Long-Term Care Insurance for All Active Employees

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Mathematics course

Long-term care (LTC) insurance provides protection against the inability to finance costs for long-term care which, according to the Society of Actuaries (2012), is "the overall term for care provided to an incapacitated person over a prolonged period." Such care encompasses care provided to individuals who cannot perform activities of daily living (ADLs) such as dressing, bathing, and eating. It also includes care provided to individuals who need help with instrumental activities of daily living (IADLs) including preparing meals and shopping. These types of care are covered by long-term care insurance if they are provided in places such as private homes and assisted-living facilities among others (Society of Actuaries, 2012).

This paper will discuss both the merits and drawbacks of purchasing long-term care (LTC) insurance by highlighting the common issues of contention in discussions of LTC insurance. Ultimately, the paper will compare and contrast two opposing positions in the LTC insurance debate regarding whether all active employees should purchase the insurance. To do so, the paper will present the perspectives of both proponents and opponents of LTC insurance on three main issues, particularly, LTC insurance cost, plan design, and market conditions.

Cost is often an important factor that parties on both sides of the long-term care (LTC) insurance debate consider. The proponents' argument for LTC insurance is one that cautions against having too much confidence in the future, putting in too little planning for the possibility of requiring some kind of LTC, and winding up with unbearably large costs to pay. This may be the underlying reason for the low participation in LTC insurance plans as, according to the American Association for Long-Term Care Insurance, only 8 out of 313 million adults in the US own LTC insurance whereas the number of estimated adults in the US who are likely to require LTC each year is much higher at 11 million (Geewax, 2012).

Although it is easier to imagine that a person who is in good health will continue to be healthy and capable of performing daily activities without difficulties for a significant period of time, it is actually unrealistic to make such an assumption. A person's physical and mental health today may function as an indicator of several aspects such as health in the short run and life expectancy in the long run. However, these predictions are only based on a limited number of known factors. In reality, there are many other factors that can cause unexpected events that necessitate long-term care (LTC) at home or in a nursing home.

It is very important to take into account situations that may require long-term care (LTC) as the cost of LTC is high especially for low- and middle-income individuals. The MetLife Mature Market Institute provides the following LTC cost estimates in 2010 (as cited by the Society of Actuaries, 2012) – $205 daily for a semi-private room in a nursing home, $21 per hour for a home health aide's services, $67 a day for care in an adult day healthcare center, and $3,293 per month for "room, board, and housekeeping services in assisted living communities." Such a heavy cost creates a large burden on an individual whose primary concern should be obtaining the care that he or she needs to perform daily activities with comfort. This is especially true if the individual is also living with a condition that causes a significant decline in functionality as this leads to even more intensive and, subsequently, costly LTC by highly trained healthcare professionals.

On the other hand, the opposing camp argues that the cost of long-term care (LTC) insurance may be too high to justify its benefits. Instead of looking at the opportunity cost of not owning the insurance, they consider the opportunity cost of owning the insurance because LTC insurance plans typically have rather high premiums. According to the Society of Actuaries (2012), although companies offering LTC insurance cannot raise premiums on an individual

basis on the grounds of age and health, they may charge higher premiums to a whole class of policyholders depending on the "overall experience of the insured's policy class, including experience for claims, lapses, mortality, investment returns and expenses." Hence, as a result of several unfavorable conditions such as lower lapse rates and interest rates, the LTC insurance market has been experiencing a downsize. Lapse rates, the rates at which policyholders stop paying their premiums and terminate their insurance plans, have taken insurance companies by surprise as the rate has been averaging 1 percent instead of the expected 5 percent (Gleckman, 2012). As fewer than expected policyholders only pay premiums but not make claims, companies offering LTC insurance have been increasing premiums so as to be able to make the benefits of offering the insurance higher than the costs.

In addition, low interest rates have resulted in lower returns on invested premiums which in turn have motivated companies to raise premiums on LTC insurance and to negatively affect the LTC insurance market. MetLife looked to increase its premiums by up to 44 percent in 2010 while Genworth Financial and John Hancock also looked to raise premiums (Lieber, 2012). The American Association for Long-Term Care Insurance provides an estimate of a 17 percent increase in premiums since last year (as cited in Passy, 2012).

Moreover, the average LTC insurance annual premium is now very high at $3,500 (Cole, 2012). Such high premiums can cause some customers to cut back on their insurance coverage. In this case, the premium is maintained at an affordable rate at the expense of more extensive coverage should a need for LTC arise in the future. Customers may also completely drop the insurance if they are unable to pay the high premiums. In this case, the insurance company may either terminate all benefits immediately, thus causing the customer to sacrifice all previously paid premiums, or pay a smaller benefit if the former policyholder requires financial assistance

to fund LTC in the future. Neither of these situations is particularly optimal for the individual who has been paying fairly high premiums into the plan and who may need significant help in funding LTC costs in the future.

Besides that, the long-term care (LTC) insurance debate also presents two opposing viewpoints regarding LTC insurance plan design. According to "A Shopper's Guide to Long-Term Care Insurance" by the National Association of Insurance Commissioners (2010), it is particularly important to find out the circumstances under which a plan provides benefits as plans may exclude certain conditions. As such, people looking into purchasing LTC insurance should consider their future needs given expectations about living with conditions that threaten functionality.

Among the most prominent and applicable example of illnesses that significantly decrease functionality is Alzheimer's disease, the only disease that cannot be prevented, cured, or even slowed among the top ten killers of adults in the US (Alzheimer's Association, 2012). The Alzheimer's Association (2012) estimates that there are currently 5.4 million Americans who live with Alzheimer's and that, by 2050, as many as 16 million will live with the disease. In 2012, this very large number contributes to a spending of approximately $200 billion, including $140 billion in costs to Medicare and Medicaid, to the American society to care for those with Alzheimer's (Alzheimer's Association, 2012). Based on these figures, it is only appropriate to consider the possibility of living with such a disease and of requiring long-term care (LTC). Most LTC insurance plans provide coverage for policyholders living with Alzheimer's disease, so active employees should consider the option of purchasing a LTC insurance plan to protect themselves against the burdensome costs of paying for LTC as a result of Alzheimer's disease.

Moreover, care for those living with such a disease does not only affect the individuals themselves but also their caregivers. According to the Alzheimer's Association (2012), 15.2 million family and friends acted as caregivers who gave 17.4 billion hours of unpaid care to individuals with Alzheimer's and other dementias in 2011. These hours, when quantified, amount to a staggering value of $210.5 billion (Alzheimer's Association, 2012). Long-term care (LTC) insurance can take the burden off many caregivers who are currently providing care for no compensation and who are sacrificing their own jobs and time. Instead, LTC insurance will assume the bulk of the financial burden of caregiving by providing benefits to cover the cost of care provided by trained professionals. Hence, both the individual living with the condition that decreases functionality and the person who acts as an unpaid caregiver will benefit from the insurance coverage.

On the other hand, opponents of long-term care (LTC) insurance argue that the way that a plan is designed can also set in place several restrictions which may make LTC insurance more costly than beneficial to an individual. These restrictions include exclusion of certain conditions, caps, and elimination periods. Most LTC insurance plans do not cover pre-existing conditions for at least the first six months after the policyholder purchases the insurance. In addition, LTC insurance plans usually do not pay benefits for mental or nervous disorders or diseases apart from Alzheimer's disease or other dementia. They also typically exclude illness or injury resulting from an act of war and treatment that the government has provided or paid for (National Association of Insurance Commissioners, 2010). Such stipulations exclude many people who need LTC due to their conditions and who need help in financing their LTC costs, so the decision to purchase LTC insurance is not optimal for these individuals.

Long-term care (LTC) insurance plans also typically have caps that specify the maximum benefit that an individual can receive from the plan. A guide to LTC insurance (America's Health Insurance Plans, 2012) states that "long-term care policies generally limit benefits to a maximum dollar amount or a maximum number of days." Moreover, policies typically pay out for a specified period of time such as three or five years (Society of Actuaries, 2012). The duration of coverage depends on the premiums that the policyholders pay and, seeing as not many people can pay for expensive unlimited coverage, these restrictions may negatively affect policyholders. After the policyholder has received benefits amounting to the maximum limit or received benefits for the maximum allowable period, he or she will no longer receive benefits and will have to assume responsibility to pay for all the LTC that he or she needs from then on. This is an especially precarious position to be in for individuals who are likely to need many years of LTC by trained professionals whether at home or outside.

Moreover, long-term care (LTC) insurance plans usually set elimination periods that require policyholders to pay for their own LTC for a certain period of time before they become eligible to receive benefits from the plan. Most plans enforce an elimination period between 30 to 90 days. Although this period of time may not seem very long, paying for LTC over this period of time can significantly impact an individual's financial resources. If an individual almost or completely uses up his or her own financial resources to fund the payments within the elimination period, there is no guarantee that he or she will not be left struggling to make future payments after the benefits from the insurance plan have been exhausted.

Another point of contention that arises in the debate surrounding whether or not all active employees should purchase long-term care (LTC) insurance is the condition of the LTC insurance market. Those taking the opposing position point towards unhealthy signs in the

market such as a significant decrease in the number of policyholders. Limra, a research group funded by the industry, estimates that since 2004 there has been a decrease of 30 percent in the number of people who own LTC insurance (as cited in Passy, 2012). In addition, eleven companies that were once part of the top ten companies in the market for LTC insurance had dropped their plans by 2010 (Leiber, 2010). The downsizing of the market is a response to help companies avoid losses as the companies have been taking on relatively high risks of paying out large sums of benefits to a pool of policyholders which is not giving the expected lapse rate. In reacting so, the companies cut back coverage or terminate coverage completely for all former policyholders and leave policyholders to find their own way to finance their LTC should a need for it arise.

On the other hand, proponents of long-term care (LTC) insurance suggest that this downtrend in the LTC insurance market is temporary and that the market will pick up its pace. Specifically, proponents urge more middle-income individuals to purchase the insurance as a way to protect themselves against future uncertainties. When more customers enter the market to choose a plan that suits their needs and expectations, more companies are likely to be more receptive to offering LTC insurance plans. Also, proponents argue that when the interest rates increase over time, insurance companies will be less reluctant to offer LTC insurance plans as investment returns will likely be higher. This then gives the companies some justification for offering a rather highly demanded product.

The debate about whether or not all active employees should purchase long-term care (LTC) insurance is not one that can be easily resolved to provide a simple answer of a resounding yes or no. Rather, the debate has many complicated factors that must be taken into consideration. On one hand, the proponents of LTC insurance are appropriately justified in

pushing for more employees to purchase the insurance as protection against a rather high likelihood of requiring financial assistance to afford necessary LTC. On the other hand, the opponents of LTC insurance are justified in pointing out the high premiums of LTC insurance plans that a proportion of the workforce cannot afford and in highlighting several pitfalls of such insurance plans that can, instead of helping policyholders, leave policyholders on their own once the plans terminate benefits.

Perhaps the best solution is to acknowledge a rather ambiguous middle ground. Long-term care (LTC) insurance is probably most suited to a middle-income individual who can afford to continuously pay premiums and would like to protect his or her assets against future shocks due to a need for LTC. It is also a good choice for high-income individuals who should seek ways to protect themselves against the risk of depleting their financial resources by paying for LTC in the future. However, LTC insurance is likely not a good choice for low-income individuals who may struggle even just to pay premiums. For them, it is perhaps better to rely on Medicaid to finance the larger proportion of their LTC costs.

Ultimately, the long-term care (LTC) insurance debate boils down to a matter of personal preference in hedging against the future risk of needing some form of LTC. Just like any other insurance, LTC insurance is not a must but it certainly does not hurt to have it in times of need. As such, it is important for any individual deciding whether or not to purchase LTC insurance to consider both sides of the debate and to weigh the costs and benefits as applicable to him or herself.

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