



ASPE Research Notes

April 1999, Volume 19

Information for Decision Makers

Research and Other Developments of Interest in Employer Group Long-Term Care Insurance

This article explains new research and policy initiatives undertaken by the White House and the U.S. Department of Health and Human Services (HHS). These initiatives, including a new study of the employer group market, will provide the information policymakers and consumers need to make informed decisions about long-term care insurance. The study of the group market will examine the employer long-term care insurance market and identifies products being offered to employees. It should be published in Summer of this year. A second but later component of the group market study will be to use this information to construct various designs for a group product that could be made available to Federal employees.¹

Background

Long-term care (LTC) needs in this country are a matter of great concern, both to individuals and to the Federal Government, the latter principally due to its payment for these needs through Medicaid and, to a growing extent, Medicare. The costs and gaps in public coverage, combined with the increasing number of elderly individuals in the population, have generated discussion about structuring private pay options to fill the gap.² Many people are now viewing private LTC insurance as one way

to take some pressure off Medicaid and Medicare by providing a real market choice for millions of employees, retirees, and their families who might not otherwise plan for their LTC needs.

Since the demise of Health Care Reform efforts, this sort of private option is more important than ever for helping people with planning and providing for their LTC needs. And, as mentioned, it will also help take pressure off public programs to the extent that individuals would have private insurance in place rather than have to default to coverage by the government in the event of impoverishment.³

However, the aging of the workforce and the growing need to plan for workers and their aging parents, has made LTC a workplace issue as well as a societal and family one.⁴ One consequence of this interest was that LTC insurance became a component of the 1996 Health Insurance Portability and Accountability Act (HIPAA) legislation on health insurance portability.⁵ In that law it was declared that qualified LTC insurance policies would receive tax protected status.

Although that law applied to both individual and employer group insurance it is important to note that most health insurance in this country is provided through the workplace. Through their work employees receive a number of benefits for themselves (and typically their immediate family). Yet, LTC insurance is infrequently offered.

Research into employer LTC insurance is clearly needed, as there is a dearth of recent or in-depth data on this area.⁶ There are studies that ask a few employer questions but only as a

ASPE Research Notes
Author: John Cutler

Circulated periodically by the Office of the Assistant Secretary for Planning and Evaluation. This paper reflects only the views of its author(s) and does not necessarily represent the position of the Department of Health and Human Services. For further information on long-term care insurance, contact the author at 202-690-6443.

subset of the overall LTC insurance market.⁷ Filling in this void is critical if, as many surmise, the future of LTC insurance ultimately lies in the employer market.⁸

For that reason HHS contracted with the Lewin Group to survey the employer group LTC insurance market. Unlike many past surveys, this survey seeks more qualitative data to better explain what is available for employees. This new research on the employer group market would greatly advance our understanding of current LTC insurance.

Just as important, the second component of this research contract uses analysis performed by the Actuarial Research Corporation to develop and model some alternatives for offering LTC insurance benefits for Federal employees, retirees, and their relatives. This is important for providing information for policymakers who will design the offering for Federal employees if legislation is enacted.⁹

Employer Group Long-Term Care Insurance

As mentioned above, LTC insurance is not frequently offered as an employee benefit. Perhaps this is because LTC insurance is still fairly new and there are questions about its quality and value. Perhaps it is due to employer concerns about adding costly new benefits. For whatever reason, this may be changing as a growing number of companies and other organizations are offering it as an employee benefit. As of 1993, 12% of all private employers (but 21% of employers with 500 or more employees) made LTC insurance available to employees as an employee benefit.¹⁰ It is usually, though not always, a benefit for which employees must pay all the costs without an employer contribution. Often spouses, parents, or other relatives are also able to take advantage of the group offer.¹¹

There are several advantages to group LTC insurance products sponsored by employers. First, there are economies of scale that are passed along to employees who purchase it through the group market. Though the products themselves are often similar to those sold in the individual market, the employer does have market power to improve upon the design or delivery of the products offered to its employee base. Second, employees and retirees gain

access to this insurance at 15-30% lower rates than otherwise, and more employees are given the opportunity in their younger years to spread the purchase price over time. Third, the availability of LTC insurance helps employees retain employees and allows them to protect against the risk of LTC needs. Finally, it allows employers to use their purchasing power and position to control—and hopefully improve—the LTC insurance products marketed to their employees.

It is the proposition of this research that one can find in the group market the best mix of LTC insurance products. Micro-economic simulations, for example, indicate that the expansion of employer-sponsored insurance is the best way to make good coverage affordable because of the ability of individuals to enroll at younger ages.¹²

For employers this will be important as they face the need to alter their benefits to fit employee needs in the future.¹³ This, in turn, could have significant impact on government programs now providing care for seniors who cannot afford the out-of-pocket costs of LTC insurance.

The market impact of the tax deductibility provisions found in HIPAA are also a factor. Although it is unclear at this time how this will play out in practice it can be assumed that sales will increase. For example, survey work by the National Council on Aging and John Hancock Mutual Life Insurance Company in 1996 showed 44% of respondents were more likely to purchase LTC policies due to the passage of the law.¹⁴

The Lewin study sponsored by ASPE will elicit information on important questions about group LTC insurance not well understood by employers in this marketplace. This includes employee "take up" rates, employer support for the product (monetary and otherwise), whether employers exert any influence on the design or the delivery of the products, what provisions have been made for upgrades or changes to the coverage in the future, introduction of innovative benefits or arrangements, and, where possible, "best practices" by these employers in providing for their employees' needs.¹⁵

Questions are specifically geared to finding out:

- whether the coverage is health, life, or disability-based.
- age of purchasers and other relevant demographic information.
- percentage of employees, retirees, or others eligible and offered the option and the percentage electing in the form of take up rates.
- other indicators of employee interest in the product (to the extent this information can be collected without direct contact with the employees).
- identification of why those companies with coverage chose to offer such coverage.
- cost of the product to the employee (the premium charged) as well as total cost (for example, any employer contribution).
- whether the employer exerted any influence on the design/delivery of the products.

In addition, the study will explore product design issues. Examples of issues to be addressed (or collected outside the questionnaire process) include:

- identification of triggers (e.g., ADLs and cognitive impairment) included in the coverage.
- whether a nonforfeiture option is provided or the choice left to the employee.
- whether compound inflation protection is provided, or another mechanism to provide protection against inflation, and at what ages.
- what provision, if any, has been made for upgrades or changes to the coverage in the future by either the employee or the employer.
- introduction of innovative benefits or arrangements, for example, case management and guarantee issue.
- whether the employer viewed other arrangements as working with, or substituting for, LTC insurance, including counseling and referral services, provision of elder care and, time off from work.

The survey should be published Summer of this year, though preliminary survey results may be released as they relate to Congressional action on Federal employees LTC insurance (see next section).

Research on Federal Employee Options

A second goal of this research is to assist in the development of the research and design (primarily actuarial in nature) of a possible LTC insurance product for Federal Government employees.¹⁶

This Federal employee component has already started with reviews of the group market and identification of various benefit design and coverage options and how these might be structured to create a Federal employee benefit, as well as actuarial research on the likely price range(s) across various ages. Options such as access for parents and other relatives and the impact of other design variables are also covered.

Part of this effort is to expand upon some conceptual work done for HHS in 1996 on design options for the basic structure of a Federal group offering.¹⁷ That work lacked a concrete analysis of the various design and pricing elements of specific alternatives. This research effort would provide that elaboration.

HHS has also held meetings with the Federal Office of Personnel Management (OPM) to determine interest in this product for Federal employees. An interagency work group was formed in conjunction with this effort. This project will help advance the efforts of the interagency group by providing focus and direction to these later discussions.

More specifically, this portion of the project will create the necessary actuarial calculations to produce a range of design options for a Federal employee benefit. This will include a macro level actuarial analysis and a micro level analysis.

This macro level analysis involves an assessment of the structural components that underpin the offering and will examine:

- self-funding (including the financial risks to the Federal Government) versus offerings through outside insurers.
- the availability of some of the alternatives to health-based coverage, such as disability and life-based options (e.g., accelerated benefits and viatication).

- the provision for a single insurer to handle all policies versus multiple vendors (e.g., the FEGLI model versus FEHBP).
- important underlying assumptions (e.g., expected take up and lapse rates, adverse selection, price ranges).
- ease of administration (including the number of companies which might offer products and how many choices there might be).

The micro level analysis involves the actual design of insurance product(s) and will take into account variables such as:

- the cost, including separate rating of retirees, parents, spouses, and so forth.
- the desirability of either including, or limiting, certain features (e.g., nursing home only versus more comprehensive coverage).
- important consumer features (and how they might be offered or required) such as nonforfeiture, inflation protection, protection against future rate increases, etc.
- guarantee issue policies versus underwritten ones.
- the ability of these products to be altered at a later date to accommodate changes in the delivery or financing systems.

Summary

In summary, the study has two components. First, it will look at the existing employer group market and how LTC insurance benefits are structured. This research is based on the assumption that the employer market is critically important for individuals who seek to protect themselves against the catastrophic costs of LTC. This, in turn, would have significant impact on government programs now providing care for seniors who cannot afford the out-of-pocket costs of LTC insurance.

Study questions will attempt to elicit information on employee "take up" rates, employer support for the product (monetary and otherwise), whether employers exert any influence on the design or the delivery of the products, what provisions have been made for upgrades or changes to the coverage in the future, introduction of innovative benefits or arrangements, and, where possible, "best practices" by these employers in providing for their employees' needs.

The second study component consists of assisting OPM and others identify benefit design and coverage options and how these

might be structured to create a Federal employee benefit. The goals are to assess the desirability of bringing such a product to Federal employees and to conduct actuarial research to determine the likely price range of such products. As mentioned earlier, this is part of initiatives by both the Administration¹⁶ and the Congress¹⁹ to provide Federal employees and their relatives access to quality LTC insurance products.

It is important to note that this research will potentially yield a large return in savings across government health programs. Medicaid, Medicare, and other public health programs will benefit if private sector financing covers greater numbers of persons with chronic care needs. There would also be benefits if we were to see improved coverage and outcomes, for example, based on case management and other innovative features that might first develop in the corporate sector but are not yet fully developed in LTC settings.

Notes

1. The Office of the Assistant Secretary for Planning and Evaluation (ASPE) within HHS has responsibility for policy and research across a number of areas. In this instance this includes private long-term care insurance. The lead on this effort is John Cutler, who came to ASPE in March 1997. Prior to that he had eight years experience at the American Association of Retired Persons (AARP), with responsibility for regulatory and compliance matters for the various products and services made available to AARP members, including long-term care insurance.
2. Wiener, J., Ilston, L., and Hanley, R., *Sharing the Burden* (Brookings, 1994); Friedland, R., *Facing the Costs of Long-Term Care* (EBRI, 1990); ASPE, *The Federal Role in Consumer Protection and Regulation of Long-Term Care Insurance* (1991).
3. Costs of elder care and care-giving in the workforce are huge. One study shows over 22 million households involved in some family caregiving to an elderly relative or friend. MetLife Study of Employer Costs for Working Caregivers (National Alliance of Caregivers, 1997).
4. American Council of Life Insurance, "Who Will Pay for the Baby Boomers' Long-Term Care Needs? Expanding the Role of Private Long-Term Care Insurance," Testimony Before the Senate Special Committee on Aging (March 9, 1998).
5. Public Law 104-191 (signed into law August 21, 1996).
6. See, however, a recent William M. Mercer survey, *State of the Art in Long-term Care Insurance* (1997) and one by the Life Insurance Marketing Research Association (LIMRA), *Employer Sponsored Group Long-term Care Insurance* (1997). See "Long-Term Care Insurance: A Unique and Versatile Benefit," *Compensation and Benefits Management* (Winter, 1998). See also HIAA,

Long-term Care: An Emerging Employer Concern (Occasional paper, 1989); EBRI, Employee Benefits Research Institute Brief #163 (July 1995).

7. HCFA, Ensuring Quality Products, Increasing Access to Coverage, and Enabling Consumer Choice (prepared by Lewin-VHI and Brookings, 1996).
8. ASPE, Analysis of Long-Term Care Reform Proposals (prepared by MEDSTAT, 1993); see also HCFA (1996), op cit.
9. This latter element is a natural follow on to work done in previous years by ASPE when it held several meetings with OPM and others on this issue. In addition, Actuarial Research Corporation was contracted to provide a small paper setting out some of the basic issues. See Memorandum on Federal Employee Long-term Care Insurance Options, from John Wilkin, ARC, to Pam Doty, ASPE (March 12, 1996)(on file at ASPE).
10. EBRI, 1995, op cit.
11. HIAA, Long-Term Care Insurance in 1996 (HIAA's annual survey of the industry); See also, HIAA, Who buys Long-term Care Insurance, 1993 (LifePlans, 1995).
12. Weiner, op cit.
13. Judy, R. and D'Amico, C., WorkForce 2020 (Hudson Institute, 1997).
14. NCOA and John Hancock Mutual Insurance Company (study conducted by Mathew Greenwald & Associates, 1997).
15. The survey will be of approximately 100-150 large and medium-sized employers (mostly private but some in the public sector) that offer a long-term care insurance product to their employees. The survey will collect descriptive data on the design and administration of these employer benefit packages, features found in them, demographic data on the purchasers, cost of the product for both employer and employee, and the degree to which the benefits appear to represent successful state-of-the-art product offerings.
16. Specifically these would be the employees in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees' Group Life Insurance (FEGLI) systems.
17. See Wilkin Memorandum (1996), op cit.
18. The President made a White House announcement on January 4, 1999 with four initiatives, one of which was the release of OPM's proposal on Federal employees long-term care insurance (on file at ASPE). See also M. Causey, "The Year for Long-Term Care," Washington Post, January 5, 1999.
19. Hill action is likely. The Civil Service Subcommittee of the House Government Reform and Oversight Committee held hearings on the issue of long-term care insurance as an employee benefit on March 25, 1998 and again on March 18, 1999. Both majority and minority members of the subcommittee have introduced bills in 1999. Companion Senate legislation has also been introduced.