HIAA® CENTER FOR Disability & Long-Term Care INSURANCE

Health Insurance Association of America

EXECUTIVE SUMMARY RESEARCH FINDINGS

LONG-TERM CARE INSURANCE IN 2000-2001

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1201 F Street, NW · Suite 500 · Washington, D.C. 20004-1204 · (202) 824-1600 · **www.hiaa.org**

Health Insurance Association of America
1201 F Street, N.W., Suite 500
Washington, D.C. 2004-1204
(202) 824-1600
www.hiaa.org

SUMMARY OF STUDY FINDINGS

The number of individuals purchasing long-term care insurance has grown dramatically in recent years. In 2000 and 2001 alone, 137 companies sold over 1.4 million policies. With this surge in sales, 8.26 million policies were sold as of the end of 2001. The market grew an average of 18 percent each year between 1987 and 2001. Insurance policies sold included individual, group association, and employer-sponsored policies as well as riders to life insurance policies that accelerate the death benefit for long-term care.

The majority of long-term care insurance policies were sold in the individual and group association market. As of December 31, 2001, approximately 80 percent of the 8.26 million long-term care insurance policies had been sold through the individual and group association markets. In addition, 110 out of 137 insurers who participated in the long-term care market in 2000 and 2001 sold in this market. However, about one-third of the 2001 long-term care insurance carriers sold policies in either the employer-sponsored or life insurance markets, compared with only 14 percent in 1988. These two markets also represented 21 percent of all long-term care policies sold as of 1999, up from less than 3 percent in 1988.

Although the individual and employer-sponsored markets experienced tremendous growth in 2000 and 2001, the long-term care life insurance rider market has remained stagnant. Seventy-five percent of the market growth in 2001 can be attributed to the individual and group association markets. The total premium volume for the individual and group association policies sold in 2001 alone was about $1 billion.

Based on data reported by many individual insurers, HIAA estimates that roughly seven out of ten individual policies sold remain in force. The difference between the number of policies sold and the number of policies in force represents the number of policies that have been terminated due to death, voluntary lapse, or pay out of a policyholder’s maximum benefit. Additionally, if someone replaces an older policy, with the same insurer or another insurer, many carriers will identify that as a policy lapse, even though the individual remains insured. Furthermore, the in-force premium volume for individual and group association policies sold as of 2001 was around $5.6 billion.

For the first time, this year’s survey asked all individual carriers how much they have paid in long-term care claims. As of December 31, 2001, individual long-term care insurance companies have paid over $6 billion in benefits to their claimants. In 2001 alone, long-term care insurance claims paid were about $839 million.

It is important to note that long-term care in-force premiums and claims reported over a period of time cannot be directly compared. This is because long-term care insurance is a level premium prefunded product. A significant portion of premiums collected over many years is used to establish reserves that are built up over time. These reserves and their accumulated interest earnings are used to help pay future claims.

The employer-sponsored market enhanced market expansion by contributing close to a quarter of the sales in 2001. By the end of 2001, more than 1.3 million policies had been sold through more than 4,700 employers.

The life insurance riders market, on the other hand, has experienced virtually no growth since 1996. Many insurers in this market have significantly decreased their marketing efforts, stopped selling long-term care riders, or left the marketplace.

The most interesting change in these three market segments has been the average age of its purchasers. From 1988 to 2001, the average age of the purchasers in the individual market steadily fell, decreasing from 72 in 1990 to 65 in 1999. In 2001, this average age dropped down to 62. On the other hand, the average ages of the employee and life rider purchaser have increased. Since 1990, the employee purchaser's age has remained fairly constant at about 43. In 2001, this increased to 46. The average age of a life rider purchaser also significantly increased from 55 in 1999 to 66 in 2001.

Despite the growth of long-term care insurance in most regions, sales remained concentrated in a few states. By the end of 2001, half of all individual and group association policies had been sold in only 10 states: California, Florida, Illinois, Iowa, Missouri, New York, Ohio, Pennsylvania, Texas, and Washington. If total sales by state is divided by each state's over-65 population, the market penetration appears highest in Arizona, Colorado, Illinois, Indiana, Iowa, Kansas, Maine, Minnesota, Missouri, Montana, Nebraska, North Dakota, South Dakota, and Washington.

As in previous years, the long-term care insurance market was concentrated among a relatively small number of sellers. Eleven companies represented approximately 80 percent of all individual and group association policies sold in 2001. HIAA conducted an in-depth look at the top sellers' latest policies and found that insurers offer policies with a wide range of benefit options and design flexibility at moderately priced premiums. Key findings show that:

- All companies offer plans covering nursing home, assisted living facility, home health care, hospice care, respite care, and alternate care services.

- Other common benefits include care coordination or case management services, homemaker or chore services, restoration of benefits, reimbursement of bed reservations in long-term care facilities, coverage of various medical equipment, home-delivered meals, spousal discounts, survivorship benefits, and caregiver training.

- Criteria used for benefit eligibility are deficiency in performing activities of daily living (ADLs) and determination of cognitive impairment.

- All plans are guaranteed renewable, have a 30-day "free look" period, cover Alzheimer's disease, have a waiver of premium provision, and offer unlimited or lifetime nursing home maximum periods.

- All companies use a six-month or less pre-existing condition limitation.

- Age limits for purchasing continue to remain expanded. Companies offer individual policies to people as young as 18 and as old as 99.

- All plans offer the NAIC Model Act and Regulation inflation protection requirement of benefits increasing at an annual 5 percent compounded rate, funded with a level premium.

- All companies offer a nonforfeiture benefit, with a shortened benefit period being the most common type offered.

In addition to examining top sellers' policy provisions and marketing materials, HIAA reviewed the premiums offered for their most recent policy. Premiums for long-term care insurance policies varied widely depending on multiple factors, including entry age of the policyholder and benefit designs chosen.

The average premiums reported by the 2001 leading sellers have remained fairly constant when compared with the average premiums for the 1999 leading sellers. The average percentage change in premiums for the different age and policy categories was less than 1 percent. The change in premiums ranged from a decrease of 6.4 percent to an increase of 5.8 percent. The most notable changes in premiums were for individuals age 50. Premiums for a 50-year-old decreased for all types of policies analyzed in this study. This clearly indicates that market competition and the companies' increasing confidence with their pricing and anticipated claims experience have kept premiums stable. In addition, given the significant enhancements to long-term care insurance policy design within the last couple of years (for instance, elimination of prior hospitalization requirements, expansion of available benefits, coverage of additional sites, and levels of long-term care), buyers today are clearly receiving more benefits for their premium dollars.

The growth in employer-sponsored plans is especially promising. Employer plans offer the opportunity to reach a large number of people efficiently during their working years, when premiums are significantly more affordable. Most of these plans also offer coverage to spouses of employees, retired employees and their spouses, and to parents and parents-in-law of the employees or retirees.

By the end of 2001, more than 4,700 employers were offering a long-term care insurance plan to their employees, retirees, or both. There were more than 1,500 employer-sponsored plans introduced in 2000 and 2001 alone. Many small employers (between one and 500 employees) have started offering long-term care insurance to their employees. This number has increased dramatically, rising from 58 in 1990 to about 3,000 by 2001. This group represents more than two-thirds of all employers offering long-term care coverage to their employees, retirees, or both. There have also been substantial increases in the number of medium- and large-sized employers that offer long-term care coverage.