

## **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](http://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 thru 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. This report summarizes the results of the survey.

As with the 1994 and 1996 survey, the 2001 survey was designed to distinguish between the experience of individual policies and those policies marketed through employers, unions, group associations, and group trusts. Under M.G.L. c. 175 §108, the Division has the authority to review individual long-term care insurance policies and approves them for offer in Massachusetts if they meet the standards of 211 CMR 65.00 - Massachusetts’s long-term care insurance regulation. There is no current statutory authority to review or approve group long-term care insurance plans.

## B. Definitions Important to the Survey

### Policy Types

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

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

**Group policies** are sold through employers, unions or associations that sponsor group plans as a benefit to their employees or members. Some insurers also sell group policies directly to individuals through out-of-state "group trust" arrangements. Employer, unions, association and group trust policies are not subject to the same state protections that apply to individual policies. 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 policies marketed through groups. Group policies may include protections required in individual policies, but they are not required to do so under Massachusetts state law.

**Federally Tax-Qualified Policy** is a long-term care insurance policy 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. If you have a federally tax-qualified long-term care policy, you may be able to add the premiums you pay for the policy to your other deductible medical expenses when calculating your income taxes. Furthermore, benefits paid by a federally tax-qualified long-term care insurance policy 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 policies 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.

**Policies 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 policy must provide certain benefits in order for a policyholder to qualify for the MassHealth eligibility and recovery exemptions. When a policyholder enters a nursing home, the policy 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 policy will begin to pay) of more than 365 days, or in lieu of a waiting period, a deductible of more than \$54,750.

### Benefit Types and Rating Factors

Insurance carriers 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 policy, the lower the premium. Many carriers will not sell policies 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 policy benefits, prior to the policy 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 policy will pay or the longer the benefit period, the more expensive the policy. For example, a policy that pays \$100 a day for nursing home care will cost more than a policy that pays \$50 a day for the same care.

**Optional Inflation Riders** - Optional inflation riders are available from many carriers for an additional premium. The riders may increase the daily benefit each year by a specified amount. Please note that individual policies are required to offer inflation riders as an option to applicants.

**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 policy includes a "return-of-premium" benefit, the company will return a pre-defined portion of the total premiums paid for the policy. Please note that individual policies are required to offer nonforfeiture riders as an option to applicants.

**Survivor Benefits** - Some insurers offer a survivorship rider for an additional premium. When both husband and wife purchase a long-term care policy (usually identical) and one spouse deceases, the surviving spouse's policy may become paid-up if both policies 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 policies:

#### **Cost of Policies**<sup>1</sup>

Among policies initially sold in **1996**:<sup>1</sup>

The average premium for a group policy in **1996** \$807.60

The average premium for an individual policy in **1996** \$1,784.91

Among policies initially sold in **2001**:<sup>1</sup>

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

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

<b>Number of Massachusetts Policyholders</b>	<b><u>1996</u></b>	<b><u>1998</u></b>	<b><u>2001</u></b>
<i>Group Market</i>	20,840	25,725	37,521
<i>Individual Market</i>	21,640	40,203	64,819

<b>Average Age of Massachusetts Policyholder</b>	<b><u>1996</u></b>	<b><u>1998</u></b>	<b><u>2001</u></b>
<i>Group Market</i>	59.4	55.5	49.8
<i>Individual Market</i>	66.2	65.7	63.3

#### **Nursing Home Coverage in Massachusetts**

<b>Percent Purchasing Nursing Home Coverage</b>	<b><u>1996</u></b>	<b><u>1998</u></b>	<b><u>2001</u></b>
<i>Group Market</i>	100.0%	99.9%	100.0%
<i>Individual Market</i>	99.4%	99.5%	97.7%

<b>Average Maximum Daily Benefit</b>	<b><u>1996</u></b>	<b><u>1998</u></b>	<b><u>2001</u></b>
<i>Group Market</i>	\$113.21	\$113.84	\$102.94
<i>Individual Market</i>	\$119.77	\$125.16	\$152.62

#### **Home Health Care Coverage in Massachusetts**

<b>Percent Purchasing Home Health Care Coverage</b>	<b><u>1996</u></b>	<b><u>1998</u></b>	<b><u>2001</u></b>
<i>Group Market</i>	96.1%	98.4%	99.6%
<i>Individual Market</i>	99.9%	100.0%	99.0%

<b>Average Maximum Daily Benefit</b>	<b><u>1996</u></b>	<b><u>1998</u></b>	<b><u>2001</u></b>
<i>Group Market</i>	\$76.43	\$73.47	\$69.52
<i>Individual Market</i>	\$99.61	\$94.37	\$108.36

<sup>1</sup> Average 2001 premiums may differ from average 1996 premiums due to many factors including, but not limited to: (1) benefits covered under the plans, (2) changes in levels of coverage chosen and (3) the average age at which a policy is purchased.

### **Inflation Protection**

Percent Purchasing Inflation Benefit in Massachusetts	<u><b>1996</b></u>	<u><b>1998</b></u>	<u><b>2001</b></u>
<i>Group Market</i>	64.9%	N/A	60.5%
<i>Individual Market</i>	71.5%	N/A	78.6%

### **Federal Tax-Qualified Policies**

Percent Purchasing Policies Intended to Qualify as Federally Tax-Qualified	<u><b>2000</b></u>	<u><b>2001</b></u>
<i>Group Market</i>	82.1%	86.6%
<i>Individual Market</i>	89.3%	92.7%

### **State MassHealth (Medicaid) Exemptions**

Percent Purchasing Policies Intended to Qualify for Certain Mass Health Exemptions	<u><b>2000</b></u>	<u><b>2001</b></u>
<i>Group Market</i>	23.4%	28.2%
<i>Individual Market</i>	78.7%	79.7%

### **Lapse Rates**<sup>2, 3</sup>

Lapse rates were measured according to the number of policyholders who had purchased a policy and no longer held that policy by the end of 1996 and 2001 respectively.  
Policies may have lapsed because insured switched to a new policy, died, or dropped coverage.

In the group market,<sup>4</sup> **21.5%** of the policies purchased in **1992** had lapsed by **1996**.

In the group market,<sup>4</sup> **45.4%** of the policies purchased in **1997** had lapsed by **2001**.

In the individual market, **32.1%** of the policies purchased in **1992** had lapsed in **1996**.

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

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<sup>2</sup> The following statistics only reflect the number of policyholders who, at the end of a five-year period, no longer hold the original policy issued in the initial year. Statistics may include those policyholders who switched to another policy during the five-year period.

<sup>3</sup> Group lapse rates may be higher than individual lapse rates due to employers switching long-term care insurance carriers or employees leaving employer groups without opting to continue the plan on a conversion basis.

<sup>4</sup> The 1992 - 1996 group lapse rate includes a large carrier that stopped offering group association policies in 1999; carrier is not included in the 1997 - 2001 group lapse rate.

#### D. Massachusetts Summary

Similar to the 1996 survey, the current survey indicates that other than overall cost, 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 policy keep it for at least five years. In the group market, **54.6%** of the persons who purchased a policy in 1997 still held the policy in 2001. In the individual market, **70.4%** of the persons who purchased a policy in 1997 still held that policy in 2001. As noted in the 1996 survey, the data collected is inconclusive with respect to the existence of a statistical relationship between lapse rates and whether a policy has specific benefits.

The 2001 average age of persons holding coverage in the individual market of **63.3** years was almost three years younger than the average age of **66.2** in 1996.

As with prior surveys, the current survey differentiated between individual policies subject to prior approval and the minimum benefit standards as set forth in 211 CMR 65.00 and group policies that are not subject to prior approval or any specific minimum benefit standards.

#### E. Conclusion

Based on the current survey, it appears long-term care insurance sales may continue to increase in Massachusetts as the state's senior population grows. Consumers with sufficient income and asset levels may find this product to be a useful option to consider in their long range planning on health care coverage.

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.