

Long-Term Care Insurance

- Darla J. Scott 10/18/98

Many believe that Medicare, Medicaid, or traditional health insurance policies will cover all eventual expenses of healthcare and this is not the case. Unless individuals plan for the possibility that they will need long-term care, their savings and retirement income may be jeopardized.

What is Long-Term Care Insurance?

Long-Term Care Insurance vs Health Insurance

Hospitalization benefits provided by traditional health care insurance generally cover the expenses of acute care, which is provided in a hospital and is intended to help you recover from an illness or injury. It usually lasts for only a short time. Long-term care insurance, on the other hand, is provided to people with chronic, degenerative illness or disabilities who require continued support over a long period of time. ([AARP](#))

Despite the difference in benefits, the structure of long-term care insurance is similar to other insurance in that it allows individuals to pay a known and affordable premium that offsets the risk of much larger out-of-pocket expenses.

The Origin of Long-Term Care Insurance

Early versions of Long-Term Care Insurance were sold in the 1970's but high prices and primitive offerings limited sales until the early 1990's. When the HIPAA (Health Insurance Portability & Accountability Act) was passed in 1996 "It sent a message to the public that long-term care was something they needed to plan for." Says Sam Morgante, Vice-President of Product Development and Government Relations for GE Capital Assurance Company, a leader among Long-Term Care providers. ([Kaydo 15](#))

The number of long-term care policies sold grew at an average annual rate of 29 percent between 1987 and 1992. By December 1993, almost 3.5 million people had private long-term care policies. Although most of these policies were sold in the individual market, an increasing number of employers offer coverage to their employees. According to the Health Insurance Association of America, the number of people covered by employer-provided long-term care insurance has increased from 20,000 in 1988 to more than 400,000 in 1993. ([NCPA](#))

Why Is Long-Term Care Insurance Needed?

Aging Population

The numbers of elderly Americans is increasing and is expected to continue rising. U.S. Bureau of the Census figures as of January 1, 1996 showed the U.S. population total at 264,023,000. Baby boomers – ages 32 to 50 – total approximately 96,000,000 or 36% of the total population. As this 'Baby Boom Generation' ages, there will be a dramatic rise in the number of elderly Americans. As experts predict continuing increases in the average life expectancy, the need for long-term care services will increase.

The Social Security Administration (SSA) predicts the number of Americans over the age of 65 will increase by 105 percent from 1990 to 2030. In addition, individuals age 85 and older are expected to be the fastest-growing segment of the elderly population, increasing 143 percent between 1990 and 2030. Currently, half of all women & 1/3 of all men who are now 65 will spend their last years in a nursing home at a cost of \$40,000+ per year. ([Consumer Reports 35](#))

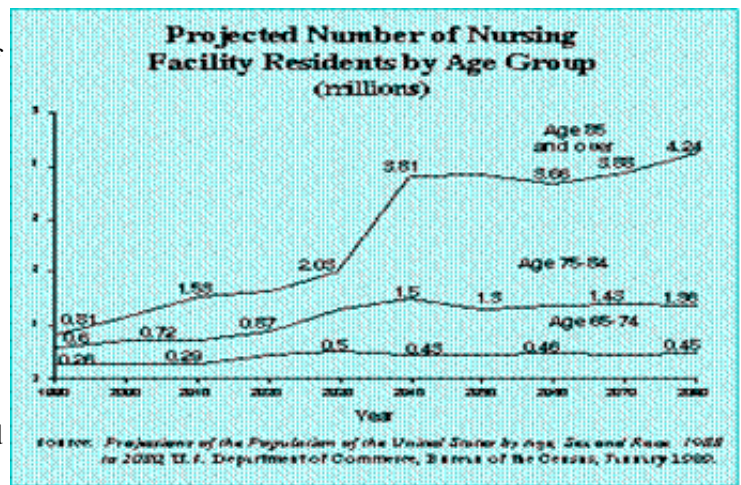


Fig 1

According to an American Health Care Association study, 2 out of 5 Americans will need nursing home care at some point in their lives, and one in five Americans over age 50 is at risk of needing such care during the next 12 months. (Fig 1) In addition, a full 55% of those who enter nursing homes will stay at least one year, and 21% will remain five years or longer. ([ACHA](#))

Rising Costs of Care

Long-term care costs are high. Generally, older people pay more for long-term care than for anything else they buy. The annual cost of a nursing home stay is approximately \$50,000. Home care can also be very costly. An older person who receives just three home health visits per week could pay about \$12,000 for home care each year. The average American man can expect to spend \$56,895 on long-term care; while the average woman will spend \$124,370. Those with severe impairments will pay more for care. So will those who have no friends or relatives to help them. The cost of other long-term care services, such as adult day care and assisted living facilities, varies.

([ACHA](#))

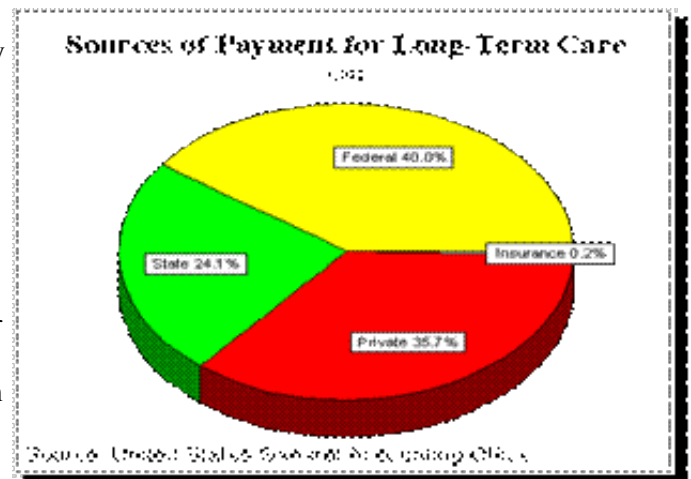


Fig 2

Many people who begin paying for nursing home care find that their savings are not enough to cover lengthy confinements. If they become impoverished after entering a facility, they turn to Medicaid to pay the bills. Medicaid, a federal-state health insurance program for the poor, now pays for 2/3 of all nursing home residents. ([HIAA 3; Consumer Reports 36](#))

The Growth of Long-Term Care Insurance

Popularity

Long-Term Care Insurance is gaining popularity. By the end of 1994, more than 3.8 million people had purchased long-term care policies, and 1,028 employers offered such insurance plans to their employees. ([ACHA](#))

“Total premiums for Long-Term Care Insurance (LTCI) hit 3.5 billion in 1997,” says Jack Relchman, a healthcare analyst with Standard & Poor. He estimates that sales will grow at an annual rate of 30% as aging Baby Boomers identify their health care needs.

([Kaydo 15](#))

The increase in and problems relating to an aging population is not unique to the United States. A public Long-Term Care Insurance program is likely to be introduced to Japan in the year 2000. A consensus on the need for more long-

term care resources in the rapidly aging society and dissatisfaction with the current system are some of the factors that have contributed to its introduction.

[\(JAMA 1310\)](#)

Availability and Affordability

As the demand for Long-Term Care Insurance grows, consumers are offered more choice in policies. Most are *indemnity* policies, which means that they pay a fixed dollar amount for each day you receive specified benefits. No policy is guaranteed to pay all expenses fully.

The actual premium cost depends on many factors, including age, level of benefits desired and the length of time you are willing to wait until benefits begin. The average price of a basic policy that pays \$100 a day for four years is \$400 a year for a 50-year-old, \$1,100 for a 65-year-old and \$4,500 for a 79-year-old. [\(Willette\)](#)

The younger an individual is when initially purchasing Long-Term Health Care Insurance, the lower the annual premiums will be – and should remain. Premiums generally don't increase with age but remain the same each year (unless they are increased for all policyholders at once).

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Background