

Sowing the Seeds Of Long Term Care Insurance Growth

Lynn Wagner

At a time when long term care providers are battling deep funding cuts in Medicare and Medicaid, there is growing momentum behind expansion of the private long term care insurance market. The movement could ultimately ease dependence on public programs for the financing of long term care services, say insurance industry and public policy experts.

In July, the federal government launches open-season enrollment for a new long term care insurance program to 20 million federal employees, retirees, and family members. Observers say the sheer size of the newly eligible group will be a boon to the long term care insurance marketplace, even if only a small portion sign up for the plan. Furthermore, the program will be accompanied by an unprecedented educational campaign, which is expected to raise awareness among consumers nationwide of the need to prepare for long term care expenses. Experts say that such a broad-based educational push has been a critical

missing link in the long term care market and has held back the sale of private insurance.

What has been lacking is a “more definite indication from government that [consumers] need to go out and look at long term care insurance,” says Arthur Stein, a certified financial planner and vice president of Cassaday & Co., a financial planning firm in McLean, Va. “A lot of people think the government is going to take care of them. They don’t know about long term care insurance.”

Stein says his firm has sold policies to many federal workers since early enrollment for the long term care plan began in March. Like most employers, the government is not picking up any portion of the long term care insurance premium, so some employees are shopping around to see whether they can get a better deal on coverage, Stein says.

The federal program will likely be a “catalyst” for decision making once consumers hear the federal government is encouraging people to do it, he adds.

Congress Weighs In

Another potential boon for sales of private insurance is legislation proposed in both the Senate and the House of Representatives to give significant tax incentives for the purchase of long term care policies. The bills would make it possible for individuals to deduct a portion of their plan premiums and businesses to offer coverage as part of a cafeteria plan purchased with pretax dollars. The measure, which would also give caregivers a tax credit for long term care expenses, would go a long way toward overcoming the cost barrier to policy purchases, observers say.

The proposal, estimated to cost \$44 billion over 10 years, faces an uphill battle in a tightfisted budget year. Nevertheless, it has drawn significant bipartisan support, with 25 Senate co-sponsors and 187 co-sponsors in the House.

In a rally just before Mother’s Day, a coalition of 20 groups gathered on Capitol Hill to press for enactment of the legislation. An even broader coalition of 40 orga-

nizations, including the American Health Care Association (AHCA), AARP, and the Health Insurance Association of America (HIAA), signed on to a letter to the House and Senate leadership advocating swift passage of the measures.

The tax incentives and other provisions of the bill “will not only make long term care insurance more attractive and affordable,” said Charles Roadman II, M.D., president and chief executive officer of AHCA, “[but] it will empower individuals to choose whether their care needs can best be met at home, in a community-based setting, or in an assisted living or nursing facility.”

Insurance Makes Slow Inroads

In 2000, private insurance accounted for just 11 percent of the \$139 billion spent on long term care services, according to the General Accounting Office (GAO). Medicaid picked up 45 percent of the tab, while out-of-pocket consumer spending covered 23 percent and Medicare paid 14 percent of the total. Other public and private sources accounted for the remaining 7 percent of spending.

From 1987 through 1999, sales of long term care insurance policies rose from 815,000 to more than 6.8 million, said a 2002 report from HIAA in Washington, D.C. While sales have risen steadily, however, growth has never hit the rapid stride that was predicted more than a decade ago. In the 1980s, it was widely assumed that long term care insurance was on a fast track to expansion, says Susan Coronel, long term care director at HIAA. All of the indicators pointed in that direction: The population was aging, the chance of needing long term care services was reasonably high, and from an insurer’s perspective it was an attractive product because not everyone who purchased coverage would ultimately need benefits. But the barriers to a broad-based market for long term care insurance have proved more formidable than the factors that favor acceptance of the plans, observers say.

Lack of consumer understanding about how long term care is financed, the high

cost of the plans for seniors, and a personal reluctance among younger consumers to confront the possibility of needing such care are some of the reasons cited by insurance industry and public policy experts for sluggish sales growth.

But as the enormous baby boom generation gets closer to retirement age, alarms are sounding about the fiscal implications of having an elderly population of 76 million that is not prepared for its long term care needs.

In March, GAO’s top official warned that as baby boomers born between 1946 and 1964 become elderly, the population aged 65 to 84 will more than double. By 2040, their ranks will reach 63 million, while the number 85 and older will more than triple, to 14.3 million, said David Walker, the agency’s comptroller general, in testimony before the Senate Special Committee on Aging. Spending on Medicare, Medicaid, and Social Security will nearly double by 2035, and by 2050, spending on long term care could quadruple, to \$379 billion, Walker said. Without major reforms, Medicaid will remain one of the largest funding sources for that bill, he added.

The aging of the baby boom generation “will lead to a sharp growth in federal entitlement spending that, absent meaningful reforms, will represent an unsustainable burden on future generations,” he told the panel. While GAO made no specific recommendations on public policy needed to avert such a crisis, the agency advised Congress to take several considerations into account as it crafted long term care financing reforms, including encouraging “personal preparedness” in the form of long term care insurance.

The Federal Plan

The federal long term care insurance program (FLTCIP) was established by the Long Term Care Security Act of 2000. According to the act’s main sponsors in the Senate, Barbara Mikulski (D-Md.) and Paul Sarbanes (D-Md.), the purpose of the statute was to:

- Give federal employees, retirees, and

their families the opportunity to purchase long term care insurance at group rates “projected to be 15 percent to 20 percent below current market rates”;

- Create a model for private employers to use when establishing their own long term care insurance programs;

- Give employees the option to better prepare for retirement; and

- Reduce the burden on taxpayers to finance long term care through Medicaid as more individuals purchase private coverage.

“When looking at long term care insurance benefits, we started with federal employees for two reasons,” said Mikulski in a statement. As the nation’s largest employer, “the federal government can be a model and example for employers around the country,” and it can “raise awareness and education about long term care options,” she said.

The program, which became available on an early enrollment basis in March and through open season in July, covers nursing facility, home health, assisted living, respite, and community-based care. In addition, the plan will pay for assistance from family members or other informal caregivers and offers care coordinators to help with care planning and monitoring. Purchasers can also opt for a 5 percent annual inflation adjustment to keep benefits in line with market rates. Federal workers may choose from three prepackaged plans (see table, page 32) with varying levels of daily benefits, lengths of coverage, and maximum lifetime benefits.

Alternatively, they can customize a plan with different benefit amounts and waiting periods.

The program is being administered by Long Term Care Partners LLC, a joint venture between John Hancock Financial Services and the Metropolitan Life Insurance Co., two of the largest carriers of long term care insurance.

The companies came together because the government’s request for proposals (RFP) for the program “encouraged carriers to form consortia and partner together” to ensure sufficient capacity, says Laura Moore, general director of John Han-

‘A lot of people think the government is going to take care of them. They don’t know about long term care insurance.’

cock’s group insurance division in Boston. Furthermore, of the hundreds of carriers that offer long term care insurance, John Hancock and Metropolitan Life were among the few that had a group product, which was a requirement of the RFP, Moore says. The companies chose one another, Moore adds, because they are “similar in culture and outlook on group business.” They will split everything—risks and rewards—down the middle.

John Hancock has about 160 employers with 200,000 group policyholders and an even higher number of nongroup individual policyholders, says Moore. From an implementation standpoint, the federal program is far more complex than a standard group plan, as the FLTCIP will cover a sprawl of 160 agencies and 1,600 departments, plus the postal service and military, she adds.

“It doesn’t have the same coherence that a single employer plan would have,” Moore says. Another big difference is the ability of purchasers to customize benefits and other plan features. Typically, workers must choose from preselected plans. In addition, while there are no agents or brokers selling the federal plan, buyers can get individualized help from a customer

service representative in choosing the right coverage and to guide them through the enrollment process.

Moore is optimistic about the reception the plan will get. History indicates that “when the government offers a benefit, it is generally well-received,” which bodes well for policy sales, she says.

Joyce Ruddock, vice president of long term care for Metropolitan Life, says the company expects to sell 300,000 policies in the first year, with a growing rate of acceptance over time. A report on the long term care profession by the New York-based ratings firm Fitch is far more optimistic, predicting that the program could yield 500,000 enrollees by the first quarter of 2003.

Education Plays A Big Role

A key component of the rollout of the federal plan is to educate consumers. The campaign to inform federal workers and retirees about the need for long term care insurance and the features of the federal plan will be vast and varied.

“We know that a lot of people do not know much about long term care and often know even less about how to pay for it,” said Frank Titus, assistant director for long term care in the federal Office of Personnel Management (OPM), in April testimony before the Senate Special Committee on Aging.

To fill those knowledge gaps, the campaign developed by OPM and Long Term Care Partners, the federal insurance program administrator, will include a monthly newsletter series, called “Get Smart About Your Future,” and three satellite broadcasts dealing successively with long term care in general, long term care insurance, and the specifics of the federal insurance plan, Titus said. In addition, more than 2,000 workplace and community meetings will be held around the country. Educational posters, flyers, and brochures will also be distributed.

Core messages of the campaign will be the need to plan for long term care so that decisions aren’t made in a crisis and the importance of insurance for protecting assets and ensuring access to quality care,

says Metropolitan Life's Ruddock.

The educational effort will also include an interactive Web site and national media spots designed to reach a vast government audience, says Moore. It is the national advertising leg of the campaign that many observers say will have a spillover impact on the general public. The campaign will send a strong message to the "population at large that there is not a magic bullet from Washington to fund long term care," Moore says.

Paul Forte, chief executive officer of Long Term Care Partners, described the informational push as "the most sustained education and enrollment campaign ever conducted for long term care insurance." In Senate testimony, he said the program would "cause millions of people to think seriously about long term care and long term care insurance who have never given the subject a thought."

Some experts, however, are skeptical of the impact that the federal program will have on purchasing decisions in the general marketplace. Joshua Wiener, principal research associate at the Washington, D.C.-based Urban Institute, says he doubts that a significant segment of the elderly will ever own long term care policies. Premiums for the plans rise with age, creating a basic dilemma, he says. When people are young enough to afford coverage, they aren't interested, and by the time they need it they can no longer afford it.

The federal plan "will be an interesting test case for the insurance industry," Wiener says. If there is a high percentage of sales, it will be a sign that there "really is potential at this point in time for a large number of people to buy policies through employer-sponsored plans." On the other hand, if the federal government draws the same 4 percent to 5 percent enrollment that is typical of state governments that offer a long term care plan, there may be a negative impact on sales to other large employers, Wiener says. Businesses may determine that, based on the federal experience, it is not worth the effort of making long term care insurance available.

"I don't know that large percentages [of consumers] will ever be willing to buy

State Programs Face Similar Challenges

As the federal government rolls out an extensive educational and marketing campaign for its new long term care insurance plan, MedAmerica Insurance Co. in Rochester, N.Y., is launching a campaign of its own.

The company has developed print materials and an interactive Web site and set up a telephone call center to promote New York's long term care insurance program and educate consumers about long term care. The company has also held hundreds of group seminars around the state.

New York's long term care program officially started last October, but open enrollment and marketing didn't begin until April.

The state is offering two plans. The first is a standard plan with four benefit levels from which consumers can choose. Coverage includes nursing facility, assisted living, respite, hospice, home health, and adult day care. The second is the state's "Partnership" program, which offers the added benefit of preserving assets for purchasers who end up exhausting their insurance coverage and become reliant on Medicaid.

There are currently about 220,000 state employees, says Robert Clement, MedAmerica vice president. When retirees, local government offices, and family members are added to the pool eligible for participation in the state's long term care plan, the group grows to more than 1 million.

The state has some of the nation's highest nursing facility costs, with an average daily rate of \$274 in New

York City, according to a study released in April by the MetLife Mature Market Institute in Westport, Conn. New York is one of about a dozen states that offer a long term care plan to their government workers and retirees, says Clement. It is also one of four states that offer all citizens a so-called "Partnership" long term care plan.

The Partnership Concept

The Partnership policy concept was initiated in 1988 by the Robert Wood Johnson Foundation, which provided seed money for the plans. It was intended to forge an alliance between public programs and private industry that would provide an incentive for consumers to purchase policies by shielding them from impoverishment in the event they needed Medicaid coverage. In addition, the plans—which offer shorter benefit periods than some private-sector policies—are designed to be affordable and, over time, reduce the long term care spending burden on Medicaid.

The policies give buyers the key advantage of asset forgiveness, in the event they ever need Medicaid coverage. Policyholders who exhaust the benefits of their Partnership plan and seek Medicaid can shield some or all of their assets from consideration in the eligibility process. California, Connecticut, Indiana, and New York offer a Partnership plan. Some states limit asset protection to the amount of expenditures paid out by the insurance plan. An individual whose policy had paid \$100,000 on his or her behalf, for example, would be able to

shield \$100,000 in assets.

Some states offer the option of total asset protection, for an additional cost.

Sandy Pierce-Miller, director of the California Partnership for Long Term Care, says that in addition to the coverage provided by the plans, the program has improved the quality of long term care products sold in the state.

In the past five years, a significant portion of the consumer protection provisions, which are standard in the Partnership policies, have been written into state law and now apply to all long term care policies sold in California.

"That's a great victory," Pierce-Miller says.

For example, while insurers are not required to sell policies with an inflation adjustment, agents are required to show prospective clients a chart that illustrates the diminishing value of their policy over a period of 20 years without such an adjustment.

California's health plan for government workers and retirees, CalPERS, includes a long term care option, which has signed up 159,000 participants. The state Partnership program, which has 32,000 policyholders, is among those offerings, but not the sole insurer.

Barriers To State Programs

So far, Partnership programs have amassed a combined policy base of just 98,500. Plan executives at the state and national level blame the

slow growth on a federal statute that quashed further development of the program. In 1993, with an additional 21 states pursuing the statutory authority to implement Partnership programs, Congress enacted legislation that required states to conduct post-

mortem asset recovery for persons who had received Medicaid benefits after the age of 59, says Craig Lustig, spokesman for the national office of the Partnership for Long-Term Care, which is based at the University of Maryland Center on Aging.

The Omnibus Budget Reconciliation Act (OBRA) of 1993, which included that provision, grandfathered in existing Partnership programs, so they would not be affected by the require-

ment. But without the promise of asset protection, which was a cornerstone of the Partnership, interest among other state Medicaid programs has dried up. Legislation is pending in both the House and Senate that would amend OBRA '93 to allow states to implement Partnership plans. But the measures have drawn few co-sponsors and scant attention.

Mark Meiners, national program director for the Partnership for Long-Term Care, hopes to convince the government to include the program as part of the federal offering.

Those negotiations on behalf of the four existing state Partnership plans are ongoing, officials say.

Familiar Challenges

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policies," he adds. Ultimately, the only way to improve long term care financing is to improve public programs that are now, and will likely be in the future, the main funding source for services, says Wiener. "Public programs are the overwhelming way long term care is financed in this country and every other country in the world," he adds. "There is no country where private insurance is a major source of financing long term care."

Analysts Project Different Scenarios

Stephen Moses, president of the Center for Long Term Care Financing in Seattle, is also skeptical, but for a different reason. Moses says the federal program demonstrates that government is taking long term care seriously and that the educational campaign will be a "major public relations coup for the insurance industry because people all across the country will be getting information."

But he expects that the initiative will only have a "marginal" effect on the overall marketplace because the loopholes in Medicaid will continue to allow people with means to pay nothing for long term care services. Someone who owns a \$200,000 home and gets \$25,000 a year in income can "walk right on to Medicaid," Moses says. "It is easy to qualify." He contends that there is no actual evidence of people spending down to poverty as they pay for long term care. Instead, 78 percent of those who enter a long term care facility are already on Medicaid, he says. Only about 15 percent to 20 percent actually convert to the program.

"It is a myth that you have to be poor to get Medicaid," he says. Until the program is reserved as a true safety net for the poor and the government sends a strong message that assets will be at risk for those seeking Medicaid coverage, the public won't buy long term care insurance, Moses says.

Other experts, however, are more hopeful. "Private insurance will have to be a primary financing mechanism, not for the low-income, but for middle America," says Maura Kautsky, senior vice president of marketing and product development for

Conseco Insurance Group in Carmel, Ind. "The government cannot afford it, so the private sector has to step in and create the right product." As of last year Conseco had 600,000 long term care policies in force and had paid out more than \$400 million in claims for nursing facility, assisted living, and home health care.

Metropolitan Life's Ruddock says the federal program will send a "powerful message to the country that long term care is an important issue and people need to take personal responsibility in planning for it," she says. "We believe [the federal plan] will become the standard in the industry and that it will encourage employers to offer it to their employees. It will create significant public awareness and help grow the market."

The Employer Market Challenge

American workers are accustomed to getting insurance through their employers. But when it comes to long term care, the reception to coverage has been tepid. Statistics reflect the challenge facing the FLTCIP in reaching out to an enormous pool of potential buyers.

Overall, the participation rate of workers in group long term care insurance plans ranges from 6 percent to 10 percent, says HIAA's Coronel. Data gathered from 30 U.S. companies by LIMRA International, an insurance and financial services research organization in Windsor, Conn., found that by some measures, the growth of group enrollment declined last year. In 2001, the number of employer group sales rose 10 percent over the prior year, with 878 new businesses offering a plan. The number of enrollees in these newly sold plans, however, had declined 1 percent from 2000, to 129,154.

Furthermore, premiums on those new sales dropped 6 percent, to \$54.9 million. The average size of employer groups also dropped to 147 for new sales, from 168 the previous year, and to 236 for in-force policies, from 242 participants on average in 2000. A total of 4,410 employer groups had policies in force in 2001, LIMRA reported. The plans had 1.2 million participants, an overall increase in enrollment for

With the exception of the problem posed by OBRA '93 for Partnership plans, the challenges faced by states seeking to develop a long term care program for their employees and retirees are not unique.

The average age of purchasers in the plans is high, ranging from 64 to 66, and the average participation rate is low, around 2 percent, says Clement. MedAmerica, which has a total of 52,000 long term care policyholders, hopes to far exceed that participation rate in New York by offering a wide variety of options for learning about and signing up for the program, Clement adds.

The key is "education, education, education," he says. "Our philosophy is to get people to the position where they can make an informed decision."

In North Carolina, one of four other states where MedAmerica is the carrier for a government long term care plan, the company has just revamped its marketing program to appeal to younger buyers, Clement says.

"It is quite a challenge to get the younger generation" in the 45 to 50 age range, he adds.

Another critical barrier is the lack of employer contributions to the policies, observers say. This particularly stifles the appeal to younger buyers, says David Guttchen, director of the Connecticut Partnership for Long Term Care.

"If our state contributed as little as 5 percent, substantially more people

would be buying a plan," he says. A little would go a long way, Guttchen says, because workers don't like to feel they are missing out on an incentive.

Ultimately, to have an impact in the employer-based long term care insurance market, there has to be "at least a minimal contribution on the employer side," and businesses need to be able to offer the plan on a pretax basis, Guttchen adds. Long term care insurance "needs to be viewed as health insurance in the workplace, where the understanding is that the employer is going to contribute some, if not all, of the premium for employees," he says.

Discussion Needed

Another major barrier is the "lack of a belief that [the need for long term care is] going to happen to you," says Mary Ann Hack, director of the Indiana Partnership program.

Indiana offers a state tax deduction for long term care insurance, which "helps a lot," she says. In the long run, however, a fundamental shift must occur for private insurance to move to the forefront of long term care financing, officials say.

"We have to get families to talk about this issue," says Pierce-Miller. "It's the last discussion that remains in the closet."

The challenges faced by states seeking to develop a long term care program for their employees and retirees are not unique.

in-force policies of 14 percent.

One of the major barriers in the employer market, as with individual policy sales, is cost, experts say. Businesses typically do not contribute to long term care premiums, and tax deductions for premium expenses are available only to those whose medical expenses exceed 7.5 percent of their income.

A document from the federal government describing its group plan seeks to encourage younger buyers by pointing out

are finding more cost-effective plans outside of the federal program.

A study conducted in 2000-2001 by HIAA on workplace plans found that the average annual group premium was \$722 and that the average age of employee purchasers was 50. By comparison, the average premium for policies purchased in the individual marketplace was \$1,677, with an average purchaser age of 67.

Plans purchased through an employer group were also richer, HIAA found, with

Forty-two percent of buyers had incomes of \$50,000 or more, while 71 percent reported liquid assets of \$100,000 or more.

Encouraging Program Participation

In addition to cost, another major challenge in the workplace is appealing to younger employees, says Kautsky of Conseco, whose typical buyer is 60 to 70.

“We don’t really believe we will ever crack the mold and sell to younger people in their 40s. They have other expenses they are thinking about” at that time in life, she says.

However, long term care policies are still new products, relative to other types of insurance, so the market may evolve, Kautsky adds. To appeal to younger buyers, products will have to be redesigned with lower premiums and a different benefit structure, she says.

John Hancock’s Moore, however, says her company has cracked that age barrier, with the average age for group business in the late 40s. Not only are the policies popular in that age group, but about 10 percent of Hancock’s group policies are purchased by workers in their 20s and 30s, Moore says.

“We see surprising penetration in those age groups,” Moore says. She attributes sales in that demographic to the tendency among some people to purchase workplace benefits based on faith in their employer’s due diligence getting the best deal and conviction that it is worth buying.

Overall, while participation rates are still quite low, interest among employers in offering long term care insurance has “gone up dramatically in the past three to four years,” says Dawn Helwig, a consulting actuary at Milliman USA, a benefits consulting firm in Chicago. Employers are realizing that the plans cost them very little and provide important protection, she adds. “A retirement package without the asset protection from the risk of long term care” diminishes the value of that package, Helwig says. Employers increasingly recognize the need to give employees the opportunity to cover risk, she adds.

One Milliman study found that more than half of all employers surveyed said

Prepackaged Federal Plans				
Plan	Maximum Lifetime Benefit	Daily Benefit	Benefit Period	Waiting Period
A	\$109,500	\$100	3 years	90 days
B	\$164,250	\$150	3 years	90 days
C	\$273,750	\$150	5 years	90 days

Source: Federal Office of Personnel Management

the sharp increase in cost as the age of policyholders goes up. For example, a three-year plan with a \$150 daily benefit and an inflation adjustment would cost a 50-year-old federal worker \$1,120 a year. At age 65, the same policy would cost \$2,131.

While federal premiums are lower for younger workers, they may not be the best available price, according to Stein. Many workers can do better in the private market, he says. The federal plan is most cost-effective for employees under age 40 and over age 65 and least cost-effective for workers between those ages, he adds. Most policies purchased in the individual market, for example, come with an additional savings of about 8 percent if the premium is paid yearly, as opposed to in shorter increments.

A comparison of policy offerings compiled by Stein from four insurers and the federal government found that premiums for similar policies (in some cases with longer benefit periods) were up to \$300 a year cheaper in the private market. Stein says that at least 75 percent of his clients

88 percent providing inflation protection, compared with 41 percent of those purchased in the individual market. In addition, 97 percent of group plans covered both nursing facility and home health care, while only 77 percent of individual plans were purchased with dual benefits.

Despite the relative advantages of a group plan, 52 percent of employees who declined enrollment cited cost as the primary reason. Among enrollees, 82 percent had incomes over \$50,000, and 56 percent earned at least \$75,000. But in contrast to the widespread perception that long term care coverage is only realistic for high earners, the plans are far more affordable than most people think, says HIAA’s Coronel.

“This is not a product [exclusively] for the very wealthy,” she says. “Most people who purchase a policy are middle-income, earning \$30,000 to \$50,000 a year.”

In fact, an HIAA survey of individual (as opposed to group plan) buyers conducted in 2000 found that 41 percent had incomes of \$25,000 to \$50,000, while 17 percent had incomes under \$25,000.

they were interested in offering long term care coverage in the future. Once an employer decides to offer a plan, employee participation—which can range from 2 percent to 20 percent—is determined to a great extent by the effort to promote the plan and educate workers and by the level of trust employees have in their employer’s judgment, Helwig says.

To bolster both the appeal and competitiveness of its plan for federal workers, the government has introduced several unique features, including:

- Payment of up to 75 percent of the normal daily benefit for services—such as help with bathing, dressing, meal preparation, and getting to physician visits—provided by friends, family members, neighbors, and other nonprofessionals;

- Care coordinators to provide counseling on the best setting for care, care planning, and nutrition;

- An appeals process governed by an independent third party, whose decision is binding;

- International coverage, enabling enrollees to receive benefits anywhere in the world; and

- Rates that the government says are at least 15 percent less costly than comparable plans issued on an individual basis.

It’s too soon to tell whether the federal government will have greater success than a typical employer will in drawing employees into its group long term care plan. With an eligible population of 20 million, however, the participation rate doesn’t have to be high to impact the marketplace. If just 1 percent of the group purchases a policy, there will be a significant boost in nationwide sales, says Bonnie Brazzell, vice president for worksite marketing at Eastbridge Consulting in Avon, Conn. “Whether that [increase] will be sustain-

able and cause other employers to start offering long term care, I don’t know.”

Tax Deduction May Spur Growth

A central strategy under consideration for mitigating the cost of long term care insurance is more favorable tax treatment for premium expenses. Insurers say a tax deduction is essential to stimulating sales.

The Health Insurance Portability and Accountability Act, enacted in 1986, provided marginal relief by allowing a deduction for individuals whose medical bills exceed 7.5 percent of their income and allowing employers to count the cost of setting up a plan as a business expense. But critics contend that few people incur such a high level of medical expenses, making the tax benefit limited in scope.

A more significant incentive will be needed for long term care insurance to achieve its full potential, says David

Guttchen, director of the Connecticut Partnership for Long Term Care, a program that gives individuals an incentive to buy long term care insurance by allowing them to retain assets in the event that they ever become reliant on Medicaid. Without a tax deduction that is more broadly applicable, long term care insurance will not attract a large contingent of younger buyers, he adds. As a result, the focus will continue to be on the seniors market, where costs are higher, health problems are a barrier, and the number of policyholders will therefore be constrained.

“Without that [tax deduction], if long term care insurance just focuses on the senior market I don’t see it reaching the potential it could, because the cost is prohibitive, and it gets harder to pass underwriting,” Guttchen says.

Federal legislation that would provide a graduated “above-the-line” tax deduction,

subtracted from taxable income, for long term care insurance has been introduced in both the House and Senate. Under the bills, the portion of the premium subject to deduction would depend on the length of time the policy had been in force, the taxpayer’s age, and the marginal tax rate.

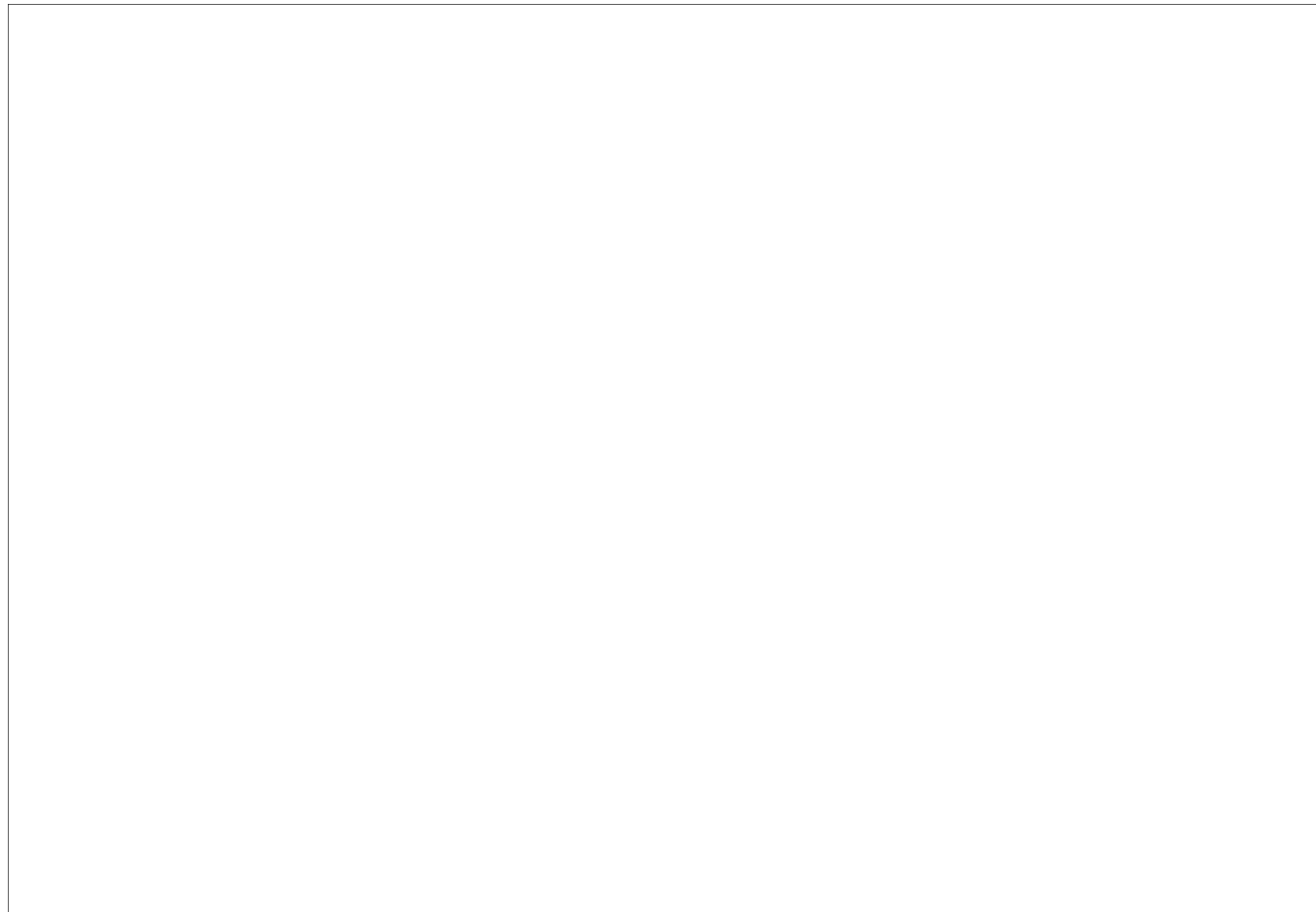
The measure, sponsored by Reps. Nancy Johnson (R-Conn.) and Karen Thurman (D-Fla.) in the House and Sens. Charles Grassley (R-Iowa) and Bob Graham (D-Fla.) in the Senate, would also allow long term care plans to be offered as part of an employer’s cafeteria plan or flexible spending account. This would enable workers to purchase coverage with pretax dollars. The bill—the Long Term Care and Retirement Security Act of 2001—would also provide a tax credit for individuals with long term care needs, or caregivers who contribute financially to services. The credit would increase from

\$1,000 to \$3,000 over five years.

The legislation is the focus of a major lobbying push by a coalition of 40 provider, consumer, and payer organizations. In May, the groups wrote a joint letter to House Speaker Dennis Hastert (R-Ill.) and Senate Majority Leader Tom Daschle (D-S.D.) urging speedy enactment of the legislation. The groups conducted dozens of office visits on Capitol Hill to boost support for the measure. HIAA and the American Council of Life Insurers also ran ads in a Washington, D.C., newspaper with the message that long term care is a “critical issue to women,” said a statement from HIAA President Donald Young, M.D.

The ad, depicting a baby standing on the bare feet of a jeans-clad adult, said, “She spent her life helping to build your future. Now you can help secure hers.”

“Democrats and Republicans, consumer



advocates and industry groups, caregivers and those who need care all support federal legislation providing tax relief for long term care," said Young. President Bush has set aside \$24 billion for long term care tax relief in his fiscal 2003 budget, he added. "We know there's a will. Now it's up to Congress to find a way."

HIAA's Coronel says the legislation is "a popular issue for constituents." In a year when it will be difficult to pass much in the way of health or education, enactment of this bill would allow lawmakers to "claim some type of victory."

Providers have long supported tax incentives for long term care insurance because increased utilization can work to bring financial stability to the business of providing quality care.

"We see the above-the-line deduction and a refundable tax credit targeted at low-income individuals as key elements of a more comprehensive long term care financing reform solution," says AHCA's Roadman. "Not only will these tax incentives encourage greater personal responsibility in long term care planning and enhance consumer choice, but they will set the stage for a restructuring of our nation's current patchwork system for providing care."

Ultimately, with an aging population and the insupportable cost burden that threatens public programs, "lawmakers almost have no option but to empower individuals to plan for their future long term care expenses," says Coronel. "To the extent there is any viable vehicle, long term care insurance is the best bet." ■

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