

## IV. COVERAGE IN INDIVIDUAL PLANS

This section describes those who buy LTCI coverage on an individual basis and the features of the coverage that they purchased. In general, those buying coverage on an individual basis tend to be (1) older, (2) buy richer plans, and (3) pay higher premiums than those buying through groups.

### A. Average Age of Individual LTCI Policyholders

For individual LTCI plans, the average ages of Massachusetts and national policyholders are similar.

- The average age of Massachusetts LTCI policyholders was **63.0** in 2004<sup>8</sup> and **65.3** in 2008.<sup>9</sup>
- Nationally, the average age of LTCI policyholders was **63.0** in 2004<sup>10</sup> and **66.5** in 2008.<sup>11</sup>

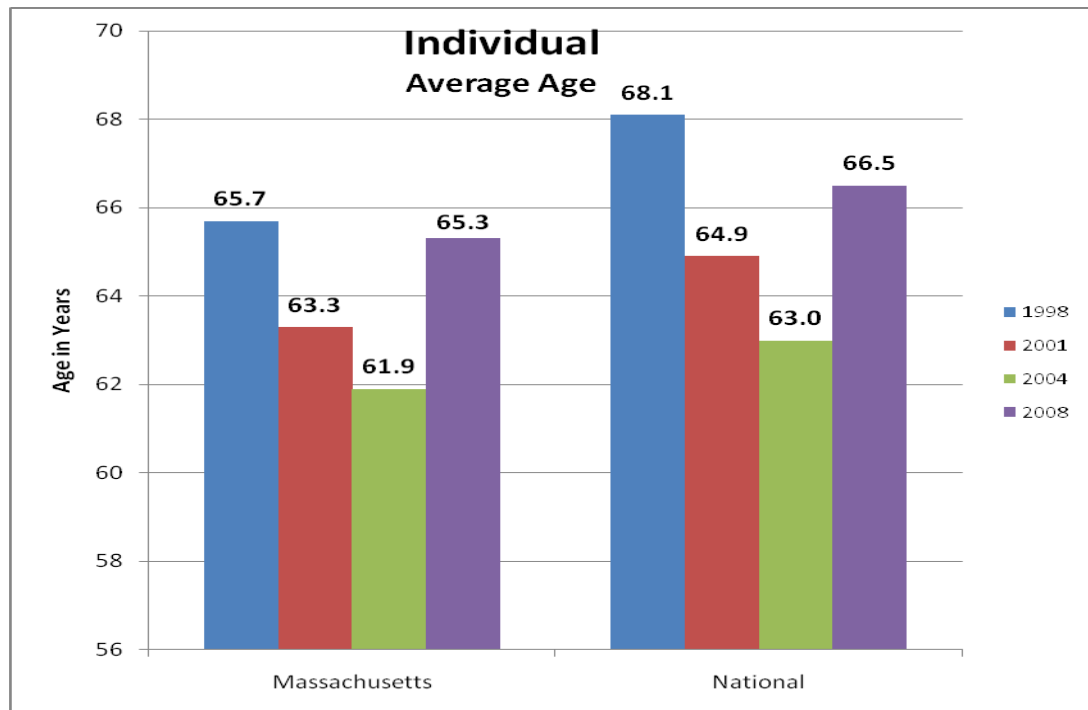


Exhibit 5

### B. Lifetime Maximum Benefit Periods

When policyholders apply for coverage, they choose how long the benefits under the plan will apply after they meet eligibility and waiting period rules. Although individual products must offer coverage that will apply for at least two years of services,<sup>12</sup> many consumers purchase coverage that applies for longer lifetime maximum benefit periods.

The following represents companies' commonly sold maximum benefit periods in 2008:

Massachusetts <sup>13</sup>	National <sup>14</sup>	Description
3	2	Number of companies where 2-year benefit period is most common
11	9	Number of companies where 3-year benefit period is most common
0	1	Number of companies where 4-year benefit period is most common
2	3	Number of companies where 5-year benefit period is most common
1	0	Number of companies where 6-year benefit period is most common
2	8	Number of companies where lifetime benefit period is most common

### C. Level of Nursing Home Coverage

When policyholders apply for coverage, they choose whether the plan covers care in a nursing home or other facility<sup>15</sup> and the amount of daily or monthly nursing home benefits under the plan. Although individual products in Massachusetts must offer a benefit of at least \$125 per day in a nursing home,<sup>16</sup> many policyholders purchase more coverage.

- Over 98.0% of Massachusetts' individual LTCI policyholders had coverage for nursing home care and the average daily benefit increased from \$180.01 in 2004 to \$182.73 in 2008.
- Nationally, almost 98% of individual LTCI policyholders had coverage for nursing home care and the average daily benefit decreased from \$142.75 in 2004 to \$139.07 in 2008.

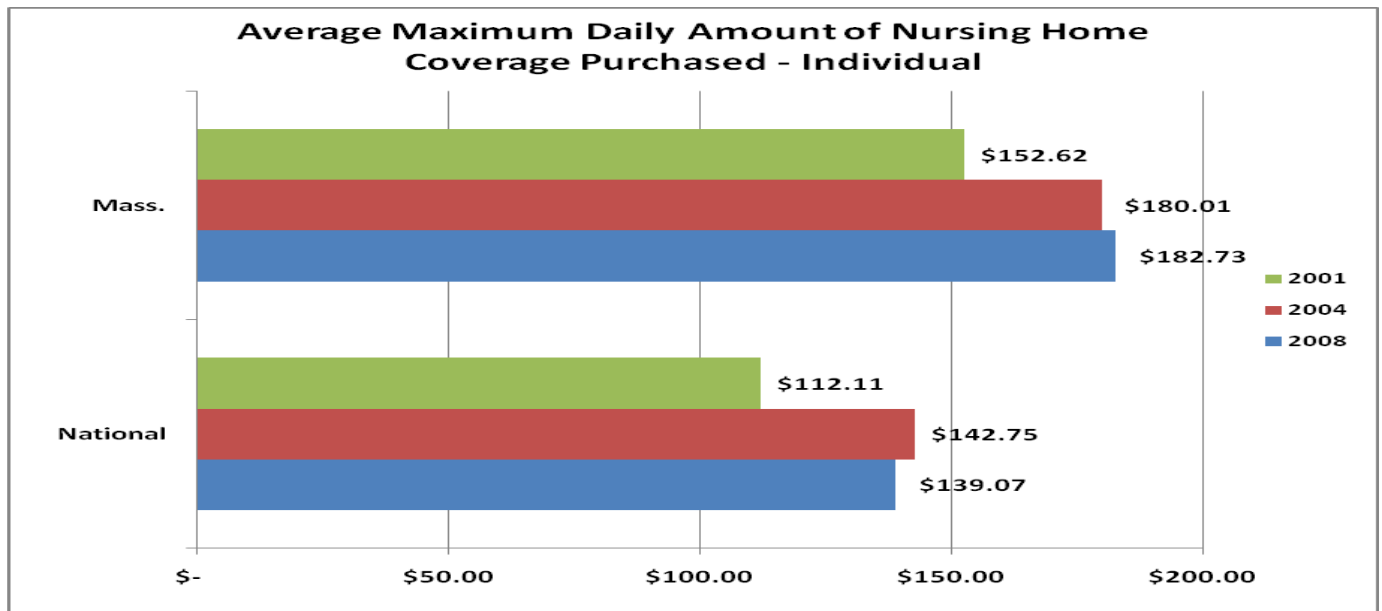


Exhibit 6

### D. Level of Home Health Care Coverage

When policyholders apply for coverage, they choose whether the plan covers home health care or other community-based services<sup>17</sup> and the amount of daily or monthly home health care benefits under the plan. Although individual products in Massachusetts with both nursing home and home health care benefits must provide the home health care benefit at a level at least 50% of the benefit for nursing home coverage,<sup>18</sup> as noted in Exhibit 7 many policyholders purchase more coverage.

- Over 98.0% of new individual LTCI policies written in Massachusetts had coverage for home health care and the average daily benefit increased from \$168.19 in 2004 to \$177.51 in 2008.
- Nationally, 99% of new individual LTCI policyholders had coverage for home health care and the average daily benefit in all policies increased from \$131.91 in 2004 to \$136.38 in 2008.

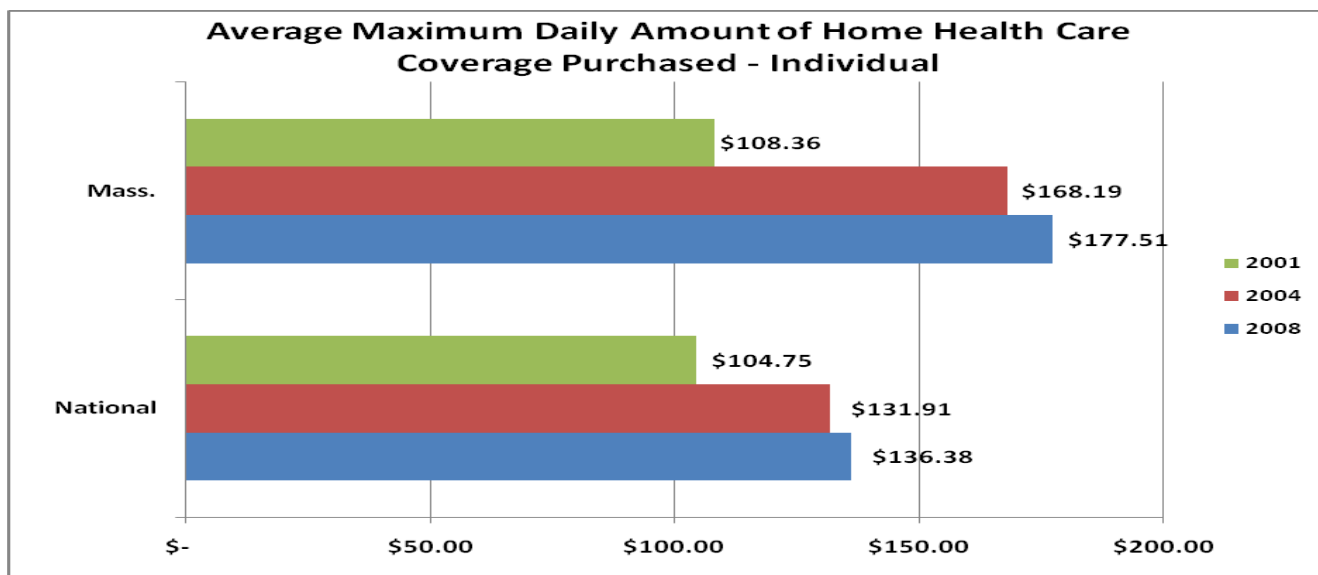


Exhibit 7

### E. Inflation Protection Benefits

When policyholders apply for coverage, they choose a daily or monthly benefit amount of coverage under the plan; unless the policyholder buys inflation protection, the covered amount will be fixed and will not keep pace with changes in the cost of providing care. Although individual products in Massachusetts are required to offer an inflation protection option,<sup>19</sup> not every policyholder chooses this coverage.

- In Massachusetts, 91.9% of individual policies written in 2008 included inflation protection.
- Nationally, 75.0% of individual policies written in 2008 included inflation protection.

While the proportion purchasing inflation protection nationally has remained relatively constant, the proportion of Massachusetts policyholders has increased from 78.6% in 2001 to 91.9% in 2008.

Percent Purchasing Inflation Benefit	<u>2001</u>	<u>2004</u>	<u>2008</u>
<i>Massachusetts</i>	78.6%	80.6%	91.9%
<i>National</i> <sup>20</sup>	75.0%	78.9%	75.0%

Among individual plans initially issued during 2008, persons with inflation protection chose the following types of inflation protection:

MA	National	
0.3%	0.5%	of new insureds purchased protection based on 3% simple interest rate;
20.4%	17.2%	of new insureds purchased protection based on 5% simple interest rate;
7.2%	6.1%	of new insureds purchased protection based on the consumer price index;
1.3%	3.2%	of new insureds purchased protection based on 3% compound interest rate;
50.4%	44.7%	of new insureds purchased protection based on 5% compound interest rate;
9.2%	15.0%	of new insureds purchased protection based on some other basis; and
11.2%	13.5%	of new insureds did not purchase any inflation protection.

## F. Status as a Federally Tax-Qualified Plan

When policyholders apply for coverage, they may choose whether or not to buy a federally tax-qualified policy according to standards set forth in the federal Internal Revenue Code<sup>21</sup> and related regulations. A federally tax-qualified plan may qualify the insured for special tax treatment under federal tax laws. All individual policies in Massachusetts are required to explain on the front of the policy whether it is intended to be a federally-qualified plan.<sup>22</sup> Although all carriers offering products in Massachusetts offer federally-qualified plans, not every policyholder chooses this type of coverage.

Percent Purchasing Federally Tax-Qualified Plans <sup>23,24</sup> by Year	<u>2001</u>	<u>2004</u>	<u>2008</u>
<i>Massachusetts Individual Plans</i>	91.9%	99.7%	94.3%
<i>National Individual Plans</i>	90.6%	96.9%	96.9%

## G. Status as a Plan Qualifying for Certain MassHealth Exemptions

When policyholders apply for coverage, they may choose whether or not to buy a plan that satisfies certain standards to qualify for certain MassHealth exemptions.<sup>25</sup> Under such a plan, the policyholder may be able to meet certain MassHealth (Medicaid) standards when entering a nursing home. All individual policies in Massachusetts are required to explain on the front of the policy whether it meets certain MassHealth (Medicaid) exemption standards.<sup>26</sup>

Although all carriers are required to offer at least one plan that satisfies the MassHealth (Medicaid) exemption standards,<sup>27</sup> not every LTCI policyholder buys a plan to meet these standards. In 2008, 82.9% of newly written LTCI policies in Massachusetts were plans that were intended to meet the MassHealth requirements.

Percent of Plans Intended to Meet MassHealth Requirements <sup>28,29</sup>	<u>2001</u>	<u>2004</u>	<u>2008</u>
<i>Massachusetts Individual Plans</i>	79.7%	73.2%	82.9%

## H. Premiums

An LTCI policyholder's premiums vary based upon the age of the individual when the policy is first bought and the level of benefits (*i.e.*, lifetime maximum benefit period, nursing home coverage, home health care coverage, inflation protection, federal tax-qualified status, MassHealth status, etc.) included in the coverage. As noted in sections C and D, Massachusetts plans cover a higher level of daily benefit and Massachusetts premiums are higher than those of national plans.

Average Annual Premium for Plans Sold in Particular Year <sup>30</sup>	<u>2001</u>	<u>2004</u>	<u>2008</u>
<i>Massachusetts Individual Plans</i>	\$2,087.08	\$2,287.33	\$2,695.84
<i>National Individual Plans</i>	\$1,812.71	\$1,892.61	\$2,174.84