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The Benefits of Long-Term Care Insurance

Companies that want to offer employees long-term-care insurance must understand the complexities.

By Joanne Sammer | February 27, 2019

After her grandmother broke her hip and required long-term care in a nursing home, Jennifer Loftus, SHRM-SCP, saw the financial pressure that the cost of the care put on the family. She vowed to take steps to prevent similar hardship in her own future. “People hope they never need long-term care, but that’s not reality,” she says.

When Loftus started HR consulting firm Astron Solutions in New York City, she knew she wanted to make long-term-care coverage available to employees. After seeing one of her clients offering fully paid long-term-care insurance as an employee benefit, she decided to establish a similar benefit at Astron. The result is a program with premiums ranging from about $700 per year for the youngest employee enrolled to nearly $5,000 per year for the oldest eligible employee.

The high cost of long-term-care insurance, the lack of coverage from conventional health insurance and Medicare, and the emotional and financial toll that the situation takes on a family combine to prompt people like Loftus who experience such a hardship to appreciate the importance of having a policy that will help cover these costs, which can be considerable. Data from accounting firm PwC (https://www.pwc.com/us/en/industries/insurance/library/long-term-care-services.html) puts current average lifetime long-term-care costs at $172,000 per person, with a median of $107,000. The monthly cost of a semi-private room in a long-term-care facility averages $7,441 ($8,365 for a private room), according to data from the 2018 Genworth Cost of Care survey (https://www.genworth.com/aging-and-you/finances/cost-of-care.html).

“As demographics change and the population ages, people are more conscious about the need to plan for long-term care,” says Steve Cain, director and sales and business development leader at LTCI Partners, a Lake Forest, Ill.-based brokerage firm specializing in long-term-care insurance. “They worry about it and become the driver of bringing long-term-care coverage into the workplace.”

The Long-Term-Care Conundrum

Simply offering access to long-term-care coverage may not spark enrollment. The insurance is expensive and complex, and the well-publicized premium increases and changing policy terms in recent years have not helped matters. As a result, it’s not unheard of to have zero employees purchase policies included in their voluntary benefits programs.

Employers themselves seem to run hot and cold when deciding whether to offer long-term-care insurance. Data from the Society for Human Resource Management’s 2018 Employee Benefits Survey (www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/2018%20Employee%20Benefits%20Report.pdf) shows that the percentage of employers providing such insurance has fluctuated from one-third to one-quarter of employers over the past few years. From 2017 to 2018 alone, the percentage of employers offering the benefit jumped from 22 percent to 32 percent.

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Long-term-care insurance is also misunderstood. “A lot of people see long-term-care coverage as ‘nursing home insurance,’ ” says Valerie McGee, director of employee benefits and wellness for the American Medical Association (AMA) in Washington, D.C. However, long-term care is not limited to custodial care. In fact, long-term-care policies generally kick in when someone needs assistance with at least two of six activities of daily living, such as eating, bathing and getting dressed. This can happen well before someone requires nursing home care.

The net result is employees who may be more exposed to financial risk during their retirement years than they realize. “Long-term-care insurance comes with great tax incentives,” says Barry Kozak, a consultant with October Three, a retirement benefits consulting firm in Chicago. “Unfortunately, people don’t understand it, and the infrastructure to sell this coverage and educate employees about what it offers and how it fits into retirement planning is lacking.”

Providing a Base

One of the easiest ways for employers to help their employees manage long-term-care risks is to pay some or all of the cost of insurance. In 2019, the AMA began providing an employer-paid basic level of long-term-care coverage for up to $2,000 per month over three years. All of the AMA’s 1,100 employees receive this benefit. Then, if employees want additional protection, they can purchase higher monthly limits in $1,000 increments, up to a maximum benefit of $9,000 per month, and increase the number of years of coverage. “We have had 165 employees, or 15 percent of our workforce, purchasing this additional coverage,” McGee says.

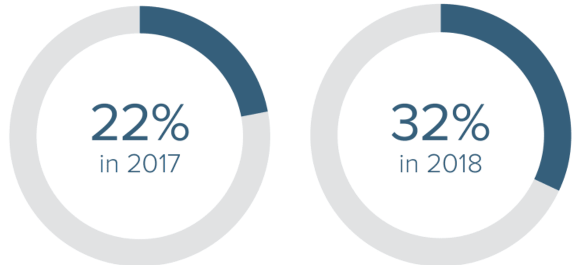
In addition, the AMA, like many employers offering long-term-care insurance, allows employees’ extended family members to purchase coverage through the program. Employees’ spouses can purchase coverage on an individual basis. Parents and grandparents of employees and their spouses are also automatically eligible for coverage. Other relatives, including siblings, may be eligible on a case-by-case basis. The individual relatives must pay the full cost of the coverage and are not guaranteed coverage by the insurance carrier.

This willingness to extend eligibility to a range of family members may seem odd, but it can be a boon to productivity. After all, long-term-care coverage can not only help employees manage their own health care, “it can also help ease employees’ responsibility if they’re caring for an aging parent or other relative,” Kozak says. “It can help avoid some of the absenteeism and other distractions for employees with aging relatives.” That is why some employers extend access to long-term-care insurance even more widely than the AMA has, to include aunts, uncles and cousins under the same terms as those available to employees. In these cases, premiums for family members must be paid individually, directly to the insurance carrier, instead of through a payroll deduction.

ON THE RISE

The percentage of employers providing long-term-care insurance has fluctuated over the past few years. From 2017 to 2018 alone, the percentage of employers offering the benefit jumped by 10 percent.

Source: SHRM's *2018 Employee Benefits* survey report.



A Changed Marketplace

In many ways, the insurance market for long-term care was a victim of its own early popularity, dating back to the 1990s. Many of the carriers rushing to offer this coverage early on were, in retrospect, not conservative enough in their actuarial assumptions and too aggressive in their pricing. Once enrollees began making claims, some carriers began canceling policies, increasing premiums and scaling back benefits, leaving many longtime policyholders without affordable coverage.

The market today has stabilized. While the number of carriers still offering long-term-care insurance has declined significantly, "policies bought over the past four or five years have experienced no rate increases," says Steve Forman, senior vice president of Long-Term Care Associates in Bellevue, Wash. "Today's policies are priced conservatively because carriers have learned from past experience." Rising interest rates are also likely to help keep premiums steady as carriers earn more from their invested assets.

However, there are some important changes in the market as new carriers enter, others exit and new products emerge. For one thing, it's difficult for employers to find guaranteed-issue long-term-care insurance in which everyone who applies for coverage gets it. Simplified-issue is more common and requires applicants to provide basic information about their health, including any prescription medications they take. "There's no running away from the first-generation products," Cain says. "But we are seeing new products being developed, and this second generation of products is more stable than its predecessors."

This second generation also includes hybrid products. For example, current offerings function as life insurance, with an option for policyholders to access some of their death benefit to pay for long-term care—for example, $4,000 per month in long-term-care coverage for three years. If employers offer long-term-care insurance as group life, they may have access to guaranteed issue to provide coverage to every employee who signs up. In the coming years, Forman expects to see products come to market offering life insurance that converts to long-term-care insurance when the policyholder reaches age 65. "These could appear as early as 2020," he says.

It's important to note that these new types of long-term-care insurance policies may not be eligible for the preferential tax treatment available to more-traditional offerings. "Hybrid policies offer no tax advantages, and employees must pay premiums with after-tax income or use employer contributions that are taxable as income to employees," says David Klimaszewski, a partner with law firm Culhane Meadows Haughian & Walsh in Dallas. "As a result, employers may not want to offer these policies."

6 Considerations for Offering Long-Term-Care Coverage

Offering long-term-care insurance requires more than the right policy. Employers should consider the following actions in developing a truly comprehensive program:

1. Understand the market. Employers should carefully evaluate the marketplace to determine if and how the available products will meet their employees' needs.

2. Decide whether to subsidize. Long-term-care insurance is expensive, so offering even a nominal subsidy is likely to convince more employees to sign up. Employers that want to go further can provide a fully employer-paid basic benefit that allows employees to add tiers of additional coverage at their own expense.

3. Extend availability. Employers can allow employees' extended family members to purchase coverage at the same rate.

4. Take it off-cycle. Long-term-care insurance is complex. Off-cycle enrollment in the spring or summer months—away from the annual open enrollment period—can give employees time to understand this benefit and how it might meet their needs.

5. Integrate it into retirement planning. Decision-making about long-term care deserves a prominent place in employer-provided retirement planning. In fact, meeting with a financial planner is often the catalyst for employees to purchase long-term-care insurance as part of a broader retirement and financial plan.

6. Offer caregiving resources. Employees who are interested in long-term-care insurance often have experience with caregiving for family members. Therefore, employers should confirm that their employee assistance program provides relevant resources for employees in need. Some insurance carriers and brokers offer access to caregiving resources and information as part of a broader long-term-care insurance program.

Staying the Course

These market fluctuations have directly impacted employers offering long-term-care insurance. Since making such insurance available to its employees with guaranteed issue in 2005, law firm Davis Wright Tremaine has faced canceled policies, underwriting changes and a three-year gap during which the firm was unable to offer any new coverage at all, according to Rob Mumford, Davis Wright's benefits manager based in Seattle.

Through it all, the firm's employees have questioned whether maintaining long-term-care coverage was worth the expense. "A number of people who bought coverage at the initial good rates ended up canceling their policies because it was more than they wanted to pay," Mumford says. "They were unsure that they would get anything out of it." As a result, the initial 15 percent participation rate in the program has declined to about 7 percent or 8 percent, with older, higher-paid employees most likely to keep their policies. "Those with higher incomes are more concerned about protecting their assets," he says.

During the market turmoil, Davis Wright's carrier canceled the policies and the firm was unable to find a carrier willing to provide new coverage for three years. When it finally lined up coverage through a new insurer, the program offered only simplified underwriting, meaning that some employees can now be turned down for coverage.

Despite such complications, Mumford still sees the value of offering long-term-care insurance. "It's all about access for employees and their families," he says. "It makes our benefits offering more complete and allows us to be competitive with our peers."

That access means female employees benefit from gender-neutral premiums, instead of paying up to 50 percent more than men for the same coverage. (Because women live longer and account for roughly two-thirds of long-term-care insurance claims, their premiums are generally higher.) It also means opening the program to family members. This often appeals to younger employees who may not want to purchase long-term-care insurance for themselves but are pleased that their extended family, including parents, grandparents, siblings and step-family members, can purchase coverage through the firm's program. These relatives can do so at better pricing than would be available on the open market.

Higher Enrollment = Better Benefit

Employers that want to provide a cost-effective, long-term-care benefit for their employees must convince more staffers to sign up. "To bring costs down significantly, long-term care take-up would have to look more like that of long-term disability," says Mike Boro, a partner in the PwC workforce of the future business based in New York City. "That would make it more affordable to more employees."

That means bringing more younger employees—who are the least likely to be interested in or to purchase long-term-care insurance—into the program. Achieving enrollment and premium rates similar to those for long-term disability may not be possible. However, "when people understand the risk associated with long-term care, they may be more willing to start planning for this and purchase coverage at a younger age," says Steven Ginsburg, a principal with Chicago-based HR consulting firm Mercer. "The average age for purchase used to be 58 or 59, but some employers have been able to reduce that to as low as age 44."

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Increasing employee participation in long-term-care insurance programs is often a matter of subsidies. If an employer pays nothing toward the cost of this coverage, employee participation is likely to be in the low single digits. Even a token contribution of $5 or $10 per month may be enough to get employees' attention, while higher amounts are likely to spur higher enrollment numbers. And by increasing enrollment, employers may be able to offer employees lower-cost products and maximize underwriting concessions, such as gender-neutral rates and fewer disqualifying health issues.

Urging employees to purchase coverage now can be to their benefit. Someone who waits too long to buy long-term-care insurance has a greater chance of developing a health condition that could keep him or her from being approved for coverage. "When you're 30 or 40, you can buy what you want," says Kevin Sypniewski, CEO of AGIS Network, an elder care and long-term-care consulting firm based in San Ramon, Calif. "When you're 55 to 65, you buy what you can afford, even if it's not what you want." He likened monthly premiums for those ages 35 to 45 to the amount that many people pay for cable service, while those ages 55 to 65 pay the equivalent of a car payment.

As the population continues to age, long-term-care preparedness is likely to be a regular topic of conversation among HR and employee benefit executives, not to mention employees and their families. As the long-term-care insurance market evolves, these products may warrant a fresh look from time to time. While the era of low-cost, guaranteed policies is not likely to return, new combinations of insurance may be enough to give employees peace of mind about one of the core risks of retirement and their financial futures.

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