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Long-Term Care Insurance: Overview

What Is Long-Term Care Insurance?

Long-term care insurance (LTCI) is a type of insurance policy designed to cover the future costs of care associated with a chronic condition or disability that requires extended or long-term care. Long-term care, often referred to as long-term services and supports (LTSS), provides hands-on assistance or supervision to individuals who have functional or cognitive impairments associated with basic activities of daily living (ADLs; e.g., bathing, dressing, eating, mobility, toileting, and continence). Once a policyholder is eligible for long-term care, the LTCI policy provides a daily cash amount (up to a maximum limit) that the policyholder may use to cover services.

Policy Features

LTCI policies are complex insurance products. Individuals seeking to purchase a policy must make certain decisions about the product's features at the time of purchase. In general, these purchase decisions are made several years, sometimes decades, prior to the need for LTSS, which adds further complexity to the decision-making process. These purchase decisions (described below) include

- the type of services covered,
- the dollar amount of coverage and annual inflation adjustments,
- the length or duration of coverage, and
- the waiting period (or elimination period).

Covered Services

Services covered under an LTCI policy may include care provided in a variety of settings, such as nursing homes and assisted living facilities, or an individual's private home through home health services. Policies may cover respite care for caregivers, homemaker and chore services, and medical equipment, among other services and supports.

Coverage Amount

Individuals must choose a daily benefit amount and whether to purchase inflation protection. The dollar amount of the daily benefit is often initially chosen based on the current cost of services. Deciding whether and how much this daily benefit should be adjusted over time to reflect the annual inflation rate for LTSS can be difficult, because of uncertainty around the unknown future costs of LTSS.

Coverage Length

The length of coverage (in years) of an LTCI policy is called the duration of the benefit. Determining how much coverage to purchase adds complexity to the decision-making process. LTCI policies can cover two to five years of services, and some policies can provide lifetime benefits. Potential policyholders want to purchase a policy that will

sufficiently cover future risks; however such risks are unknown at the time of purchase and vary widely across the older population.

Waiting Period

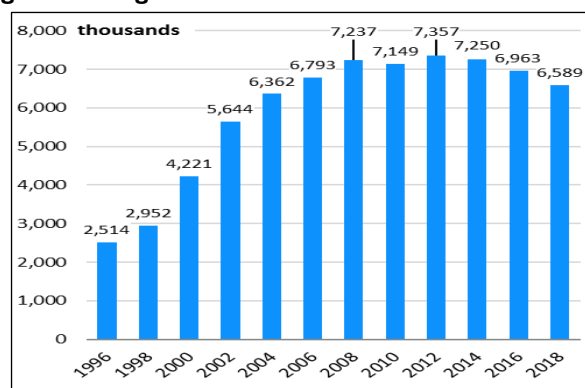
In general, LTCI benefit eligibility depends on limitations in an individual's ability to perform a certain number of ADLs. LTCI policies often have a waiting or elimination period, which is the length of time between the onset of qualifying impairments and commencement of payment for LTSS. The elimination period is selected by the policyholder when he or she purchases the policy. This elimination period is conceptually similar to a deductible in a health care plan; the longer the elimination period, the lower the policy's premium cost, all other things being equal.

Insurance Market

LTCI policies may be sold by an insurance carrier to an individual directly or to a group as part of an employer-sponsored policy. The premiums charged by LTCI insurance carriers vary by age of purchaser. Those purchasing at older ages are charged higher premiums because they are at higher risk of needing LTSS. LTCI policies are guaranteed renewable; in other words, they may be cancelled only for nonpayment of premiums. Generally, the types of services covered under an LTCI policy are not covered under health insurance. And, unlike most health insurance policies, LTCI policies are subject to underwriting, which means that individuals who have preexisting conditions can be denied coverage or offered a policy with a high premium.

The LTCI market has changed significantly over the past two decades. The employer-sponsored insurance market has grown as a share of total LTCI sales, and the overall market has become more concentrated, with fewer companies selling the product. From 2008 to 2014, overall growth in the LTCI market remained relatively stagnant (**Figure 1**). Since 2014, the number of individuals with an active LTCI policy (often called "in-force") has declined. In 2018, almost 6.6 million individuals had an active LTCI policy; 69% were sold as individual policies, and 31% were group policies.

Employer-sponsored LTCI is distinct from employer-sponsored health insurance in that employers typically do not contribute to LTCI premiums. Unlike LTCI purchased in the individual market, employer-sponsored LTCI has the advantage of a larger risk pool and generally lower premiums. Among employers offering LTCI, the federal government is the largest employer offering group LTCI.

Figure 1. Long-Term Care Insured Lives

Source: National Association of Insurance Commissioners, *Long-Term Care Insurance Experience Reports, 2006-2019*. Data elements used to prepare these reports are extracted from exhibits filed with the NAIC; however, the NAIC cannot guarantee their accuracy.

The Federal Long-Term Care Insurance Program

The Long-Term Care Security Act (P.L. 106-265) authorized the Office of Personnel Management (OPM) to offer a federal long-term care insurance program (FLTCIP) which was established in 2002. Under the FLTCIP, active and retired federal workers and eligible family members who are approved for coverage may voluntarily purchase a LTCI policy. FLTCIP premiums may be deducted from an individual's salary or pension benefit, but they are not pretax contributions, and workers pay 100% of the premiums. Eligible workers receive no premium assistance from the federal government. Since enactment, amendments to this legislation have primarily addressed eligibility.

Regulation

State governments have primary jurisdiction for regulating the private LTCI market. In this capacity, states have established laws and regulations for LTCI carriers and the products they sell. States also play an active role in verifying carriers' and products' compliance with these requirements. To help guide states in their oversight efforts, the National Association of Insurance Commissioners (NAIC) has developed a number of "Model Laws" and "Model Regulations," which provide recommended guidelines for state regulators to adopt.

Tax Benefits and Consumer Protections

Federal law provides tax benefits and minimum consumer protection standards for purchasers of "tax-qualified" LTCI policies, as authorized by the Health Insurance Portability and Accountability Act of 1996 (HIPAA, P.L. 104-191). These provisions are established in the Internal Revenue Code (42 U.S.C. §7702B). Most private LTCI policies sold after enactment of HIPAA are tax-qualified policies.

HIPAA tax-qualified LTCI products are required to have defined benefit triggers for when the policy begins to pay benefits. These triggers require policyholders to meet the definition of a "chronically ill" individual, which is defined as an individual who has been certified by a licensed health care practitioner as

- being unable to perform (without substantial assistance) at least two ADLs for a period of at least 90 days due to a loss of functional capacity;

- having a level of disability similar (as determined by the Secretary of the Treasury in consultation with the Secretary of Health and Human Services) to the level of disability described above; or
- requiring substantial supervision to protect such individual from threats to health and safety due to severe cognitive impairment.

Federal law provides tax advantages for some aspects of private LTCI. Benefits from a "qualified" LTCI policy are excluded from the gross income of the taxpayer (i.e., they are exempt from federal taxation). LTCI premiums are allowed as itemized deductions to the extent they and other unreimbursed medical expenses exceed 7.5% of adjusted gross income (AGI) for 2019 and 2020 (10% of AGI beginning in 2021). LTCI premium deductions, however, are subject to age-adjusted annual maximum amounts. In 2020, these amounts ranged from \$430 for those aged 40 and younger to \$5,430 for those aged 70 and older.

In addition, under current law, employer contributions toward the cost of tax-qualified LTCI policies are excluded from the gross income of an employee. Self-employed individuals may include LTCI premiums in calculating their deductions along with other health insurance premiums. Only amounts less than or equal to the age-adjusted limits can be deducted or excluded from taxable income.

Addressing Market Stability

Over the past two decades, annual LTCI premiums have increased significantly overall for both current and new policyholders. Higher average premiums reflect increased demand for more comprehensive benefit packages (including inflation protection) and higher daily benefit amounts. Premium increases have also been driven by inadequate medical underwriting, premiums that were initially set too low, and insufficient growth in investment funding or reserves to cover future claims.

LTCI market stability depends largely on the ability of insurers to adequately predict future claims. Most policies issued before the mid-2000s had incorrectly predicted claims, necessitating changes to key pricing assumptions. For example, rising claims, lower mortality rates, lower-than-predicted voluntary termination (lapse) rates, and lower-than-predicted rates of return on investments have been cited as key reasons for LTCI premium increases. Nevertheless, large rate increases are likely to have a continued effect on consumer confidence in these products, possibly leading to further reductions in consumer demand.

In response to issues with LTCI market stability and the broader challenges of financing long-term care, the U.S. Department of the Treasury convened the Federal Interagency Task Force on Long-Term Care Insurance in 2017. The task force is directed to develop federal policies to complement state level LTCI regulation and to coordinate with state insurance regulators and the NAIC. In 2019, the task force held a public meeting and subsequently invited public comment on the business of the task force. To date the task force has not issued any policies or reports.

Kirsten J. Colello, Specialist in Health and Aging Policy

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