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Need for Change: Paradigm Shift Needed in LTC Product Development

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The Congressional Budget Office reports that out-of-pocket expenses accounted for 19 percent of the total long-term care (LTC) expenses in the United States in 2006, and private LTC insurance accounted for only 8 percent of these expenses, which shows that Americans are underinsured for LTC expenses. While it is true that public programs like Medicaid and Medicare cover much of the nation's LTC expenses (68 percent of the total LTC expenses in the United States in 2006), eligibility for these programs comes at a great cost to the individual. Assets of the individual have to be divested in order to qualify, and coverage is often substandard to what private insurance would purchase. In addition, the Medicare and Medicaid programs will be under pressure as baby boomers age and the need for LTC services increases. To help consumers understand their LTC needs, LTC insurers should take proactive steps to educate consumers about private LTC insurance and the need for it. But in order to make the product more palatable over the long term, new thinking is required around product design and development.

Long-Term Care Insurance Product

LTC policies, as designed initially, used to pay for care in a nursing home only after staying in a hospital as per Medicare requirements. As the product matured and awareness of the product grew, LTC policies started to cover care in the insured's home or in an assisted living facility (ALF). The product now offers multiple options including how long the services will be provided and how many days the insured has to pay for care before coverage begins. Return of premium and non-forfeiture riders were introduced to alleviate concerns that a person may die or lapse before needing LTC benefits. In addition to standalone LTC products, combination products that have LTC riders attached to life insurance and annuity policies are also available. Because of the addition of these options, many would argue that the product has become too complex and expensive.

Since the product was first designed and marketed about a quarter century ago, the chassis has remained the same with the exception of combination products. Based on the needs of certain customers, additional services were added to the policy to make the product more marketable. The main focus of LTC products has been to offer more services rather than to reduce the cost of services or to offer innovative ways to solve the LTC needs of individuals so that the product becomes less expensive and more attractive to a wide range of customer segments. Because of this, there is a narrow market for the LTC product, and it caters only to specific segments of the population who can afford to pay high premiums. In order to make the product more attractive to a wider customer base, new LTC products and radical changes in product design should be considered. I have included some LTC insurance product concepts in this article that can help mitigate customers' concerns about private LTC insurance.

Using Managed Care Concepts

In order to control costs and make LTC insurance more affordable, LTC plans can use some of the concepts of managed care. In addition to making the policy

less expensive, this approach will make the policy easier to understand because coverage will be similar to the medical plans that most people have. Medical and current LTC plans are compared along three dimensions or continuums.

The first dimension defines the services covered and the conditions under which they are covered. This dimension is comparable in both medical and current LTC plans.

The second dimension is the degree to which the insured shares in the cost of the benefit plan. This is where there are some differences between current LTC and medical plans. Medical plans usually control utilization, costs and risk to the insurers by using deductibles, co-pays and co-insurance. Most LTC plans have elimination periods (which are similar to a deductible), but don't have co-pays and co-insurance. Including co-insurance and other medical plan concepts in an LTC policy can help reduce the cost of care and make LTC policies more affordable. Genworth Financial has adopted these concepts and came up with their new product "Cornerstone Advantage," which makes LTC coverage really affordable with premiums as low as $75 per month for a 55-year-old married customer compared to a typical LTC premium of $115 per month for the same customer.

The third dimension is the degree to which the provider of care shares the cost of the benefit plan. This is where there is a big difference between current LTC and medical plans. Almost all medical plans use some kind of preferred provider network to reduce costs. There is no LTC plan that has such a provision built into it. Care Scout has a provider network that some LTC insurers use to get discounts for their claims. However, no company mandates the use of a care network to drive costs down. Networks can also help insureds with questions about coverage and what kind of care is best suited for their situations, which can reduce the complexity of the product. These managed care concepts can reduce the cost of the LTC policies significantly and make these policies affordable to a wide range of customers.

Using 401(k) and Pension Plans as a Way to Cover Long-Term Care Costs

Many employees use 401(k) plans to save for retirement. In addition, many employers encourage their employees to start saving early by matching contributions. This plan may be a good way to encourage employees to think about making contributions early to fund LTC expenses they may incur in the future. One way to fit LTC benefits into 401(k) plans is through a combination product featuring an annuity product with an LTC rider. Employees can transfer money from and to the annuity product in a 401(k) plan, and the amount of LTC coverage they will receive will depend on the annuity fund value when the employee begins taking income distributions or when the employee reaches age 70.5 when mandatory withdrawals are required. In the accumulation phase of the annuity, surrender charges are waived for withdrawals related to LTC expenses up to the account value. In the distribution phase of the annuity, the income stream

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of the employee will increase to cover LTC expenses up to the annual maximum in the policy, which can be some multiple of the annual distribution amount for a certain number of years. An indemnity-type LTC policy can be used instead of a reimbursement-type LTC policy to make the product less complex. This rider would provide cash benefits, which would be paid as an increased distribution amount when the insured meets the triggers for needing LTC services.

This approach will ensure that the employee will not lose the premiums paid for LTC insurance in case the benefits are not needed and can help employees start thinking about LTC at a younger age, when rates are much cheaper compared to the rates at ages 65 and above. This kind of platform can also help employers encourage their employees to start thinking about their LTC needs by matching a certain percentage of the funds that employees put towards the combination product.

Disability Income-LTC Combination Product

Disability products have a much higher penetration than LTC products in employer group markets. A long-term disability (LTD)/LTC combination product may be more attractive in employer group markets than a standalone LTC policy. Disability income products reimburse a portion of the insured's salary until age 65 in case the insured becomes disabled and not able to perform his own occupation or any occupation during which time the LTC rider would cover expenses for care in a nursing home or an ALF up to the disability coverage limit. After the insured reaches age 65, LTC coverage would cover expenses up to the insured's disability coverage limit at age 65. Attained age cost of insurance premiums would be used to cover LTC premiums until the insured reaches age 65, after which the insured would have an option to buy an LTC policy either at attained age cost of insurance rates or level premiums for life from age 65. Until the employee reaches age 65, adding LTC coverage at attained age rates to an LTD product would not increase the cost of coverage too much and it would cost much less to the employee compared to purchasing LTD and LTC insurance separately. With this product, employees would not be paying too much for LTC insurance before they reach age 65, when there is less perceived need for LTC insurance. After employees reach age 65, they would no longer pay LTD premiums and would be paying premiums for LTC coverage alone. They would also have the flexibility to opt for a level premium scale at age 65 when they are better aware of their LTC needs and need a regular periodic payment instead of an increasing scale.

This product would be better suited for employees who would like to have LTC insurance but don't want to pay the high premiums before age 65, when there is less perceived need for LTC coverage. Employers can help their employees start thinking about their LTC needs by paying LTC rider costs until employees reach age 65. The premium scale flexibility at age 65 would make this product more attractive to some consumers than a standalone LTC product.

Flexible Premium Universal Long-Term Care Policy

Universal life concepts can be applied to LTC policies as well with cost of insurance charges based on attained age and where insureds are allowed to pay flexible premiums. These premiums, after accounting for cost of insurance and expense charges, would accumulate at a rate that is earned on assets backing this product. Cost of insurance charges based on attained age would be very low at younger ages. So, younger insureds can use this product as an investment that they can use in case they need LTC services. This product can mitigate concerns that they may never need LTC services because they have

access to the fund value. One of the biggest advantages to the insurance company with this kind of product is that it reduces some of the key LTC risks. With this product, the insurance company is transferring some of the risk related to interest rate/ investments to policyholders, since the benefits provided would vary depending on the rate earned on assets backing the product. Lower than expected voluntary terminations, which can hurt LTC policies, would help spread-based universal LTC policies effectively reduce the termination risk, because the insurance company can earn a spread on the assets backing the product for a longer time.

Conclusion

As baby boomers reach retirement age, there will be a significant need for LTC services. If people don't have insurance to cover these expenses, this is going to put a huge strain on already feeble public programs like Medicaid and Medicare since they are forced to cover the expenses of the uninsured that qualify. This can also put a lot of strain on individuals because they will have to spend down their assets in order to qualify for these programs. LTC insurers have to be proactive and pay more attention to customer needs and develop products that not only take care of the LTC needs of wider segments of the population, but also help federal and state governments reduce their LTC expenses. If not enough people have private LTC insurance, then the government may be forced to cover LTC expenses of all people, and this can increase the strain on public programs and everyone may have to pay extra taxes to sustain these programs. So, employers and private LTC insurers should be proactive and take steps to create innovative LTC solutions that meet the needs of their customers and mitigate their concerns about LTC insurance. Some of the concepts presented in this article can increase the complexity of the product, but insurers can reduce the complexity by encouraging their customers to use care coordinators who can help insureds with questions about coverage and what kind of care is best suited for their situations. ☐

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