THE HENRY J. KAISER FAMILY FOUNDATION

THE KAISER COMMISSION ON
Medicaid and the Uninsured

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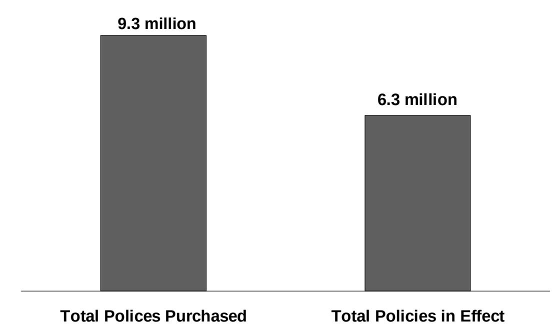
Private Long-Term Care Insurance: A Viable Option for Low and Middle-Income Seniors?

In the Deficit Reduction Act of 2005, the federal government made it harder for individuals to qualify for Medicaid nursing home benefits by increasing penalties on individuals who have transferred assets for less than fair market value during the past five years and by making individuals with home equity above $500,000 ineligible for nursing home benefits. The legislation also lifts the moratorium on the number of states that may operate Long-Term Care (LTC) Partnership Programs, which allow individuals who purchase long-term care insurance to protect more of their assets if they later need nursing home care under Medicaid. Some have suggested that purchasing private long-term care insurance to cover nursing home care would alleviate reliance on Medicaid. This snapshot examines the experience with private long-term care insurance and the LTC Partnership Programs.

Long-term care services can be financially catastrophic, particularly if a lengthy nursing home stay is needed. The average cost of a year of nursing home care is $74,095.[1] Nursing home stays typically exceed two years and surpass most families' ability to pay.[2] Individuals who need long-term care services rely on personal resources, primarily by paying directly when care is needed or by purchasing private long-term care insurance. Medicaid provides assistance to individuals who are poor or have exhausted personal resources. Although all seniors have Medicare for hospital and physician care, long-term nursing home services are not covered.

Figure 1

Number of Private Long-Term Care Insurance Policies



Source: AHIP LTC Insurance Market Survey, 2002

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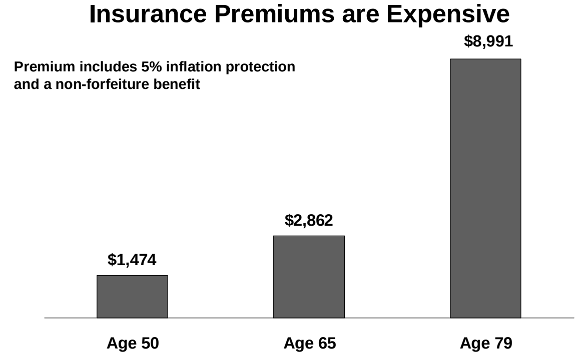
Private long-term care insurance comprises a small share of nursing home spending. Nursing home expenditures totaled $115 billion in 2004, with Medicaid (44%) and out-of-pocket payments (28%) accounting for the largest shares, and private insurance comprising 7.8%.[3] First available in 1987, private long-term care insurance sales have been growing, but only 6 million people have a current policy (Figure 1). Market penetration rates remain low, less than 10% among the population 50 and older in 41 states.[4] The average age of purchase is 67 and most purchasers have been affluent.

Figure 2

Private Long-Term Care Insurance Premiums are Expensive



Note: Coverage includes $150 daily benefit, 4 years of coverage, and a 90 day elimination period.

Source: AHIP LTC Insurance Market Survey, 2002

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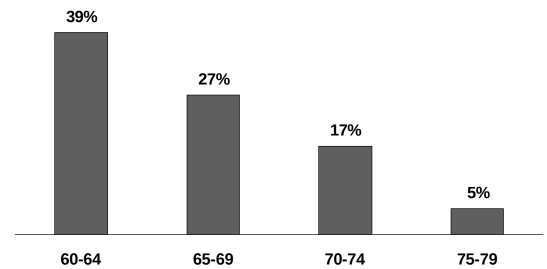
The price of a long-term care policy is not affordable for most elderly people. Half of the elderly have income below $25,000. The annual cost of a typical long-term care policy in 2002 ($150 daily benefit, 4 years of coverage, and a 90-day elimination period) with 5% inflation protection and a non-forfeiture benefit was $1,474 if purchased at age 50; increasing steeply with age, to $2,862 at age 65 and $8,991 at age 79 (Figure 2).[4] The National Association of Insurance Commissioners suggests that consumers should be discouraged from buying a policy if the premiums account for more than 7% of income or if the purchaser does not have at least $35,000 in financial assets. Among people age 60 to 64, 39% could afford to purchase a mid-range policy; declining to 5% of those age 75 to 79 (Figure 3).[5] A lapse in annual premium payments will result in a loss of coverage and prior investment.

[1] Metlife Market Survey, 2005.
[2] Paying for Nursing Home Care: Asset Transfer and Qualifying for Medicaid, Kaiser Commission on Medicaid and the Uninsured, 2006.
[3] Smith et al, National Health Spending in 2004: Recent Slowdown Led by Prescription Drug Spending, *Health Affairs*, Jan/Feb 2006.
[4] AHIP LTC Insurance Market Survey, 2002.
[5] Mark Merlis, Private Long-Term Care Insurance: Who Should Buy It and What Should They Buy? Prepared for the Kaiser Family Foundation. 2003.

The likelihood of needing long-term care is unpredictable. Individuals often express reluctance to purchase private long-term care coverage because it is expensive and they are uncertain about their risk of disability and service needs 20 or 30 years in the future.[6] For people turning age 65 in 2010, estimates indicate that over half will not use a nursing home; 22% will use less than one year; and 8% will use five or more years.[7]

Figure 3

Percent of Older Households Who Could Afford Private Long-Term Care Insurance

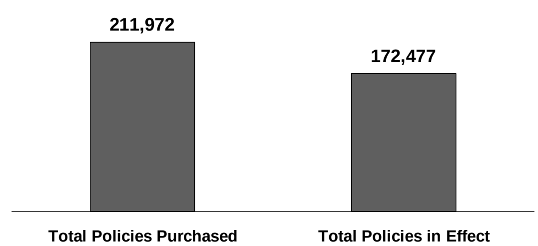


Source: Merlis, 2003

Private long-term care insurance is not available to people who already have long-term care needs. The likelihood of developing conditions that result in long-term care needs increases substantially with age. About 19% of seniors experience some degree of chronic physical impairment; increasing to 55% of those aged 85 or older.[7] Because of health and functional limitations, older people are more likely to be turned down for coverage. Estimates indicate that 28% of people age 65 to 69 would not pass an underwriting test, increasing to 38% for age 75 to 79.[5]

Figure 4

Long-Term Care Partnership Program Policies



Source: GAO, Long Term Care Partnership Program: An Overview. GAO-05-1021R.

LTC Partnerships have been operating in 4 states since the early 1990s, but enrollment remains limited. Under these programs, individuals are eligible for Medicaid after their private insurance is exhausted and are allowed to keep a higher level of assets. California, Connecticut, Indiana, and New York currently operate partnership programs under Medicaid. As of March 2005, 211,972 Partnership policies had been purchased and 172,477 were still current (Figure 4). In Connecticut, the average annual premium for a policy covering 3 years of nursing home or community care (daily benefit of $200 with inflation protection) would be $4,100 if purchased at age 65.

LTC Partnership programs appear to attract upper middle-class individuals, similar to the private long-term care insurance market. The majority of purchasers in CA, CT and IN have assets greater than $350,000 (excluding the home); half have annual incomes of $60,000 or more.[8] Thirty percent of purchasers say they would not have purchased long-term care insurance in the absence of these programs.[9] Since the program began, 2,761 policyholders (1.3%) have received long-term care insurance benefits and 119 have accessed Medicaid benefits. This limited experience does not demonstrate whether these programs increase or reduce Medicaid spending.[10]

Outlook

Private long-term care insurance is growing and is likely to play a larger role in financing long-term care in the future. However, even with expanded LTC Partnership programs, these options are not available to those who already have long-term care needs and remain unaffordable to the majority of low to middle-income seniors. As a result, Medicaid, in conjunction with direct out-of-pocket spending, is likely to remain the primary financing source for lengthy nursing home stays.

[6] The Public's Views on Long-Term Care, Kaiser Family Foundation Public Opinion Spotlight, July 2005.
[7] Congressional Budget Office, Financing Long-Term Care for the Elderly, 2004.
[8] Julie Stone-Axelrad, Medicaid's Long-Term Care Insurance Partnership Program, CRS report for Congress, January 2005.
[9] "Long-term Care and Medicaid: Spiraling Costs and the Need for Reform" Karen Ignagni before the U.S. House Committee on Energy and Commerce, Subcommittee on Health. April 27, 2005.
[10] GAO, Long Term Care Partnership Program: An Overview. GAO-05-1021R.