Understanding the Motivations of Long-Term Care Insurance Owners: The Importance of Retirement Planning

by Paul J. Yakoboski

► **This article is based on two recent reports by the American Council of Life Insurers (ACLI) that illuminate the reasons why individuals purchase private long-term care insurance in both the group and individual markets.** *This information suggests that a younger and more diverse group of individuals are becoming increasingly interested in private long-term care insurance and that workplace education linking the purchase of long-term care insurance to retirement planning may promote coverage.*◄

Long-term care insurance pays for services and supports to help policyholders who are unable to perform certain activities of daily living without assistance, such as bathing, eating, dressing and transferring from bed to chair. These policies also pay benefits when the insured requires supervision due to a cognitive impairment such as Alzheimer's disease. Since the likelihood of chronic illness or disability increases with age, private long-term care insurance traditionally has been sold as primarily a seniors' product. Within the last ten years, group insurance plans have expanded coverage to working age people.

The market for private long-term care insurance is closely linked to federal and state government policy. Public funding for long-term care comes from two main sources. *Medicaid,* a joint federal-state program, is the primary government funding source for long-term care in the United States. Medicaid targets low-income people—Beneficiaries must deplete most of their assets and meet a strict income test before they qualify. *Medicare* primarily pays for medically related recovery and rehabilitation services at home or in a nursing home.

Currently, these two government programs pay for 60% of long-term care expenditures. Of the remainder, out-of-pocket spending covers 36% and private long-term care insurance covers 4% (Table I). Given the aging of the baby boom generation and increases in life expectancy, there is strong interest in promoting private insurance coverage, both to head off potential strains on future federal budgets and to protect individuals needing care.

This article, based on two recent reports by the American Council of Life Insurers (ACLI),[1] examines thought processes and motivations of private long-term care insurance policy owners, i.e., why do they own what they own? It analyzes owners in the individual market as well as the group market. The insights from this research provide information that can be used by practitioners and policy makers in their efforts to increase the level of coverage under private long-term care insurance.

Key findings include:

- Among policy owners, long-term care insurance is an integral part of retirement planning.

TABLE I

Projected U.S. Long-Term Care Expenditures for the Elderly, 2000 (billions)

	Institutional Setting		In the Home		Total	
Payer	**Amount**	**Percent Distribution**	**Amount**	**Percent Distribution**	**Amount**	**Percent Distribution**
Medicare	$12.3	14.3	$17.1	49.3	$29.4	24.4
Medicaid	36.2	42.2	7.1	20.5	43.3	35.9
Private long-term care insurance	3.0	3.5	2.0	5.7	5.0	4.2
Out of pocket	34.3	40.0	8.5	24.5	42.8	35.5
Total	**85.8**	**100.0**	**34.7**	**100.0**	**120.5**	**100.0**

Sources: American Council of Life Insurers, Congressional Budget Office.

TABLE II

Long-Term Care Insurance in the United States, 2000

In Force	**Net Premiums**	**Policies/Certificates**	**Master Policies**
	(millions)	(units)	(units)
Individual	$3,918	2,477,377	—
Group	534	912,876	5,058
Total	4,452	3,390,253	5,058
Issued			
Individual	794	472,823	—
Group	89	84,365	1,094
Total	**883**	**557,188**	**1,094**

Source: American Council of Life Insurers.

- Interest in private coverage is increasing, even among "younger" individuals.
- Market expansion means increasing diversity among owners.
- Workplace education encourages long-term care planning.
- Linking long-term care education to retirement planning may promote coverage.

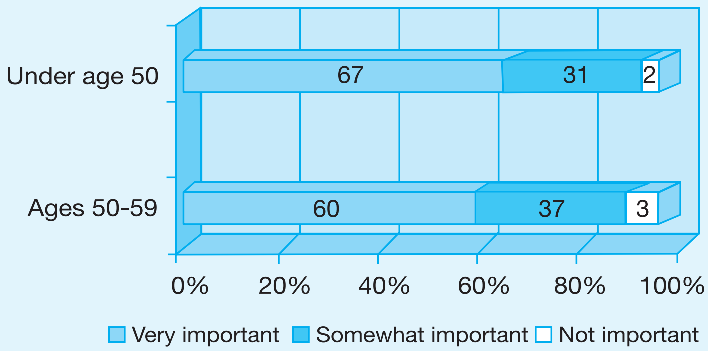
BACKGROUND

Sales of long-term care policies in 2000 stood at over one-half million policies with $883 million in premiums. Total policies in force were 3.4 million with premiums of $4.5 billion (Table II). But increasing market penetration is an ongoing challenge for insurers. Among the nation's elderly, fewer than 10% have purchased private insurance to protect themselves against the risk of needing long-term care, and coverage among working age adults is less extensive. This is significant considering that, in 2000, the estimated average daily cost of a nursing home stay in the United States was $153, or more than $55,000 per year according to MetLife. This daily cost, assuming 5% annual growth, will increase to over $90,000 per year in 2010, $148,000 in 2020 and $241,000 in 2030.

Seventy-three percent (2.5 million) of the more than three million long-term care policies in force in 2000 were individual coverage. Individual premiums rose to $4 billion by the end of 2000 (Table II), an 11% increase from 1999.

FIGURE 1

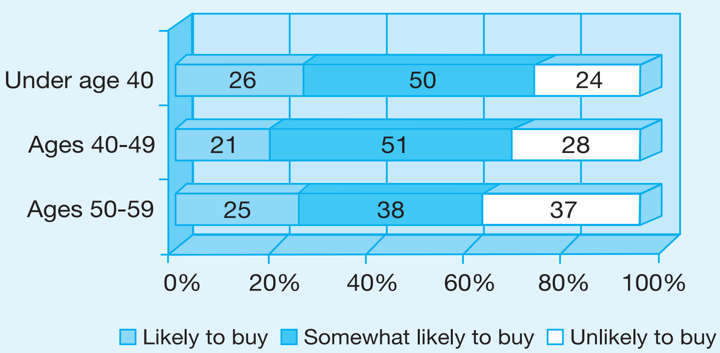
Importance of Long-Term Care in Retirement Planning, Among Group Enrollees



Source: American Council of Life Insurers.

FIGURE 2

Purchasing Plans for Long-Term Care Insurance, Among Potential Enrollees



Source: American Council of Life Insurers.

Individual long-term care insurance offers a wide array of options for purchasers to tailor a policy to meet their financial and lifestyle goals. The policyholder selects the length of the benefit term, ranging from one to five years or covering a lifetime. Other options include the amount of the maximum daily benefit, length of the elimination period, level of care, inflation protection and nonforfeiture benefits.

Group long-term care insurance is a contract between an insurance company and some group to insure the members of that group. Businesses and some state governments, unions, and fraternal and other associations such as AARP sponsor this type of insurance. Groups can either purchase long-term care coverage from an insurance company or self-insure the benefits. Under self-insured plans, the group assumes all risks and expenses of providing long-term care coverage. Most employers currently offering this benefit purchase group insurance coverage.

In the group market, the employer owns the master policy, and individual employees receive a certificate of insurance describing their coverage under the group plan. More than 900,000 group certificates and over 5,000 master policies were in force in 2000. Premiums for in-force business totaled $534 million in 2000 (Table II), an increase of 23% over 1999.

Group long-term care insurance typically is offered as a voluntary benefit for which the employee pays. Long-term care insurance purchased through the workplace also is a portable benefit. By paying the entire premium directly to the insurer, employees can retain coverage in retirement or if they switch employers.

ROLE OF RETIREMENT PLANNING

A fundamental message of ACLI's recent research is that owners view their long-term care insurance coverage as an integral element of their retirement planning process. Long-term care insurance coverage is a retirement income security issue. Ninety-eight percent of individual policy owners say preparing for long-term care expenses is an important part of retirement planning, with 70% saying it is very important.

The same message comes through in the group market. In fact, the younger the enrollee, the more important the retirement planning link—67% of group enrollees under age 50 say long-term care insurance is "very important" in retirement planning compared with 60% of those ages 50-59 (Figure 1).[2]

The "retirement link" (i.e., owning long-term care insurance to help secure retirement preparations), is manifesting itself with increased interest among "younger" individuals. Among those who bought a policy in the individual market between 1997 and 1999, the proportion that is under the age of 65 grew ten percentage points relative to the 1992-1996 period (39% versus 29%).

In the group market we see that the younger a "potential" enrollee,[3] the more likely he or she is to ultimately own a long-term care insurance policy. Seventy-six percent of potential enrollees under the age of 40 say they are likely to eventually own coverage compared with 63% of potential enrollees ages 50-59 (Figure 2).

Furthermore, younger owners are more likely than their older peers to be motivated by a desire to protect their retirement lifestyle by protecting their accumulated retirement assets. In the individual market, 40% of owners under the age of 65 cite this as the most important benefit of coverage, compared with less than 30% of those aged 65 and older. For those aged 65 and older, avoiding dependency is the most important benefit (Figure 3).

Not only are younger owners more likely to say that this is a retirement planning tool, we see evidence of this in the policy features they select, i.e., policies with substantial benefit levels, such as long benefit durations. Owners under the age of 65 are much more likely than their peers aged 65 and older to own policies with benefit durations of more than six years for both home care and nursing home care (Figure 4). This corroborates the importance of protecting retirement assets as one of the key motivators in owning long-term care insurance.

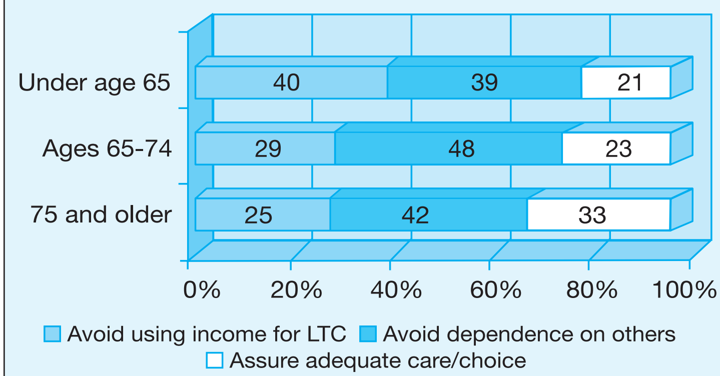
EMERGING MARKET SEGMENTS

Results from the individual market survey highlight that as the market expands, there will be increasing diversity among owners and accompanying that, an increased opportunity posed by emerging market segments from nontraditional sectors. This implies that success in increasing coverage rates will depend upon developing distinct messages to reach different groups of potential customers.

Consider financial status. Many policy owners have modest or limited financial resources[4] (38% of individual owners under the age of 65 and 61% of owners ages 65-74) and the *less* financial resources an owner has, the *more* important he or she tends to believe long-term care planning is for retirement planning. Seventy-seven percent of owners with limited financial resources view long-term care planning as very important, compared with 73% of moderate resource owners and 66% of owners with substantial resources (Figure 5).

FIGURE 3

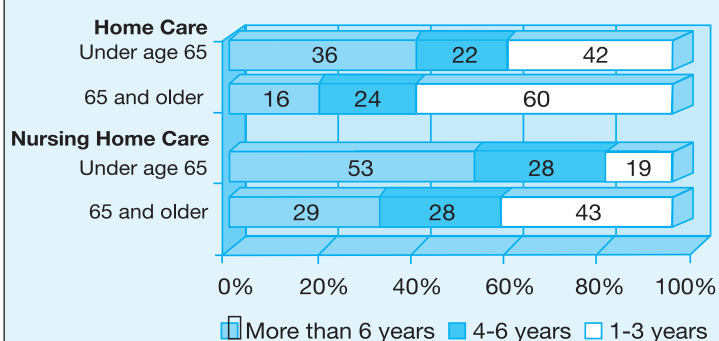
Most Important Benefit of Owning Long-Term Care Insurance, Among Individual Policyholders



Source: American Council of Life Insurers.

FIGURE 4

Benefit Duration Selected by Individual Policyholders



Source: American Council of Life Insurers.

The Author

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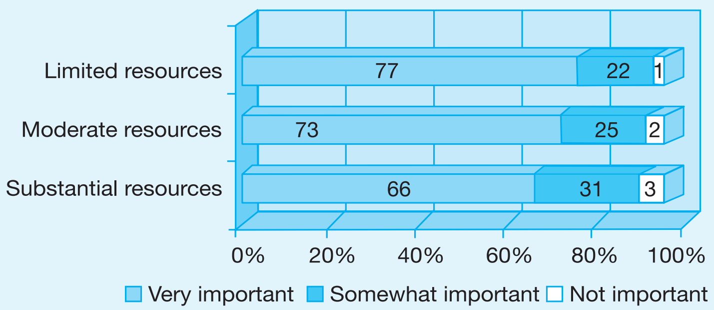
FIGURE 5

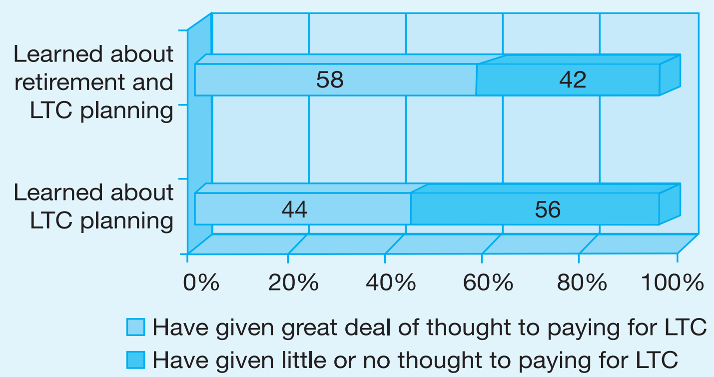
Importance of Long-Term Care Planning for Retirement Planning, by Owners' Financial Resources



Source: American Council of Life Insurers.

FIGURE 6

Consideration Given to Paying for Long-Term Care, Among Potential Enrollees



Source: American Council of Life Insurers.

The research indicates that men, especially younger men who are increasingly likely to buy a policy before retirement,[5] are an emerging market segment. Furthermore, men tend to view coverage differently than women. While women are more likely to own policies to avoid dependency (47% of women versus 39% of men), men are more likely to value the asset protection provided by coverage (38% for men versus 29% for women). Women tend to worry about becoming a burden on others, while men tend to worry about protecting their retirement savings. Therefore, one would want to approach men and women somewhat differently when promoting private coverage.

IMPACTING COVERAGE RATES

Findings from the group study demonstrate that communication and education do impact individuals' thought processes and decisions and, the more intensive the communication, the greater the impact. One-half of group owners who received long-term care information through work say that it motivated their enrollment. Furthermore, 70% of those who attended a seminar, in addition to receiving information, say that they were motivated to enroll.

What messages resonate with individuals in terms of motivating ownership? Not surprisingly, the most effective communication/education material is likely that which incorporates a retirement planning angle. Looking at potential enrollees in the group market, those who learned about retirement planning along with long-term care planning (as opposed to long-term care planning alone) have given a great deal more thought to paying for their potential long-term care expenses (Figure 6).

CONCLUSION

Working Americans are accumulating significant assets for their retirement.

- Assets in private sector defined contribution retirement plans amount to $3 trillion today compared with $91 billion in 1977.[6]
- 401(k) plans are flourishing. Today, 44 million workers participate in 345,000 401(k) plans with assets totaling over $2 trillion. In 1990, by contrast, 20 million individuals participated in less than 100,000 plans with assets of $400 billion.[7]
- Rollovers from defined contribution plans have helped multiply IRA assets to $2.5 trillion today from $600 billion in 1990.[8]
- Assets in individual nonqualified annuities totaled $470 billion at year-end 2000.[9]
- Premiums paid into individual nonqualified annuity contracts in 2000 totaled $76 billion.[10]

A secure retirement depends not only on accumulating sufficient assets, but also upon protecting those assets, particularly from the potentially devastating expenses of long-term care. The research discussed here makes clear that a growing number of individuals are coming to this realization and buying private long-term care insurance as part of their retirement planning process. The research further indicates that communication and education by policy makers and practitioners that incorporates this "retirement link" may be key in boosting the ownership of private coverage.

Note:

Making the Retirement Connection: The Growing Importance of Long-Term Care Insurance in Retirement Planning and *Long-Term Care Insurance at Work: The Retirement Link and Employee Perspectives* can be purchased separately ($69.95) or as a set ($110). Phone ACLI Publications at (800) 589-ACLI.

Making the Retirement Connection highlights a shift in the way Americans think about long-term care insurance; the link between long-term care and retirement planning; and how long-term care planning varies by age, financial resources and gender.

Long-Term Care Insurance at Work illustrates how long-term care insurance is gaining interest as an employee benefit; the diverse ways that employees think about long-term care planning; and the impact of educating employees about group long-term care plans.

The studies are based on surveys conducted by LifePlans Inc. for ACLI in 1999 and 2000. *Making the Retirement Connection* was based on a survey of 1,608 owners of an individual long-term care insurance policy. *Long-Term Care Insurance at Work* was based on surveys of 939 individuals (both plan enrollees and potential enrollees). In both studies, respondents were asked to complete a mail-in survey with questions about their savings behavior; retirement goals, beliefs and actions; and long-term care fears and preparations. Insurers provided information about the features of their long-term care policies. ◀

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Endnotes

1. *Making the Retirement Connection: The Growing Importance of Long-Term Care Insurance in Retirement Planning* (March 2001) and *Long-Term Care Insurance at Work: The Retirement Link and Employee Perspectives* (July 2001).
2. The group market research was restricted to owners under age 60 to examine the link between retirement planning and long-term care planning.
3. Someone who has demonstrated a proactive interest in coverage by inquiring about his or her employer's plan but has not yet attained coverage.
4. Classification of financial resources is based on income and nonhousing assets. *Limited financial resources* means income of less than $24,000 with any amount of assets. *Moderate financial assets* means income of $24,000 to $40,000 with any amount of assets, or income over $40,000 with assets less than $125,000. *Substantial resources* means income over $40,000 and a minimum $125,000 in assets.
5. Thirty-two percent of recent male owners bought their policy before retirement.
6. Abstract of 1996, Form 5500 Annual Report (Final 1996). U.S. Department of Labor, Pension and Welfare Benefits Administration. Private Pension Plan Bulletin, No. 9 (Winter 1999-2000); and "EBRI Research Highlights: Retirement and Health Data." Dallas Salisbury. EBRI *Issue Brief* No. 229 and Special Report SR36 (January 2001).
7. Ibid.
8. "IRA Assets Continue To Grow." Craig Copeland. EBRI *Notes,* Vol. 22, No. 1 (January 2001).
9. *Life Insurers Fact Book 2001,* American Council of Life Insurers (2001).
10. Ibid.