Long-Term Care Insurance: An Underappreciated Postemployment Benefit

by **Tom Riekse, CEBS** | *LTCI Partners, LLC* and **Steve Cain** | *LTCI Partners, LLC*

The COVID-19 pandemic has had an enormous impact on nursing homes and other care facilities in this country. It is estimated that nursing home residents make up between 20% and 25% of all deaths related to COVID-19 in the United States, starting with the initial COVID-19 outbreak in a facility in Washington State.[1]

Being in a nursing home with an outbreak of a virus like COVID-19 must be terrifying. And even prior to the pandemic, nursing facilities were already facing pressures. According to a report from LeadingAge, more than 550 nursing homes have closed since 2015, and there has been an increase in the number of nursing homes closing each year.[2] The nursing home occupancy *rate* also has decreased since 2015—even with the nursing home closings.

All this is happening despite an aging population. So why are nursing homes closing? One clue might be in how nursing home care is financed in the U.S. More than six in ten nursing home residents have their care financed through Medicaid.[3] However, an analysis of 28 state Medicaid nursing rates found that Medicaid paid for as little as 73% of the actual cost of care. Because of this, skilled nursing homes are struggling financially. With these struggles come challenges in paying and retaining quality staff. With struggles in retaining quality staff come problems with care, and with problems with care come inevitable lawsuits. Without additional funding, many nursing homes have no option but to close.

With a decline in nursing homes, care often will be provided at home or at private-pay assisted living facilities. The coronavirus pandemic has increased interest in home care.[4] Many states have redirected Medicaid funds to pay for home health care through a Medicaid waiver program with the Centers for Medicare & Medicaid Services (CMS), but the amount of money and type of care available per state vary greatly.

Medicare was not designed to pay for custodial care—help with bathing, dressing and other activities of daily living. Even if changes in Medicare laws allowed payments for such coverage, there are real concerns about the financial strains on Medicare in the future. As an example, according

AT A GLANCE

- A key part of retirement planning is the need to consider long-term care (LTC). Employers can play a part in better preparing their workers for providing care or needing it in their future.
- Four out of five Americans have said that they want the option of buying long-term care insurance (LTCi) through an employer. Advantages can include premium discounts, streamlined underwriting and unisex rate structures. Challenges can include limited carrier options, high premiums and the possibility of medical underwriting.
- To increase employee participation in LTCi, employers will need effective strategies for communication and enrollment, including education campaigns, email communications, webinars, online enrollment, direct billing and the use of behavioral finance tools.

to the most recent *Medicare Trustee Report*, the trust fund of one part of Medicare—the Part A trust fund—could be depleted as early as 2026. The fund lost $5.8 billion in 2019.[5]

States are starting to realize the severity of the issue, and some have gone so far as to create their own financing programs specifically for long-term care (LTC). One example is the Long-Term Care Trust Act in the state of Washington. The act creates a state-run LTC insurance program for Washington residents. It is funded by a 0.58% payroll deduction tax, although those with a qualified LTC insurance policy may opt out of the tax (and the benefit). For those who qualify for care, the plan would pay a maximum benefit of $36,500, or $100 per day for a year. The state will start collecting payroll deductions in January 2022.[6]

Apart from the issues related to the pandemic, the fact is that most Americans don't like to think about aging and potentially living in a nursing home. As a result, most fail to prepare. Our culture tends to avoid thinking about aging and death, and retirement planning for a postcareer life is often focused on the type of income that can be generated for travel, hobbies and other pursuits.

The costs of not being prepared can be great. Some people will need help with the above-mentioned activities of daily living. Others may develop Alzheimer's disease or other forms of dementia. Unfortunately, the default plan for those without a plan is a liquidation of assets to pay for care, followed by reliance on Medicaid.

There is no doubt that many will turn their attention to the question of how to better care for our senior population once the COVID-19 pandemic ends. Governments have a substantial if not primary role in public health, regulation and financing. However, employers also can play a vital role to assist with this retirement issue. Almost every large employer offers employees a qualified retirement plan like a 401(k). In recent years, employers have made progress in encouraging participation in qualified plans through the use of automatic enrollment, employer contributions, target date fund defaults and similar offerings. What employers usually don't do is help employees plan for health and LTC costs in retirement—a key part of financial wellness.

Why an LTC Event Is the Biggest Risk to Individual Retirement Plans

Once someone does retire, they hopefully can manage expenses and spend some of their savings. They count on the government backstop of protection in Social Security and Medicare. However, important risks are often overlooked, including the potential cost of LTC and how those costs are funded. Unfortunately, a large percentage of the population is under the erroneous belief that Medicare will pay for most LTC costs, which is not the case.

LTC costs are typically the costs of things that are nonmedical in nature, such as providing companionship and help for someone with Alzheimer's disease, helping a patient with Parkinson's disease bathe and dress, or paying for the cost of assisted living care. These types of informal care are often coordinated by a spouse or family member and provided by a home health care aide or agency.

What are the odds of someone needing care, and how long will care be necessary? According to AARP, about 52% of people turning 65 will need some type of LTC services in their lifetime.[7] The length of time that care is needed varies by person. The Department of Health and Human Services estimates that 48% of people receiving care will need care for less than one year, 19% will need between one and two years of care, 21% will need care between two and five years, and 13% will need care for longer than five years.[8]

The cost can be prohibitive. According to a 2017 PwC study using LTC insurance claim data, the average lifetime cost of formal LTC services is $172,000. However, for 24% of people, the cost will be over $250,000, and for 7% it will be over $500,000.[9]

The actual cost per individual will vary due to the type of care they need. Dementia care is often the most expensive and long-lasting. The estimated lifetime cost of care for someone with Alzheimer's disease is about $350,000.[10]

Cost of care will vary by location as well. LTC costs are a product of labor and real estate costs. As an example, based on data from Mutual of Omaha, a home health aide costs $18 per hour in Louisiana, compared with $29 an hour in Massachusetts. The cost of a private nursing home room is $218 per day in Kansas and $460 per day in Washington, D.C.[11]

All of the above demonstrates three clear points.

- An LTC event is something that can happen to anyone, and it becomes more likely for postwork retirees as they get older.
- The cost of care can be substantial and varies greatly by person.
- Current health care programs such as Medicare and private insurance plans do not pay the majority of care costs. Medicaid is the primary funding source for LTC but is under substantial pressure. Disability income insurance replaces income during working years and is not typically available for retirees.

LTC Insurance Can Help Some Retirees to Finance LTC Costs

Long-term care insurance (LTCi) can be part of the solution. In the absence of LTCi, families needing care rely on savings to fund care providers or to pay for assisted living and skilled nursing care. For many retirees, this means using money saved in a 401(k) plan or other retirement savings account. The problem is that most retirees planned to use that money for other expenses, not care.

Employers designed retirement savings programs so that workers could retire on time. However, the concern about future health and LTC costs may cause some employees to delay retirement. LTCi can help to give some employees peace of mind to retire confidently and on time.

At its basic level, the concept of LTCi is just purchasing a pool of money that can be accessed when care is needed. Buyers select how big that pool of money is initially and decide whether the pool will automatically increase over time to keep up with inflation. LTCi will pay for care in a variety of settings, based on the policyholder's individual needs. Policies will commence based on a Health Insurance Portability and Accountability Act (HIPAA)-defined set of benefit triggers—either lacking the ability to perform two of six activities of daily living (ADLs) or needing supervision due to cognitive issues such as dementia.

Why Employers May Want to Offer LTCi as an Employee Benefit

LTCi is a product that has been available for over 30 years, but only a small percentage of those who say they need coverage have a plan. One reason could be that an LTCi plan is often not available through an employer, despite the desire of employees to have this option. In fact, according to a Genworth Financial 2017 survey of 1,200 adults, four out of five Americans want the option of buying LTCi at work, and 68% of survey respondents would prefer to purchase LTCi through an employer rather than a financial professional.[12]

There can be many advantages to an employee buying LTCi through an employer.

1. **Premium discounts.** Insurers typically discount premiums for employers compared with what is available in the individual market. They can do this because offering LTCi to a large number of buyers lowers their customer acquisition cost. The discount can be extended to spouses and often extended family members.
2. **Underwriting.** Another advantage for employees is often streamlined underwriting. Most LTC products include a health evaluation, which is important to keep the block of business stable and combat adverse selection by an employee. However, many carriers will simplify the underwriting process on a group case with an open enrollment period that can allow more people to access plans.
3. **Unisex rate structure.** Because women tend to live longer and therefore need more LTC, they pay more for LTC in the individual marketplace. Unlike with products in the individual market, employer standalone LTC plans offer the additional advantage of gender-neutral premium rates.
4. **Employee buying experience.** An employee buying LTCi through an employer group may have a better buying experience than someone buying in the individual marketplace. Robust education and awareness campaigns can help employees make a thoughtful decision. The product offering has been vetted by the employer, and an employee may avoid a high-pressure sales approach. Also, these products usually offer convenient online enrollment.

Advantages and Disadvantages of Different Policies

Group LTCi programs come in two flavors: (1) traditional, standalone, health-based LTCi and (2) group life insurance that includes an LTCi benefit.

Although there are some differences in how these plans work, it is important to note that both products will pay using the HIPAA-designated triggers mentioned previously—when policyholders or certificateholders need assistance with either two of six ADLs or have a cognitive impairment requiring supervision. The benefit received by the policyholder is normally tax-free for expenses incurred for caregiving. Both types of policies also allow for care to be received at home, in assisted living or at a skilled nursing facility.

The difference is that plans that combine life insurance will pay an LTC benefit by allowing early access acceleration of the death benefit. Most products then also include an extension-of-benefits rider once the initial benefit has been exhausted. If no LTC is needed, then the plan will pay a life insurance benefit to a family beneficiary upon death.

Following are the advantages and disadvantages of each approach.

Advantages of Standalone LTCi

- **Best leverage of premium dollar for LTCi protection.** Similar to term life insurance, standalone LTCi provides the most LTC benefit per premium dollar.
- **Includes inflation protection options.** Inflation protection options are designed to keep pace with the cost of care over time.
- **More coverage options.** A standalone LTCi policy can be designed to cover either the full cost of care or a portion of the cost of care.
- **Health savings account (HSA) friendly.** Employees with HSAs can use HSA account dollars to pay LTC premiums—even premiums that were paid with post-tax dollars in the past, as long as an HSA had been established.

Challenges of Standalone LTCi

- **Use it or lose it.** If a policyholder never needs LTC, there is no return of premium or cash value.
- **Limited carrier options.** Due to historically low interest rates and widespread pricing errors on early LTC policies, many carriers have exited the market.
- **High premiums for pure protection.** With the average premium of standalone LTCi being around $1,200 annually, this benefit tends to be more appealing to employees age 45 to 65 with total household incomes of $100,000 or more.
- **Requires some medical underwriting.** LTCi provides substantial benefits, and carriers are carefully underwriting coverage to avoid past mistakes. No-guarantee-issue options are available in the standalone LTCi market; however, there may be worksite or streamlined underwriting that is not available in the individual or retail market.

Advantages of Life/LTC Combination Plan

- **Guaranteed benefits**. Either in the form of LTC benefits or a death benefit, this product will provide a benefit to each insured who maintains the coverage.
- **Robust market of highly rated carriers that can provide life insurance and LTCi.** This option allows an insured to cover two risks with one policy, and there are many providers that offer this type of insurance.
- **Guaranteed and simplified issue underwriting available.** For many products, 100% of eligible employees will be accepted up to the guaranteed issue (GI) limit regardless of health. Employees may have the option to purchase coverage above the GI limit with medical underwriting.
- **Affordable plan designs.** Combining life with LTC allows for a broader range of benefits and premiums that can fit many budgets and needs.

Challenges of Life/LTC Combination Plan

- **Limited inflation protection options.** With most products, the total and monthly benefit of life insurance with LTC remain level for the life of the policy, subjecting plan participants to inflation risk.
- **Higher rates for some participants.** As an example, smokers will have higher rates than nonsmokers.
- **Higher premiums per dollar of LTC benefit.** Due to the addition of life insurance, the cost is higher per dollar of LTC benefit.
- **Smaller pool of LTC benefits available.** The flip side of easier underwriting is small limits on the total pool of LTC benefits available.

- **Life insurance benefit may be exhausted.** If an LTCi event is costly enough, then the life insurance benefit may be exhausted.

Successful Communication and Enrollment Strategies

What percentage of employees participate in voluntary life/LTC or traditional LTCi programs? In the experience of our company, the participation rates for a life/LTCi program vary from a low of 2% for a large national retailer to a high of 20% for an executive recruiting company, with an overall participation rate of 7.5% for the initial enrollment year. For traditional LTCi enrollments, participation varies from a low of 0.58% of employees for an energy firm to a high participation level of 12.9% of a law firm, with the average participation being around 4% for the initial enrollment year.

Our data results find several criteria for higher enrollments.

1. **Employer support.** An engaged employer committed to a robust education campaign can increase the number of enrollees.
2. **Email communications campaign.** A customized email campaign should include personalized rate quotes and enrollment deadline reminders.
3. **Live and prerecorded webinars.** Even prior to the pandemic, more and more employers were using a combination of live and on-demand webinars.
4. **Online enrollment and education.** Consumers like easy-to-use web enrollment tools.
5. **Call center support with LTC planning specialists.** This can allow employees to talk to a live person for more information.
6. **Direct billing for employees.** Standalone LTCi is 100% portable, allowing employees and dependents to take this product with them beyond their working years.
7. **Dual-enrollment strategy.** Due to the lack of awareness in LTC planning, most employees need time to determine whether the benefit is right for them. An off-cycle enrollment can be complemented by offering coverage during an employer's core enrollment. This enables employees to better understand and plan for LTC.

Unsurprisingly, more touchpoints can have a dramatic impact on plan participation.

Using Behavioral Finance for Greater Success

For many years, 401(k) plans lacked the participation rates that would have been expected with a benefit that often provided "free" money through employer matching contributions. The breakthrough in 401(k) participation came when more employers engaged in automatic enrollment for employees. Much of the thinking behind these nudges came from the field of behavioral finance, led by research from economists like Richard Thaler, who in 2017 won the Nobel Prize for his work.

Although automatic enrollment for LTC coverage would be ideal, not many employers would be willing to do this on a voluntary basis. However, there are several lessons that behavioral finance can teach employers to help increase participation in group LTCi plans. Here are some of the most powerful.

Keep choices as simple as possible. LTCi can be very complicated and can have many moving pieces. However, a smart voluntary LTC program will prepackage two or three choices while also allowing employees to customize their own plans.

Use stories, not statistics. Statistics, such as the odds of going into a nursing home and how long care will last, are the typical starting point for education on LTC. However, people often relate better to stories of individuals who found themselves in need of care and can share their experiences.

Focus on the possible gain LTC will provide instead of the possible loss. Research has shown that, just like gamblers, we all want to win, and we don't like to think about losing. People who are considering LTCi don't want to think about loss when planning for care, including how their retirement savings may be depleted. Instead, focus on the fact that a small LTCi premium gives the policyholder the possibility of a big payoff in benefits. For example, a $120 monthly premium could result in $250,000 to pay for high-quality care at home.

Focus on "now" benefits, not the future. It is incredibly difficult for people to imagine aging and needing help. Instead, focus on the now benefits of LTCi. The now benefits are more difficult to quantify, but they can include peace of mind, streamlined underwriting and locking into a lower premium before a birthday.

Forced choosing. LTC planning is easy to delay, and people need motivations to keep them from delaying this decision. One technique is to require an eligible employee to make a decision on learning more about group LTC coverage before being allowed to complete their open enrollment.

Health Savings Accounts and LTCi

The growth in HSAs over the last several years has been tremendous. More employers and employees are becoming comfortable with the plans and the flexibility they can provide.

LTCi premiums aren't eligible as a pretax expense under Section 125. However, as more employees get HSAs and build balances, they will find that LTCi is a natural fit. HSAs can be used to pay LTCi premiums for employees and their spouses up to the annual tax limits. As an example, if a 61-year-old employee and same-aged spouse both have LTCi plans with a combined annual premium of $5,000, they can take that amount out of their plan to pay for the premiums using pretax dollars. That's because the combined tax limit for couples between the ages of 61 and 70 is $8,320.

What if an employee isn't able to pay their full LTCi premium from their HSA due to the limit associated with their existing age? The good news is that once they advance to an older age range, they can recoup the shortfall from previous years. For example, if an employee purchased LTC with a premium of $2,000 a year when they were age 60, they would only be able to use $1,560 from their HSA and would need to pay the remaining $440 with after-tax dollars. The next year, at age 61, their limit goes up to $4,160. They would be able to pay the entire $2,000 premium for that year from their HSA and recoup the $440 they paid out of pocket the previous year.

Since employers often provide funds to HSA for employees, those employees who wish to purchase LTCi have a nice pretax benefit.

Considerations for Companies With Existing LTCi Plans

Over the years, numerous employers, both small and large, implemented group LTCi plans for their employees. Some of the carriers that used to offer group coverage but are no longer writing new groups include Aetna, CNA, John Hancock, MedAmerica, MetLife, Prudential and Unum.

These programs can provide valuable benefits for employees and retirees, but they also can present employers with some challenges. Here are some of the issues.

1. Most of the legacy true group carriers no longer offer coverage to new hires or employees who didn't participate in the initial plan offering.
2. Numerous carriers have suspended new business sales or exited the marketplace.
3. Carriers are implementing in-force rate increases.
4. Older plans don't incorporate the latest LTC benefits, such as plans that pay for informal care at home.

Employers in this position may need help with the following:

1. Marketplace analysis (in-force coverage versus today's coverage)
2. Help determining whether a new offering (or carrier) is suitable for employees
3. Managing the communication of in-force rate increases
4. Advising employees of their options for what to do when they receive an in-force premium increase.

Other Noninsurance Resources for Companies and Caregivers

The impact that caregiving has on the workplace is huge, both in financial and emotional costs to employees and the companies they work for. Annually, a caregiving employee will average five days of missed work to provide care and will incur $3,200 in additional costs due to poor health, loss of productivity and legal liabilities.

However, the employer that makes an effort to provide help will be rewarded; 94% of caregivers would stay with an employer that provided relevant caregiving benefits/resources.[13]

One potential answer is to modify and expand paid-time-off (PTO) policies to account for caregiving issues. Some employers are offering paid family leave for a short time to help with caregiving, which can be invaluable at a time of crisis. This initial time off period, however, will only go so far since caregiving is often a nonstop role.

Several resources can help. For example, some companies offer to provide backup emergency caregiving services. For em-

International Society of Certified Employee Benefit Specialists

Reprinted from the Fourth Quarter 2020 issue of *BENEFITS QUARTERLY*, published by the International Society of Certified Employee Benefit Specialists. With the exception of official Society announcements, the opinions given in articles are those of the authors. The International Society of Certified Employee Benefit Specialists disclaims responsibility for views expressed and statements made in articles published. No further transmission or electronic distribution of this material is permitted without permission. Subscription information can be found at iscebs.org.

AUTHORS

Tom Riekse, CEBS, ChFC, CLU, is managing director at LTCI Partners, LLC. He has spent his career focused on the education of financial advisors, employers, benefits brokers and consumers about planning for long-term care needs. He holds a B.A. degree in business from Hope College and an M.B.A. degree in marketing from the University of Illinois, Chicago.

Steve Cain, CLTC, is director and sales and business development leader at LTCI Partners, LLC. He has more than 19 years of experience in the insurance and financial services industry, working closely with large employers and employee benefits consultants and involved in the design and implementation of group LTC insurance program. He holds a B.A. degree in communication from the University of California, Santa Barbara.

ployees who have full-time jobs and manage caregiving duties, a last-second cancellation from a caregiver can be frustrating and challenging. Employers can partner with organizations that provide emergency care needs, including care for seniors.

Another type of service can help employees manage ongoing care for aging parents. Employees with full-time jobs have a difficult time also being full-time caregivers, and they are often thrust into a confusing and challenging role—including sometimes trying to coordinate care from long distances. Family members can be frustrated with having to navigate so many resources, and the care recipient also can feel threatened by becoming so dependent on a family member and dealing with a changed family dynamic.

There are several new companies that specialize in providing a care concierge for people who want to stay at home. These services are typically provided by licensed social workers with an expertise in geriatric care management. There may be group discounts available.

Conclusion

Given that long-term care is the biggest risk to an individual's retirement plan, employers should consider the option of offering LTCi as an employee benefit. The marketplace offers different types of LTCi policies, each with its relative advantages and disadvantages. If employers decide to offer LTCi, they should implement successful communication and enrollment strategies by employing lessons from behavioral finance. In addition, employers offering HSAs can inform employees about utilizing them to finance LTCi. Companies with existing LTCi have additional considerations and may need to seek assistance. In addition to offering LTCi, employers should consider obtaining noninsurance resources (such as paid time off) and offering them to caregivers. BQ

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