

I. ADMINISTRATIVE SUMMARY

A. Background

The prospect of failing health and long-term illness concerns many of us as we get older. While we may be aware of the potential costs associated with long-term care, few prepare for the possibility of paying for those costs. The Division has developed “*Your Options for Financing Long-Term Care: A Massachusetts Guide*” – available at www.state.ma.us/doi/Consumer/css_health_LTCGuide.html - to assist consumers to explore all possible alternatives.

Long-term care insurance is a type of insurance that provides benefits to cover some of the costs of services you may need if you develop a chronic illness or cognitive impairment derived from age, injury or disability. Benefits include services rendered by nursing homes, home health care agencies, and other community long-term care providers that may not be covered by Medicare or traditional health insurance plans. In addition, long-term care insurance may provide care in situations where you can no longer perform everyday tasks by yourself. Such care may be provided in a variety of settings, such as your home, an assisted living facility, or a nursing home. Long-term care can be covered completely or in part by long-term care insurance. Most plans allow the buyer to choose the amount of coverage, as well as how and where benefits may be used.

In 1995, in an effort to provide more information about the long-term care insurance market, the Division released “A Report on Long-Term Care Insurance: The Results of a 1994 Survey” (“1994 Survey”). To further assess changes in the marketplace, the Division issued a follow-up survey in February 1997 for the period January 1994 through December 1996. Information obtained through these survey reports was used by the Task Force on the Financing of Long-Term Care established by then-Governor William Weld and then-Attorney General Scott Harshbarger in developing the Division’s long-term care insurance regulation in 1999.

After the revised regulations had been in effect for over two years and as a follow-up to the 1994 and 1996 survey reports, the Division issued a new long-term care insurance survey in January 2002 to collect information for the period between January 1997 and December 2001. The survey collected information about the Massachusetts market before and after the long-term care insurance regulatory changes that became effective January 1, 2000. As a follow-up to that survey, the Division issued a survey in March 2005 to collect information for the period January 1, 2002 to December 31, 2004. This report summarizes the results of the 2005 survey.

As with the 1994, 1996, and 2002 surveys, the 2005 survey was designed to distinguish between the experience of individual plans and those plans marketed through employers, unions, group associations, and group trusts. Under M.G.L. c. 175 §108, the Division has limited authority to review individual long-term care insurance plans and approves them for offer in Massachusetts if they meet the standards of 211 CMR 65.00¹ - Massachusetts’s long-term care insurance regulation. There is no current statutory authority to review or approve group long-term care insurance plans.

¹ The Division’s long-term care regulation – 211 CMR 65.00 – includes many consumer disclosure provisions that are consistent with what has been adopted by the National Association of Insurance Commissioners (“NAIC”) in its long-term care insurance model regulation. Many other items in the NAIC long-term care insurance regulation, most notably sections pertaining to rate review, are not included in 211 CMR 65.00 because the statutory authority identified in the NAIC model act is not included in Massachusetts General Law.

B. Definitions Important to the Survey

Coverage Types

Individual Plans are sold directly to individuals through insurance agents, direct mail, or telephone solicitations. Beginning with the regulatory amendments promulgated January 1, 2000, individual plans offered on and after that date must meet certain minimum standards set by the Division of Insurance including the following:

- Plans must provide benefits based upon no more than two Activities of Daily Living (ADLs);
- Plans must be guaranteed renewable or non-cancelable (i.e., the company does not have the right to cancel or nonrenew the coverage);
- Plans must provide at least 730 days of coverage;
- Plans must include an alternate care provision allowing coverage for unspecified services if agreed to by the insured, the insurance company and the insured's health care practitioner;
- Plans must not include an elimination period (waiting period) of more than 365 days;
- Plans must not have a pre-existing condition limitation that lasts for more than six months after the coverage's effective date;
- Plans must not limit benefit payments because an individual develops Alzheimer's Disease, mental illness, alcoholism or other chemical dependency after the coverage is issued; and
- Companies must offer an applicant the opportunity to buy (1) at least one plan with home health care benefits, (2) at least one plan that qualifies for certain MassHealth (Medicaid) exemptions, (3) inflation protection and (4) nonforfeiture benefits.

Group plans are sold through employers, union or associations that sponsor group plans as a benefit to their employees or members. Some insurers also sell group plans directly to individuals through out-of-state "group trust" arrangements. Employer, union, association and group trust plans may include protections required in individual plans but they are not required to do so under Massachusetts law. Although group plans are subject to the general laws and regulations governing group accident and sickness insurance, there are no specific laws or regulations that apply to long-term care plans marketed through groups.

Federally Tax-Qualified Plans are long-term care insurance plans that offers certain federal income tax advantages. Under federal tax laws, the portion of your medical expenses that exceeds 7.5% of your adjusted gross income may be deductible. A person with a federally tax-qualified long-term care plan may be able to add the premiums paid for the coverage to other deductible medical expenses when calculating income taxes. Furthermore, benefits paid by federally tax-qualified long-term care insurance plans generally are not taxable as income. (The federal Internal Revenue Service has not yet determined whether benefits paid by a non-qualified plan might be taxable as income.)

Federally tax-qualified plans must meet certain federal standards. They must be guaranteed renewable, must include a number of consumer protection provisions and must cover only "qualified long-term care services." Qualified long-term care services are those required by a "chronically ill" person and are given by a long-term care provider according to a plan of care prescribed by a licensed health care practitioner. Under federal law, a person is considered "chronically ill" if (1) he or she is expected to be unable to perform at least two of five (or six) Activities of Daily Living (ADLs) (bathing, continence, dressing, eating, toileting and transferring) without substantial help from another person

for at least 90 days or (2) he or she needs substantial supervision to protect his/her health and safety because of a cognitive impairment.

Plans intended to satisfy Massachusetts State MassHealth (Medicaid) Requirements - As noted in the Division's publication *"Your Options for Financing Long-Term Care: A Massachusetts Guide,"* if a Massachusetts resident receives MassHealth (Medicaid Program) from the Massachusetts Division of Medical Assistance and has long-term care insurance that meets certain coverage requirements, the insured might be exempt from some MassHealth eligibility and recovery rules. These rules determine (1) whether the insured's home will need to be sold in order for an insured to become eligible for MassHealth benefits and (2) whether an insured or his or her estate may need to repay MassHealth for any of the long-term care expenses MassHealth paid on an insured's behalf. It is important to note that laws do change and the exemptions and the minimum coverage requirements existing today will not necessarily be the same in the future (or might not exist at all).

A plan must provide certain benefits in order for an insured to qualify for the MassHealth eligibility and recovery exemptions. When an insured enters a nursing home, the coverage must:

- Cover nursing home care for at least 730 days;
- Pay at least \$125 per day for nursing home care; and
- Not require an elimination period (days that services must be provided before your plan will begin to pay) of more than 365 days, or in lieu of an elimination period, a deductible of more than \$54,750.

Benefit Types and Rating Factors

Insurance companies generally consider the following criteria when establishing premium rates:

Age – As with other types of insurance coverage, the younger you are when you buy a plan, the lower the premium. Many companies will not sell plans to individuals over a particular age category.

Elimination days or deductible periods – The number of days you are in a facility or the number of days you receive other stated coverage benefits, prior to the plan paying for covered services. The longer the elimination or deductible period, the lower the premium may be.

Amount and duration of benefits – The higher the dollar per day/visit benefit that the plan will pay or the longer the benefit period, the more expensive the plan. For example, a plan that pays \$100 a day for nursing home care will cost more than a plan that pays \$50 a day for the same care.

Optional Inflation Riders - Optional inflation riders are available from many companies for an additional premium. The riders may increase the daily benefit each year by a specified amount. Please note that individual plans are required to offer inflation riders as an option to applicants and the inclusion of these riders will increase the overall cost.

Optional Return of Premium and Nonforfeiture Benefits – Nonforfeiture benefit or "return-of-premium" riders may also be offered for an additional premium. When the insured dies or stops paying premiums, if a plan includes a "return-of-premium" benefit, the company will return a pre-defined portion of the total premiums paid for the coverage. Please note that individual plans are required to offer nonforfeiture riders as an option to applicants and the inclusion of these riders will increase the overall cost.

Survivor Benefits - Some insurers offer a survivorship rider for an additional premium. When both husband and wife purchase a long-term care plan (usually identical) and one spouse dies, the surviving spouse may no longer have to pay premiums on his or her coverage if both plans have remained in-force for a specific period of time.

C. Massachusetts Survey Highlights

The following highlight the results of surveys for Massachusetts long-term care insurance plans:

Cost of Plans ²

Among plans sold in **2001**: ²

The average premium for a group plan in **2001** \$554.50

The average premium for an individual plan in **2001** \$2,087.08

Among plans sold in **2004**: ²

The average premium for a group plan in **2004** \$744.91

The average premium for an individual plan in **2004** \$2,287.33

Number of Massachusetts Insureds	<u>1998</u>	<u>2001</u>	<u>2004</u>
<i>Group Market</i>	25,725	37,821	46,538
<i>Individual Market</i>	<u>40,203</u>	<u>64,519</u>	<u>89,749</u>
<i>Total</i>	65,928	102,340	136,287

Average Age of Massachusetts Insureds	<u>1998</u>	<u>2001</u>	<u>2004</u>
<i>Group Market</i>	55.5	49.8	47.7
<i>Individual Market</i>	65.7	63.3	61.9

Nursing Home Coverage in Massachusetts

Percent Purchasing Nursing Home Coverage	<u>1998</u>	<u>2001</u>	<u>2004</u>
<i>Group Market</i>	99.9%	100.0%	99.9%
<i>Individual Market</i>	99.5%	97.7%	98.4%

Average Maximum Daily Benefit of Coverage Purchased	<u>1998</u>	<u>2001</u>	<u>2004</u>
<i>Group Market</i>	\$113.84	\$102.94	\$93.87
<i>Individual Market</i>	\$125.16	\$152.62	\$159.17

Home Health Care Coverage in Massachusetts

Percent Purchasing Home Health Care Coverage	<u>1998</u>	<u>2001</u>	<u>2004</u>
<i>Group Market</i>	98.4%	99.6%	99.0%
<i>Individual Market</i>	100.0%	99.0%	98.0%

Average Maximum Daily Benefit of Coverage Purchased	<u>1998</u>	<u>2001</u>	<u>2004</u>
<i>Group Market</i>	\$73.47	\$69.52	\$76.50
<i>Individual Market</i>	\$94.37	\$108.36	\$124.90

² Average 2004 premiums may differ from average 2001 premiums due to many factors including, but not limited to changes in: (1) benefits covered under plans, (2) levels of coverage chosen, (3) average age at which plans are purchased, and (4) economic inflation affecting the cost of long-term care services.

Inflation Protection

Percent Purchasing Inflation Benefit in Massachusetts	<u>2001</u>	<u>2004</u>
<i>Group Market</i>	60.5%	36.8%
<i>Individual Market</i>	78.6%	80.6%

Federally Tax-Qualified Plans

Percent Purchasing Plans Intended to Qualify as Federally Tax-Qualified	<u>2001</u>	<u>2004</u>
<i>Group Market</i>	98.9%	90.7%
<i>Individual Market</i>	91.9%	99.7%

State MassHealth (Medicaid) Exemptions

Percent Purchasing Plans Intended to Qualify for Certain Mass Health Exemptions	<u>2001</u>	<u>2004</u>
<i>Group Market</i>	28.2%	31.5%
<i>Individual Market</i>	79.7%	94.8%

Lapse Rates^{3, 4}

Lapse rates were measured according to the number of insureds who had purchased a plan and no longer held that plan by the end of 2001 and 2004 respectively. Plans may have lapsed because an insured switched to a new plan, died, or dropped coverage.

In the group market, **45.4%** of the plans purchased in **1997** had lapsed by **2001**.

In the group market, **17.6%** of the plans purchased in **2002** had lapsed by **2004**.

In the individual market, **29.6%** of the plans purchased in **1997** had lapsed in **2001**.

In the individual market, **8.5%** of the plans purchased in **2002** had lapsed in **2004**.

³ The following statistics only reflect the number of insureds who no longer hold the original plan issued in the initial year. Statistics may include those insureds who switched to another plan during the reporting periods. Individual policies may no longer be in-force due to death of the insured, policy replacement, exhaustion of benefits or lapse due to non-payment. Group plans may no longer be in-force for the same reasons. Group lapse rates may be higher due to employers switching long-term care insurance carriers or employees leaving groups without opting to continue the plan on a conversion basis.

⁴ Group lapse rates may be higher than individual lapse rates due to employers switching long-term care insurance carriers or employees leaving groups without opting to continue the plan on a conversion basis.

D. Massachusetts Summary

Similar to the 1996 and 2002 surveys, the current survey indicates that group long-term care products continue to offer options similar to those available in the individual market.

It appears that most persons who purchase a plan in 2002 keep it for at least three years. In the group market, **82.4%** of the persons who purchased a plan in 2002 still held the plan at the end of 2004. In the individual market, **91.5%** of the persons who purchased a plan in 2002 still held that plan at the end of 2004. As noted in the 1996 and 2002 surveys, the data collected is inconclusive with respect to the existence of a statistical relationship between lapse rates and whether a plan has specific benefits.

The 2004 average age of persons holding coverage in the individual market was **61.9** years old which was more than three years younger than the average age of **65.7** in 1998. The 2004 average age of persons holding coverage in the group market was **47.7** years old which was more than seven years younger than the average age of **55.5** in 1998.

E. Conclusion

Similar to the 2002 survey results, it appears long-term care insurance sales have continued to increase in Massachusetts as the state's senior population grows.

Though there may be regulatory differences between both group and individual markets, there appears to be a variety of products and options available, with consumers able to choose from a wide range of benefit provisions, according to their specific needs and circumstances.