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The Use of Nursing Home and Assisted Living Facilities Among Privately Insured and Non-Privately Insured Disabled Elders

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Introduction

The dramatic growth in the number of Americans over age 75, coupled with the need to minimize the duration of expensive inpatient hospital care, portend continued reliance on nursing home (NH) care for a significant portion of the disabled population. Even in the presence of significant expansions in home and community-based care (HCBC), the nursing home (NH) still remains a key provider of long-term-care (LTC) services to more than 1.5 million people, most of whom are over age 65.

Alternative institutional settings such as assisted living facilities (ALF) are also growing in popularity. Today, there are in excess of 28,000 such residences housing more than one million people, many of whom have limitations in activities of daily living (ADL).

Thus, institutional-based care has and will remain an important component of the LTC service delivery system.

The costs associated with receiving LTC in institutional settings are significant and pose a financial hardship to many individuals. To meet this hardship, a growing number of individuals are purchasing private long-term-care insurance (LTCI). Through a series of actions, the Federal government is also signaling its desire that individuals accept greater personal responsibility for planning and paying for their LTC needs. Such actions include tax clarification of LTCI contracts, a plan to implement a Federal employees LTCI plan, and expenditures on education related to the risks and costs of LTC.

While there is a growing body of knowledge about who buys policies and what motivates them to do so, there has been no systematic study of individuals in institutionalized settings who are receiving benefits under their LTCI policies. On an industry-wide basis, no one knows whether claimants and/or their

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families feel they are getting good value for their premiums and whether the presence of private insurance influences the type of care people receive in these settings.

This Study

The purpose of this study is to provide basic descriptive statistics on disabled private LTCI policyholders who have accessed LTCI benefits in institutional settings and to compare such data and findings to non-privately insured institutionalized elders. We did this by interviewing 480 LTCI claimants from seven participating companies receiving benefits under their policies and residing in nursing homes or assisted living facilities.

The study was funded by grants from a) the Department of Health and Human Services, Office of Disability, Aging and Long-Term Care and b) the Robert Wood Johnson Foundation Home Care Research Initiative.

(Note: Results from the survey of community-based claimants and their informal caregivers were previously presented in the September 1999 issue of this newsletter. Information here represents only those claimants residing in institutional settings.)

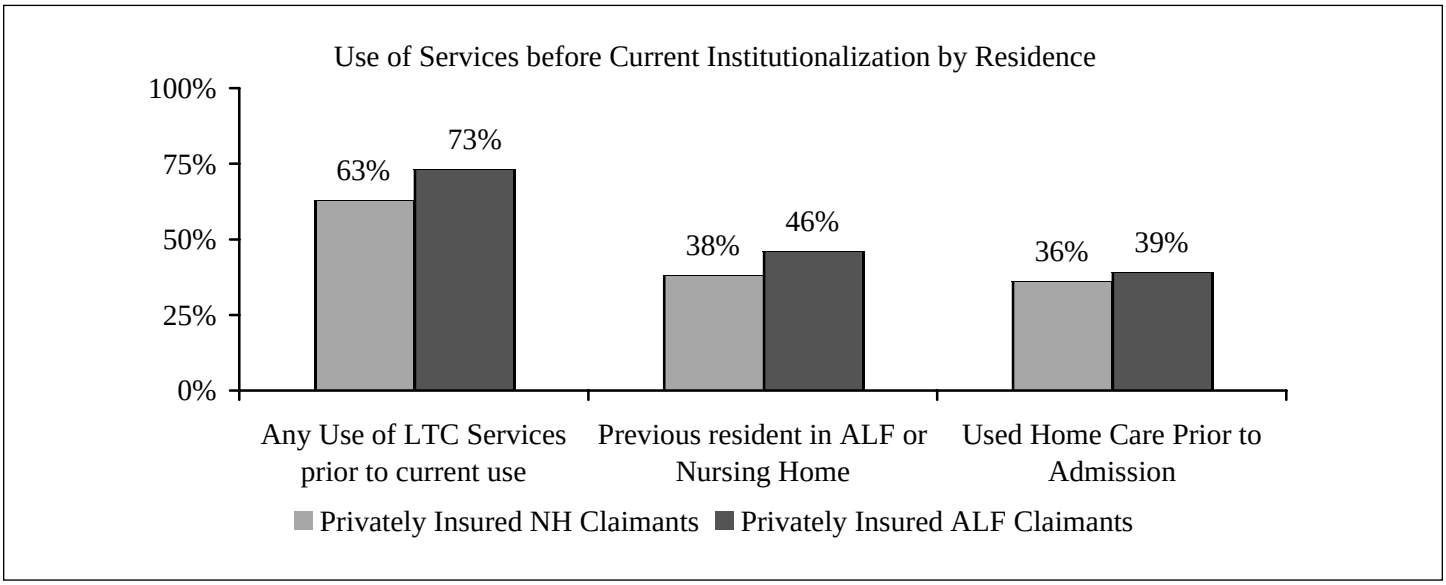
The Profile of Institutionalized Long-Term-Care Insurance Claimants

- The majority of institutionalized claimants — 72% — were residing in a NH, and 28% were receiving services in an ALF.
- There are few differences in the socio-demographic profile of NH and ALF claimants.
- Most institutionalized claimants are over age 80, female, unmarried, and highly educated. The average income of these institutional claimants was about $33,000. Married claimants are more likely to be in a NH than in an ALF.
- The differences in the prevalence of specific diagnoses between residents of NH and ALF are not statistically significant. This suggests that it is not the underlying primary diagnosis that differentiates individuals in each of these service modalities but, instead, the way the diagnosis manifests itself.
- The average number of ADL limitations on a six ADL scale for NH claimants is 4.7, whereas, for ALF claimants, this figure drops to 2.8. This represents 79% of current institutional claimants who have two or more ADL limitations.
- Slightly less than one in three dementia patients receive their care in ALF. Typically, the costs associated with caring for individuals in these facilities are less than in NH. Thus, for some cognitively impaired individuals, private insurance coverage for ALF care substitutes for more costly NH care.
- The prevalence of cognitive impairment (as measured by diagnosis and orientation) is higher among NH claimants than it is among ALF claimants. Overall, claimants in the NH are 1.3 times more likely to be cognitively impaired than are those found in ALF.

Socio-Demograhic Characteristics	Privately-Insured NH Claimants	Privately-Insured ALF Claimants
Average Age	81 years	81 years
Male	34%	28%
Female	66%	72%
Never married	5%	5%
Married	44%	34%
Divorced/separated	4%	2%
Widowed	47%	59%
Less than HS graduate	17%	11%
HS Graduate	22%	27%
Some College	29%	27%
College Graduate	32%	35%

Prior Residence and Service Use

- About three in five (63%) of all NH residents and three in four (73%) ALF residents had used LTCI services — either been a previous resident in an ALF or NH or used home care — prior to entering their current facility.
- About one-quarter of the ALF residents had been transferred to assisted living from a NH. This suggests movement in both directions along the continuum of care: from NH to ALF and from ALF to NH.
- About two in five institutionalized residents had accessed formal home care services before their current admission to the facility.
- The probability of entering a NH from a hospital is more than twice as high as entering an ALF directly from a hospital — 25% compared to 11%.
- Prior to entering an institution, between 43% and 47% of institutional residents resided either alone or with their families, and between 33% and 39% resided in a hospital or other NH. [1]



Service Use, Costs and Payment Sources in Institutional Settings

- Not surprising given their higher level of need as measured by both ADL loss and cognitive status, NH residents use more medical services, skilled nursing care, nutritional services, and social services than do ALF claimants. In contrast, ALF residents are much more likely to use transportation services.
- With the exception of charges for skilled care, charges for care provided at the intermediate, residential and Alzheimer's levels are significantly lower in ALF — an average of 27% for these claimants.
- ALF enable Alzheimer's patients to be cared for at a lower cost than care provided in a NH. For this block of claimants, the associated "savings" of being able to access cognitive-related care in an ALF instead of a NH are16%.
- Depending on institutional setting, the insurance is the primary payment source for between 70% and 80% of these claimants. What is not paid for by the insurance is typically funded from personal resources.
- An average of 73% of the LTC liability is paid for by insurance. For NH claimants, 67% of the costs are covered, whereas for ALF residents the average daily benefit pays for 88% of the incurred costs.
- In cases where insurance is not the primary payment source for NH claimants, the average daily benefit is lower, and there is less likelihood of having a policy with inflation indexed benefits.

Benefits Paid Under Insurance Contracts and Insurance Policy Designs

- The average monthly insurance benefit paid to claimants is $2,141. Monthly NH benefits are about 23% higher than ALF benefits — $2,251 versus $1,827.
- These claimants have already used an average of $29,000 in insurance benefits per person —

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$34,000 for NH residents and $16,000 for ALF residents.

- Most of these individuals (85%) have reimbursement policies covering four or more years of care at around $83 per day.
- About two in five are eligible to receive over $100 per day in benefits for institutional care services; 45% of the claimants have policies that include some level of inflation protection.
- The average amount of available lifetime benefits is $161,000, and these individuals have thus far used up about 18% of their benefits.
- On average, individuals have been on claim for about 17 months.

Claimant Satisfaction with Insurance Policy and Insurance Company

- The vast majority of claimants are satisfied with their policy, with most being very satisfied.
- The vast majority (85%) had no difficulty understanding what their policy covered.
- Roughly four out of five ALF claimants felt that the benefits were adequate given their care needs; the corresponding figure for NH claimants was about three out of five residents.
- Most individuals — more than 70% — found the process of filing a claim to be easy.
- ALF claimants were more likely — 1.7 times more likely — to find the process of filing a claim to be difficult.
- About 90% of all individuals filing claims had either no disagreements with their insurance companies or had a disagreement(s) that was resolved satisfactorily. About 4% of claimants felt their disagreement was not resolved satisfactorily.

"Data suggests that for some claimants, entry into the institution is motivated by social concerns as well as by a desire to be in a protective environment should additional declines in functioning occur."

Impact of Private Long-Term-Care Insurance on Claimants

- For about three-quarters of claimants, the presence of insurance was not viewed as having had an influence on service seeking behavior.
- One in five ALF claimants and one in eight NH claimants indicated that the presence of insurance that provided for home care services allowed them to delay their entry into an institution.
- Data suggests that for some claimants, entry into the institution is motivated by social concerns as well as by a desire to be in a protective environment should additional declines in functioning occur.

Comparing Privately Insured and Non-Privately Insured Institutionalized Disabled Claimants [2]

Nursing Home Residents

- On average, disabled NH residents with LTCI are somewhat younger than their non-privately insured institutionalized counterparts; the proportion of privately insured claimants age 85 and over is only half that found in the general population of NH residents.
- NH residents with private LTCI are 2.8 times more likely to be married than are those without such insurance, and there also tends to be a greater proportion of male residents among the privately insured.
- Compared to non-privately insured NH residents, insured residents are four times as likely to be college educated and about 3.2 times more likely to have incomes greater than $20,000.
- Privately insured disabled residents receive fewer services than do other residents — 5.4 services per month versus 6.7.
- The non-insured resident population has somewhat greater medical or skilled care needs. This is borne out by their greater use of skilled nursing and medical services.

- Data presented here suggests that after gaining admission to a NH, the privately insured appear to use fewer services than that seen for other residents. Thus, if the costs associated with room and board are similar between privately insured and other residents, the former would be more profitable for the provider of services because: (1) the daily rate paid is likely to be higher than what is paid by other residents; and (2) service use is lower.

- In nominal terms, the average monthly charge among privately insured residents ($3,742) was between 10% and 22% higher than for other residents.

- For the privately insured, LTCI and personal resources account for the major payer sources, whereas for the non-privately insured, Medicaid and personal resources comprise the primary payer sources.

Assisted Living Residents

- Compared to other residents in ALF, LTCI claimants are somewhat younger, more likely to be male and much more likely to be married. They also have somewhat higher income levels.

- LTCI claimants in ALF have more disabilities than do non-privately insured residents. The average number of disabilities among privately insured claimants is 2.8, whereas, among non-insured residents, the comparable figure is 1.7.

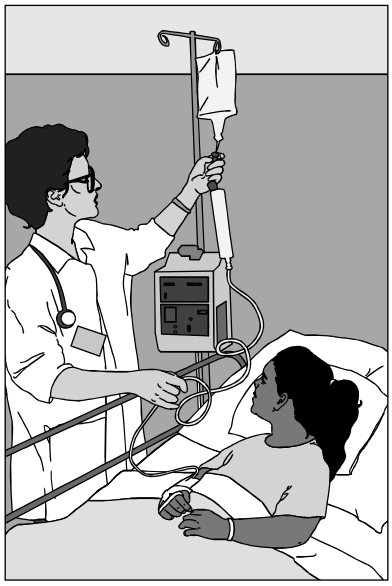
- About 75% of all ALF residents have two or fewer ADL limitations. Among the privately insured, only 35% have two or fewer ADL limitations.

- ALF residents with LTCI are about twice as likely to be cognitively impaired compared to all ALF residents.

- The monthly costs of care for insured residents ($2,700) are roughly 1.3 to 1.8 times higher than for other residents.

Conclusions

Whereas, one might have thought that the continuum of care moves from home care to ALF to NH care, the data present a more complicated picture. For some individuals, ALF may actually substitute for remaining in the home and relying on formal home care services. Other



claimants in ALF faced the alternative of NH care. Either way, it appears that in the presence of comprehensive insurance coverage, one can expect greater use of lower intensity and more home-like institutional settings such as ALF. This presents opportunities to a sub-set of policyholders who would otherwise face more costly NH care.

Given the rapidly changing landscape of the service delivery network, insurers will need to continue to emphasize flexibility in their products. Along with such flexibility, however, is the need to keep consumers informed about the relationship between benefit levels and future service costs. This is particularly true for those accessing costly NH services. Here, policy benefits cover a smaller fraction of the costs than in either the home or ALF setting.

While the presence of insurance will certainly alter service utilization patterns, few individuals seem to be drawn more quickly to seek institutional alternatives just because they have insurance. What the insurance does allow is the ability for disabled individuals to access a variety of services in alternative settings and to do so in a way that leaves these people very satisfied with their coverage.

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Footnotes

1) Living with a family is defined as living with a spouse, adult children, or other relative.

2) To be included in the comparison sample, the privately insured and non-privately insured had to meet a minimum disability threshold of at least two of six ADL limitations or be cognitively impaired.