Private Long-Term Care Insurance in the USA: Lessons for England

Joshua M. Wiener, PhD
RTI International
Washington, DC

State of Private Long-Term Care Insurance

- “The Dream”
- After 30 years, about 6% of 45+ have private long-term care insurance; 12% of 65+
- About 5% of long-term care insurance expenditures
- Barriers:
  - Affordability: In 2010, average premium $2,283, despite limitations in benefits
  - Denial
  - Misinformation
  - Other priorities

State of Private Long-Term Care Insurance (cont.)

- Many insurers exiting market and large price increases
- Especially bad in group employer market (about ¼ sales), where Prudential, John Hancock, Met Life, CNA, and Aetna exit.
- Employer market is employee-pay all
- Important carriers left individual market, but not as many
- Most insurers have substantially raised premiums, including on existing policyholders: 25-90%
- Tighten underwriting (e.g., include blood tests, exclude people with mental illness)
- Stop offering lifetime benefits

What Happened?

- Low to negative rate of return on reserves
- Lower lapse rate than assumed
- Higher disability and lower mortality
- For most insurers, a minor part of business with high risk that they could afford to throw overboard

Partnerships for Long-Term Care

- Allows people who purchase state-approved long-term care policies to receive means-tested long-term care while retaining larger than normal amount of assets
- Able to get lifetime asset protection without purchasing a policy that provides lifetime benefits, resulting in lower-cost policies
- Popular among policy analysts
- May increase number of people with private insurance
- 43 states operating or planning to operate public-private partnerships

Partnerships for Long-Term Care (cont.)

- 12% of existing policies
- Experience suggests partnership encourages few additional people to buy insurance: fail market test
- Insurance industry ambivalent because they usually make sales by stressing disadvantages of state program
- Premiums still high
- While asset protection is important, it isn't the only or most important reason people by insurance

Tax Incentives for Purchase of Long-Term Care Insurance

- Limited tax subsidies now for employers and individuals
- Not part of Bush tax cuts or recent tax bill
- Helps lower the price of insurance, making it more affordable for some
- Disadvantages
  - Runs counter to current efforts to simplify tax code
  - Studies find that state tax incentives do not substantially increase number of insured

Tax Incentives for Purchase of Long-Term Care Insurance

- Disadvantages (cont.)
  - Tax incentives are typically regressive, benefiting upper-income people
  - Studies find that tax incentives will not produce net savings to means-tested programs
  - Tax loss must be made up with tax increases or expenditure cuts elsewhere

Conclusions

- Long-term care insurance not a major source of financing for care in US
- Insurance industry enthusiasm waning
- Crossroads: Niche product for upper-middle class or something broader?
- Other priorities and generally inadequate retirement savings
- New Long-Term Care Commission created by Fiscal Cliff legislation

Contact Information

Joshua M. Wiener, PhD
Distinguished Fellow and Program Director
Aging, Disability and Long-Term Care
RTI international
701 13th Street, NW
Suite 750
Washington, DC 20005
202-728-2094
jwiener@rti.org