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Why Should Insurers Offer True Group Long-Term Care?

by Jonathan Shreve

The current design of group Long-Term Care (LTC) products does not optimally serve employers and employees, which is limiting growth in the employer market. Current employer LTC products fail to deliver in one very important way: too few employees participate in the coverage. Over the long term, low participation rates cause higher per member premiums, further reducing potential participation. As well, the current design of group coverage does not achieve many of the typical employer's goals, such as minimizing cost and rewarding the right employees. The high cost of coverage in the individual market has scared many employers away from purchasing group LTC coverage. Providing alternatives to employers may help increase an insurer's market share.

I would note that most LTC coverage today is approached with a very strong individual focus. If we step back and ask what is important to employers rather than individuals, we wind up with different conclusions.

What is Wrong with Current Group LTC Coverage?

Current group LTC offers some nice features for employees. Employees can easily enroll at work. Often, employees can pay their premiums with payroll deductions. Also, it can be cheaper for employees to purchase coverage through their employer because of the reduced commissions as compared to what they would pay in the individual market. However, these voluntary benefits are not as popular as they should be, given how critical LTC coverage will become for many employees.

However, current group LTC coverage offered through the workplace mimics individual products. Current group products typically offer much lower commission rates and decreased rigor in underwriting, but in reality are similar to just writing a group of individual policies. Group LTC coverage designs are not consistent with the way that other lifetime group coverages are written. Typical group coverages are targeted only at longer-term employees, and employers typically pay a portion of the cost to encourage higher participation. Common group coverage features (for retiree medical and pension benefits) include waiting periods and vesting, as well as possibilities for self-funding or alternate funding. These design features help the employer keep the cost down while also targeting their objectives of rewarding and retaining longer-term employees. The current designs for group LTC coverage do not have these features, and often are not properly satisfying the employers' objectives.

Our bias toward individual products is so strong that, to achieve a "true group" label, products only need to have a contract written with the group rather than with each individual employee. Below, we propose a version of true group coverage that focuses on the objectives of the employer and takes advantage of group features.

What is True Group LTC Coverage?

In order for group LTC coverage to be more appealing to employers, it will need to become a true group benefit, which encourages high employee participation while keeping costs down. True group LTC coverage rewards longer-term employees, and protects these employees from future financial destitution.

Comparison of True Group and Voluntary LTC Coverage

True Group LTC	Current Voluntary LTC
Employer contribution	No employer contributions
Targeted at long-term employees using waiting periods and/or vesting	Participation available to all employees immediately
Benefit design set by employer and may be changed	Benefit design set by insurer and is immutable
Possibly self-funded or alternate financing	Always fully insurerd
High participation expected, providing cost efficient and meaningful coverage	Participation around 1% to 10%
Cost to employer around $5 to $25 per employee per month	Negligible cost to employer

The table to the left contains a summary of the differences between current voluntary group and true group LTC coverage.

In a true group LTC plan, the employer takes on some responsibility for those employees who are employed longer term. In exchange, the employer can share costs with employees and only pay for those longer-term employees. Employers exchange a plan with no cost for one with a small cost, which helps target and retain the most desirable employees. The plan design features that achieve these objectives are waiting periods, vesting and employer contributions.

Waiting periods, here meaning an eligibility period rather than an elimination period for benefits, require that an employee be employed for a defined period of time before they may start participating in the plan. This way, the employer does not spend money on employees who leave after short terms of employment.

As well, true group plans may have vesting requirements, which determine the ownership of the employer contributions, if the employee leaves the company. When an employee leaves, they will be eligible for coverage as funded by their own contributions. The vesting rules determine if the employee will also receive coverage from contributions made on their behalf by the employer. Once an employee is "fully vested," they are eligible to receive benefits that have been funded by the employer through their date of departure. An employer will stop making contributions after the employee leaves. Because vesting only allocates funds to employees who stay with the company for a longer period of time, it can help keep the cost per employee down while also retaining valuable employees. Waiting periods and vesting not only reward longer-term employees, but can significantly reduce the cost of offering these benefits. With these features and a 50 percent employer contribution that accrues to vested employees, we estimate that the cost to employers can be kept down to $5 to $25 per month per active employee.

When compared to a "core/buy-up" program, this design can be much less expensive to the employer, because the employer only pays for employees who choose to purchase LTC coverage (at 50 percent prices) and who achieve vested status. In addition, the plans that employees take into retirement are typically more valuable than a core program.

Is this a Market Opportunity?

While there has been growth in the group LTC market, sales more recently have been down. The current plan designs do not optimally satisfy the needs of the employers. Designing LTC plans in a true group fashion will allow employers to offer higher quality benefits to their most valuable employees, while also increasing participation.

The individual market products have convinced employers and employees that LTC coverage is prohibitively expensive. However, that is simply not the case. Innovating group plan designs to be true group coverage could open more market share for insurers. ❋

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