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Long-Term Care Insurance: Overview

What Is Long-Term Care Insurance?

Long-term care insurance (LTCI) is a type of insurance policy designed to cover the future costs of care associated with a chronic condition or disability that requires extended or long-term care. Long-term care, often referred to as long-term services and supports (LTSS), provides hands-on assistance or supervision to individuals who have functional or cognitive impairments associated with basic activities of daily living (ADLs; e.g., bathing, dressing, eating, mobility, toileting, and continence). If a policyholder becomes eligible for long-term care, the LTCI policy provides a daily cash amount (up to a maximum limit) that the policyholder may use to cover services.

Policy Features

LTCI policies are complex insurance products. Individuals seeking to purchase a policy must make certain decisions about the product's features at the time of purchase. In general, these purchase decisions are made several years, sometimes decades, prior to a potential need for LTSS, which adds further complexity to the decisionmaking process. These purchase decisions are described in more detail in this section.

Covered Services

Services covered under an LTCI policy may include care provided in a variety of settings, such as nursing homes and assisted living facilities, or an individual's private home through home health services. Policies may cover respite care for caregivers, homemaker and chore services, and medical equipment, among other services and supports.

Coverage Amount and Length

Individuals must choose a daily benefit amount and whether to purchase inflation protection. The dollar amount of the daily benefit is often initially chosen based on the current cost of services. Deciding whether and how much this daily benefit should be adjusted over time to reflect the annual inflation rate for LTSS can be difficult, because of uncertainty around the unknown future costs of LTSS.

The length of coverage (in years) of an LTCI policy is called the duration of the benefit. LTCI policies can cover two to five years of services, and some policies can provide lifetime benefits. Potential policyholders want to purchase a policy that will sufficiently cover future risks; however, such risks are unknown at the time of purchase and vary widely across the older population.

Waiting Period

In general, LTCI benefit eligibility depends on limitations in an individual's ability to perform a certain number of ADLs. LTCI policies often have a waiting or elimination period, which is the length of time between the onset of qualifying impairments and commencement of payment for LTSS. The elimination period is selected by the policyholder upon purchase of the policy. This elimination period is conceptually similar to a deductible in a health care plan; the longer the elimination period, the lower the policy's premium cost, all other things being equal.

Insurance Market

LTCI policies can take different forms, from stand-alone or traditional LTCI policies to linked benefit products that combine life insurance or an annuity with long-term care coverage. As of January 1, 2020, about 7.5 million Americans have some LTCI coverage from either traditional or linked-benefit products. Generally, the types of services covered under an LTCI policy are not covered under health insurance. And, unlike most health insurance policies, LTCI policies are subject to underwriting, which means that individuals who have preexisting conditions can be denied coverage or offered a policy with a high premium. The premiums charged by LTCI insurance carriers vary by age of purchaser. Those purchasing at older ages are charged higher premiums because they are at higher risk of needing LTSS. LTCI policies are guaranteed renewable; in other words, they may be cancelled only for nonpayment of premiums.

Traditional LTCI

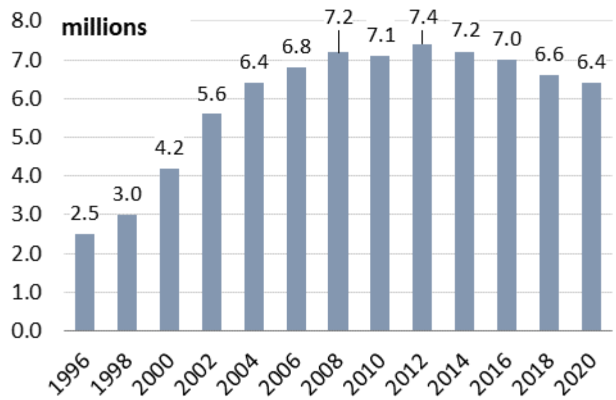
Traditional LTCI policies may be sold by an insurance carrier to an individual directly or to a group as part of an employer-sponsored policy. Employer-sponsored LTCI is distinct from employer-sponsored health insurance in that employers typically do not contribute to LTCI premiums. Unlike LTCI purchased in the individual market, employer-sponsored LTCI has the advantage of a larger risk pool and generally lower premiums. Among employers offering LTCI, the federal government is the largest employer offering group LTCI.

Linked-Benefit LTCI

Linked-benefit LTCI products, also known as combination or hybrid products, combine a life insurance policy or an annuity with a long-term care rider. These policies provide an individual with coverage for LTSS if needed; otherwise, the policy will pay a death or annuity benefit to a designated beneficiary.

The LTCI market has changed significantly over the past two decades. Overall, the market has become more concentrated, with fewer companies selling traditional LTCI. Linked-benefit products have become more popular, with annual sales outpacing traditional LTCI since 2010. **Figure 1** shows that since 2014, the number of individuals with an active or "in-force" traditional LTCI policy has declined (see section "Addressing Market Stability").

Figure 1. Traditional Long-Term Care Insured Lives



Source: National Association of Insurance Commissioners (NAIC), *Long-Term Care Insurance Experience Reports*, 2006-2021). Data elements used to prepare these reports are extracted from exhibits filed with the NAIC; however, the NAIC cannot guarantee their accuracy.

The Federal Long-Term Care Insurance Program

The Long-Term Care Security Act (P.L. 106-265) authorized the Office of Personnel Management (OPM) to offer a federal long-term care insurance program (FLTCIP) which was established in 2002. Under the FLTCIP, active and retired federal workers and eligible family members who are approved for coverage may voluntarily purchase a LTCI policy. FLTCIP premiums may be deducted from an individual's salary or pension benefit, but they are not pretax contributions, and workers pay 100% of the premiums. Eligible workers receive no premium assistance from the federal government. Since enactment, amendments to this legislation have primarily addressed eligibility.

OPM suspended new enrollee applications for FLTCIP coverage as well as current enrollee's coverage increases to allow time to assess benefit offerings and premium rates. The suspension period began December 19, 2022, and is scheduled to remain in effect for 24 months unless OPM decides to end or extend the suspension period.

Regulation

State governments have primary jurisdiction for regulating the private LTCI market. In this capacity, states have established laws and regulations for LTCI carriers and the products they sell. States also play an active role in verifying carriers' and products' compliance with these requirements. To help guide states in their oversight efforts, the National Association of Insurance Commissioners (NAIC) has developed a number of "Model Laws" and "Model Regulations," which provide recommended guidelines for state regulators to adopt.

Tax Benefits and Consumer Protections

Federal law provides tax benefits and minimum consumer protection standards for purchasers of "tax-qualified" LTCI policies, as authorized by the Health Insurance Portability and Accountability Act of 1996 (HIPAA, P.L. 104-191). These provisions are established in the Internal Revenue Code (42 U.S.C. §7702B). Most traditional LTCI policies sold after enactment of HIPAA are tax-qualified policies. Linked-benefit LTCI policies with a separately identifiable premium component can also qualify for tax benefits. HIPAA tax-qualified LTCI products are required to have defined benefit triggers for when the policy begins to pay benefits. These triggers require policyholders to meet the definition of a "chronically ill" individual who has been certified by a licensed health care practitioner as

- being unable to perform (without substantial assistance) at least two ADLs for a period of at least 90 days due to a loss of functional capacity;
- having a level of disability similar (as determined by the Secretary of the Treasury in consultation with the Secretary of Health and Humans Services) to the level of disability described above; or
- requiring substantial supervision to protect such individual from threats to health and safety due to severe cognitive impairment.

Federal law provides tax advantages for some aspects of private LTCI. Benefits from a "qualified" LTCI policy are excluded from the gross income of the taxpayer (i.e., they are exempt from federal taxation). In general, LTCI premiums are allowed as itemized deductions to the extent they and other unreimbursed medical expenses exceed 7.5% of adjusted gross income. LTCI premium deductions are subject to age-adjusted annual maximum amounts. In 2023, these amounts ranged from $480 for those aged 40 and younger to $5,960 for those aged 71 and older.

Under current law, employer contributions toward the cost of tax-qualified LTCI, while not typical, are excluded from the gross income of an employee. Self-employed individuals may include LTCI premiums in calculating their deductions along with other health insurance premiums. Only amounts less than or equal to the age-adjusted limits can be deducted or excluded from taxable income.

Addressing Market Stability

Over the past two decades, annual LTCI premiums in the stand-alone market have increased significantly for both current and new policyholders. Higher average premiums reflect increased demand for more comprehensive benefit packages (including inflation protection) and higher daily benefit amounts. Premium increases have also been driven by inadequate medical underwriting, premiums that were initially set too low, and insufficient growth in investment funding or reserves to cover future claims. LTCI market stability depends largely on the ability of insurers to adequately predict future claims. Most policies issued before the mid-2000s had incorrectly predicted claims, necessitating changes to key pricing assumptions. For example, rising claims, lower mortality rates, lower-than-predicted voluntary termination (lapse) rates, and lower-than-predicted rates of return on investments have been cited as key reasons for premium increases. Such increases may continue to affect consumer confidence, possibly leading to further reductions in demand for stand-alone LTCI and shifts in demand toward linked-benefit products that offer a fixed premium.

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