necessary to prepare for this need can help the Colorado Health Foundation define its role in assisting Coloradans to meet this challenge. The second brief in this series utilizes data from 20 years of surveys of buyers and non-buyers of long-term care insurance. Information from these surveys helps to uncover potential strategies to overcome barriers to protecting oneself against the costs of care. While having a private long-term care insurance policy is not the only way to offset the potential high costs of long-term care, increased market penetration can lead to the potential strengthening of the public sector by allowing for public funds from Medicaid to be allocated to those who most need it.

[13] Analysis of data collected from 2010 Survey of Long-Term Care Insurance Buyers and Non-Buyers, LifePlans, Inc.