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# **WHO BUYS LONG-TERM CARE INSURANCE IN 2000?**

*A Decade of Study of  
Buyers and Nonbuyers*

Prepared for  
Health Insurance Association of America  
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# EXECUTIVE SUMMARY



The purpose of this study, which builds on work completed in 1990 and 1995, is to identify who buys long-term care insurance and to understand what motivates them to do so. We compare findings to a sample of nonbuyers and other Americans age 55 and over. We also track how purchase decisions have changed over the past decade. An examination of such changes can help policymakers and the insurance industry better understand marketplace opportunities and barriers. Such an inquiry can also contribute to the debate about the consumer protection tax deductibility and regulation of long-term care policies, as well as about whether (and how) this insurance can help solve the increasingly complex puzzle of long-term care financing. Twelve companies participated in this study, representing more than 80 percent of total sales in 1999. These companies contributed a sample of 2,728 buyers, 638 nonbuyers, and design information on 5,407 policies. In addition, 500 individuals age 55 and over were surveyed from the general population.

## **FINDINGS**

### ***Sociodemographic Characteristics***

- ◆ The average age of individual buyers has declined from 69 years to 67 years. Perhaps the greatest change relates to the under-65 age group. A third of all individual long-term care policies sold are purchased by people younger than 65.
- ◆ Both buyers and nonbuyers are wealthier than their counterparts in the general population, are

more likely to be married, and are far more likely to be college educated.

- ◆ The major demographic differences between buyers and nonbuyers are that the latter tend to be somewhat older, are less likely to be employed, and are less wealthy than buyers of long-term care insurance. This represents a change from earlier surveys, which revealed few demographic differences between buyers and nonbuyers.
- ◆ The average income and asset level of buyers has increased substantially over the past decade. Whereas in 1990 and 1995 about 60 percent of buyers had incomes less than \$35,000, by the year 2000 this figure had declined to 36 percent. This dramatic change in the wealth profile of buyers throughout the decade is attributable to more “younger elders” buying the product, a substantial boost in retirement savings over the past five years due to the stock market, and agents avoiding sales to individuals with less than \$20,000 annual income.

### ***Attitudes Toward Long-Term Care and Insurance***

- ◆ Many of the attitudinal trends present in 1990 and 1995 persist in 2000.
- ◆ Being a “planner”—one who believes that it is important to plan for the possibility of needing services—is associated with the purchase of long-

term care insurance. Consistently, buyers have been almost twice as likely as nonbuyers to strongly agree with the statement “it is important to plan now for the possibility of needing long-term care services.”

- ◆ Buyers tend to worry less about paying for long-term care services and are much more likely to view long-term care insurance products as adequate than are nonbuyers.
- ◆ Nonbuyers continue to be more than twice as likely as buyers to agree with the statement “the government will pay for most of the costs of long-term care if services are ever needed.” It is therefore not surprising that these individuals do not buy policies. They believe the government will pay for any care that they may need in the future.
- ◆ Individuals age 55 and over from the general population were most likely to believe that the government will pay for long-term care or that such services will be covered by other health insurance.
- ◆ Buyers typically perceive the risk of needing nursing home services to be higher than do nonbuyers.

### ***Trends in Product Purchase***

- ◆ Coverage is much more comprehensive today than it was just a few years ago. The proportion of dual-coverage policies (i.e., those that cover both institutional care and home care) grew from 37 percent in 1990 to 77 percent in 2000.
- ◆ Over the past five years, the average daily nursing home benefit has increased by 28 percent, which is higher than the rate of inflation.
- ◆ The difference between the daily benefit paid in institutional settings and that paid in home care settings has narrowed significantly. The average daily benefit for home care has grown by 36 percent over the five-year period.

- ◆ There is also a growing trend toward the purchase of compound inflation protection. This trend probably reflects the increase in younger buyers, who are more likely to need inflation protection.
- ◆ Average annual premiums have increased 11 percent between 1995 and 2000 from \$1,505 to \$1,677. Given the more comprehensive nature of policies, one would have expected average policy premiums to increase by more than 20 percent. Clearly, long-term care insurance is a better buy today than it was five and ten years ago, and consumers are receiving more value for the premium dollar.
- ◆ Data suggest that “nursing home only” policies appeal to buyers who are older, have lower incomes, and fewer assets, are more likely to be single and female, and are less likely to be working.

### ***Understanding the Buy/Nonbuy Decision***

- ◆ Individuals are buying long-term care insurance to meet multiple objectives. About one in three respondents indicated that protecting their assets and estate was the single most important reason for purchase. This is roughly the same proportion as observed in 1995.
- ◆ About 45 percent indicated that the tax benefit was an important motivator. However, 34 percent said it was not important, and 21 percent did not even know about the tax change.
- ◆ For most buyers (85 percent) this is their first purchase of long-term care insurance. Only 15 percent were either replacing a previous policy (11 percent) or adding to an existing policy (4 percent). Most (62 percent) know someone else with a policy.
- ◆ Among married couples, 82 percent have a

policy for each spouse; this compares to 61 percent in 1995.

- ◆ For the most part, people do not decide to purchase long-term care insurance on their own. In addition to the insurance agent, others (spouses, children, relatives, and financial planners) contribute to the discussion.
- ◆ Two out of three buyers cited spouses and agents as having the most influence on the decision to purchase long-term care insurance. Only rarely do children take an active role in the purchase decision.
- ◆ The agent's recommendation and the insurer's reputation are the reasons most often cited for the purchase of a particular company's policy.
- ◆ The overwhelming majority of buyers and nonbuyers alike felt that the agent was knowledgeable, adept at the available coverage options, and a good listener. They also believed that the agent recommended the policy best suited to their needs.
- ◆ As in 1990 and in 1995, nonbuyers said that cost was the most significant barrier to purchase.
- ◆ In 1990, 87 percent of nonbuyers indicated that they did not buy long-term care insurance because it was too confusing, and they could not determine which policy was right for them. By 2000, this figure had dropped almost in half—to 46 percent.
- ◆ In 2000, there is more confidence about the integrity of insurance companies that provide long-term care insurance. Among nonbuyers, 44 percent didn't believe that companies would pay benefits as stated in the policy; at the beginning of the decade, this figure was 71 percent.
- ◆ More than three in four current nonbuyers would be more interested in buying a policy if they

could deduct premiums from their taxes, if they thought the government would provide stop-loss coverage once their private insurance benefits ran out, or if they felt premiums would remain stable over time.

- ◆ Between 14 percent and 17 percent of nonbuyers would, under the right circumstances, be willing to pay the premium level for policies being sold to their age group.

### ***Tax Deductibility***

- ◆ Most buyers (62 percent) did not know whether or not they had a tax-qualified policy. In addition, about one in five buyers did not know of the potential tax benefit associated with the purchase of long-term care insurance. An explanation for this confusion may be that many companies offer tax-qualified policies only to potential policyholders. Therefore, whether one's policy is tax-qualified or not would not be a focal point of the agent at the time of sale.
- ◆ Nonbuyers were three times more likely to be unaware that, under certain conditions, premiums are tax deductible.

### ***Attitudes Toward the Role of Government***

- ◆ Most Americans age 55 and over do not believe that the government will pay for most long-term care services within the next 10 years. There is also a consensus that individuals will have to assume greater responsibility for their long-term care needs. This attitude has remained fairly stable between 1995 and 2000.
- ◆ Most individuals age 55 and over do not believe it is the responsibility of the federal government to pay for the long-term care needs of everyone without regard to personal resources.
- ◆ Roughly one in three Americans over age 55 believes that the single most important action

government could take is to offer tax incentives for the purchase of private insurance policies. One out of four believes that individuals should be offered the option of buying a government-sponsored long-term care insurance plan. This finding suggests somewhat more support for private insurance contracts than for a government-sponsored plan.

- ◆ More than three in five individuals age 55 and over are aware of companies that offer long-term care insurance. Just five years ago, that proportion was closer to two in five. Moreover, slightly less than half have been approached to buy insurance or have considered buying it, about twice as many as five years ago.

Results from this study clearly show just how dynamic the market is for long-term care insurance. The products selling on the market offer comprehensive benefits to meet the needs of disabled individuals in both institutional and community settings. Moreover, consumers are receiving better value for their premium dollar than they were just a few years ago. Data suggest that there is a great deal of untapped market potential. Given the favorable public policy environment, the tremendous improvements in product design, and the growing interest in long-term care insurance among Americans age 55 and over, the market for long-term care insurance will continue to grow. Over time, this insurance will play a more meaningful role in meeting and financing the long-term care needs of elderly Americans.

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# INTRODUCTION



Over the past 10 years, the market for long-term care insurance has changed dramatically. The Health Insurance Association of America (HIAA) has carefully documented such changes by conducting a series of studies of buyers and nonbuyers of long-term care insurance. The first study was conducted in 1990, when roughly 1.9 million policies had been sold to individuals age 55 and over. A second study was completed in 1995, when the number of policies sold had grown to 4.5 million. Throughout the decade, the market experienced rapid growth both in premium and sales volume. At the same time, major shifts in the public financing and policy environments influenced the evolution of the market. Now, at the beginning of the new century, the number of policies sold (either on an individual basis or through employer-sponsored plans) has increased to more than 6 million.

In describing the long-term care financing landscape in 1991, we observed that

...the annual costs of long-term care in 1991 were about \$74 billion and projected to approach \$83 billion by 1992; the Medicaid program paid 47 percent of the nation's long-term care bill, elders and their families about 33 percent, Medicare about 12 percent and private insurance about 3 percent of the long-term care bill.<sup>1,2</sup> The U.S. Senate had only a year earlier debated a number of bills aimed at paying for substantial long-term care costs [on a universal entitlement basis].<sup>3</sup>

By the late 1990s, the long-term care financing and service delivery landscape had changed dramatically. Annual long-term care expenditures approached \$125 billion; and while Medicaid's share of expenditures declined to 39 percent, Medicare's share increased to 18 percent. The share of expenditures attributable to private insurance was reported to have more than doubled to roughly 7 percent (DHHS, 2000).<sup>4</sup> Despite these changes, long-term care continues to be the single largest out-of-pocket expense faced by the elderly and their families: the average daily rate for nursing home care is more than \$125, the average nursing home cost is approximately \$50,000 per year (AARP, 1998), the average daily charge for assisted living is about \$60 (or \$22,000 per year) (ALFA, 1998), and home care costs for the chronically disabled are about \$15,000 per year.

There has been, however, a general decline in the use of the most traditional long-term care service: the nursing home. A number of factors account for this decline: restrictions on supply, growth in home- and community-based care networks, a greater number of assisted living facilities, and a decline in age-specific rates of disability (Bishop, 1999; Lewin-VHI, 1991; Wiener, et al., 1998). Even so, the nursing home remains a key provider of long-term care services for more than 1.5 million people, most of whom are over age 65. Over time, however, if current trends persist, assisted living and hybrid home care institutional care alternatives may dominate. Already, there are more than 28,000 assisted living residences in the United States, which house more than 1 million people

(National Center for Assisted Living, 1998).

The 1990s also witnessed a change in attitudes about responsibility for long-term care financing. The most important trend is the shift away from the federal government as the responsible entity to states, individuals, and their families. This shift has been encouraged in part by specific federal policies, the most important of which is the Health Insurance Portability and Accountability Act of 1996 (HIPAA). Under HIPAA, the tax advantages associated with the purchase of accident and health insurance were extended to long-term care insurance.<sup>5</sup> This meant that individuals who itemize deductions and whose total medical expenses (including qualified long-term care insurance premiums) exceed a threshold of 7.5 percent of their adjusted gross income could deduct qualified long-term care premiums. Moreover, HIPAA stipulated that benefits received under qualified long-term care contracts would be excluded from income, and that employer contributions for the purchase of long-term care insurance also would be deductible as a business expense.

These changes were intended to encourage growth in the market for long-term care insurance by providing a financial incentive for its purchase, and by signaling the government's desire for the public to seriously consider private alternatives.

Clearly, neither the administration nor Congress is championing major new government initiatives to finance long-term care. All current policy proposals encourage the provision of long-term care services by informal or unpaid caregivers, by the purchase of private long-term care insurance, or through state experimentation with new models of service delivery and financing.

In late 1999, the Senate and the House of Representatives approved the Taxpayer Refund and Relief Act of 1999 (H.R. 2488), which, among other things, proposed changing the tax status of premiums paid on long-term care insurance contracts. Under the legislation, which was subsequently vetoed by

President Clinton, individuals would have been able to deduct the full amount of their premium payment from adjusted gross income, a so-called "above-the-line" deduction. As with HIPAA, the aim was to use the tax code to encourage individuals to acquire private insurance to cover the potentially catastrophic costs of long-term care.<sup>6</sup>

In January 2000, President Clinton proposed a \$28 billion 10-year initiative that included a \$3,000 tax credit targeted at people with long-term care needs or their caregivers. The plan also called for funding for services that support family caregivers of older people and proposed allocating additional funds to improve equity in Medicaid eligibility for people in home and community-based settings. In addition, the president's proposal provided competitive grants to convert qualified low-income elderly housing projects into assisted living units and called for stronger enforcement tools and oversight of nursing home quality and safety standards. Finally, to signal employers about the desirability of having long-term care insurance as an employer-sponsored benefit, the government would offer such insurance to federal employees.<sup>7</sup>

The U.S. Department of Health and Human Services, through the Health Care Financing Administration, has also stepped up its granting of waivers for home and community-based care services (HCBS) under the Medicaid program. Medicaid spending on HCBS is now growing faster than spending on nursing home care—at an annual rate of 25 percent compared to 4 percent for nursing home care. The majority of states (36) indicate that they expect to expand their programs.

In addition, approximately half of the states have enacted legislation (or changed regulations) to stimulate expansion of the market for private long-term care insurance. A growing number of states—19 as of late 1999—have put in place a series of tax incentives to encourage the purchase of private long-term care insurance. Also, a number of states—such as Maine, Oregon, and Maryland—are offering small

tax incentives to employers who contribute to the costs of a group long-term care insurance plan for their employees. Other states—21 in all—have enacted laws making private long-term care insurance benefits an option for state or other public employees. Similarly, four states—New York, Connecticut, Indiana, and California—have received special waivers to implement Partnership Programs. These programs link the purchase of long-term care insurance to liberalized Medicaid eligibility criteria, that is, higher asset protection levels. Finally, a growing number of states—18 in all—are allocating resources to public education about long-term care risk, exposure, and the availability of insurance for long-term care.

Clearly, the interest in private alternatives is fueled in part by demographic trends. The elderly are the fastest growing segment of the U.S. population, with the greatest rate of increase in those over 85. This is also the age group at highest risk for needing long-term care services. The increase in demand for long-term care services, coupled with the government's strategy of encouraging reliance on private-sector financing, poses a significant challenge. If private long-term care insurance is to play a meaningful role in financing the nation's long-term care bill, products will have to be attractive, affordable, and, ultimately, purchased by a growing number of pre- and post-retirees.

In the following pages, we focus on purchase trends over the past decade and the reasons why individuals choose to buy, or not to buy, policies. Some of the choices reflect attitudes about insurance and the role of government, the available options, prices, knowledge about long-term care, views about family responsibility, and more. Given the dramatic changes that have occurred in the past decade, it would not be surprising to observe change in the demographic and attitudinal profile of the long-term care insurance buyer. An examination of such changes can help policymakers and the insurance industry better understand marketplace opportunities and barriers.



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# PURPOSE



The purpose of this study, which builds on work completed in 1990 and 1995, is to identify who buys long-term care insurance and understand what motivates them to do so. We also compare these findings with those of a sample of nonbuyers and other elderly Americans (age 55 and over). In addition, we track how product purchase decisions have changed over the past decade. More specific objectives include the following:

- ◆ to compare sociodemographic characteristics of buyers, nonbuyers, and a sample of individuals age 55 and older in the general population over the past decade;
- ◆ to compare the attitudes of buyers, nonbuyers, and a sample of individuals age 55 and older in the general population regarding long-term care risk and financing, and the role of the government and private sector in financing long-term care;
- ◆ to understand why some individuals purchase policies and others do not, and to determine how these reasons may have changed over the past decade;
- ◆ to identify the policy design features that people prefer and compare them with features in policies bought five and 10 years ago;
- ◆ to identify the factors that would make nonbuyers more interested in purchasing policies;
- ◆ to determine the extent to which federal tax incentives have influenced or could influence the purchase of long-term care insurance;
- ◆ to gain insight into the decision-making process of purchasing long-term care insurance and the role of the agent in selling long-term care insurance;
- ◆ to understand the extent of knowledge about government and private long-term care financing issues among a sample of individuals age 55 and over; and
- ◆ to assess market opportunities for and barriers to the purchase of long-term care insurance.



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# METHOD AND SAMPLE



We used three survey instruments to collect information: (1) a mail survey addressed to buyers; (2) a mail survey addressed to nonbuyers; and (3) a 15-minute phone survey of Americans over age 55. A buyer was defined as an individual who had purchased a policy between late 1999 and early 2000, paid premiums, and not returned the policy within 30 days. (Because less than 5 percent of individuals over age 55 have ever bought a long-term care policy, the sample can be generalized only to the population of buyers age 55 and over, not to the population as a whole.)

A nonbuyer was defined as an individual who had been approached by an agent or who had attended a sales seminar and had been presented with the details of a policy or policies but who had chosen not to buy a policy.<sup>8</sup> This definition reflects our desire to understand the opinions of individuals who have made an “active decision” not to purchase a policy. Thus, the sample of nonbuyers in this study can be generalized to individuals who have been approached by agents. It cannot be generalized to all individuals who do not have a policy.

This study also included a group of 500 individuals age 55 and over who participated in a 15-minute phone interview. These interviews provided a baseline for attitudinal and demographic comparisons among buyers, nonbuyers, and individuals over age 55 (and also enabled us to compare attitudes among the 55-and-over population in 2000 with those in 1995).

Twelve companies, representing more than 80 percent of total individual long-term care insurance sales in 1999, contributed samples to the study. These companies sold more than 400,000 policies in 1999, and most have been selling policies for more than five years. Companies included Aegon, Bankers Life and Casualty, California Public Employees (CALPERS),<sup>9</sup> Conseco Senior Health Care, CNA, Fortis Long-Term Care, G.E. Capital, John Hancock, Mutual of Omaha, Northwestern Mutual, Penn Treaty, and TIAA-CREF.

Results of this study provide a snapshot of recent market activity and attitudes about the private and public sector roles in long-term care financing, and suggest where the market might be going in the near future, as well as where it has been in the past. Because many of the survey questions are similar to those asked of buyers and nonbuyers in 1990 and 1995, we are able to present a longitudinal view of market trends over the past decade.

In total, the sample size for the study includes:

- ◆ 2,728 buyers;
- ◆ 638 nonbuyers; and
- ◆ 500 individuals age 55 and over from the general population.

It is important to note that the participating companies initially identified over 2,000 nonbuyers. However, roughly 65 to 70 percent of these individuals had eventually purchased a long-term care policy from a different company. This finding

suggests that a great deal of “comparison shopping” is occurring and that many of the individuals identified by agents as nonbuyers may be only “temporary” nonbuyers. Because nonbuyers are much more difficult to identify with accuracy than previously, the sample of nonbuyers is smaller than in years past.

## **POLICY DESIGN INFORMATION**

In order to identify and track the types of policies that are selling in the marketplace, companies provided detailed information on the designs of policies purchased by a random sample of individuals. This information was then linked by an identification code to returned surveys, thus permitting us to correlate policies purchased with the attitudinal and demographic profiles of respondents. In total, companies sent information on 5,407 recently purchased policies: 2,728 policies were linked to surveyed buyers and the remaining 2,679 policies were unlinked policies used for policy design analysis.

The policy design information provided by companies included the following elements: policy type (e.g., nursing home only, nursing home and home care); daily benefits for covered services; benefit duration for covered services; elimination periods; whether inflation protection was chosen; the type and level of inflation protection chosen; whether the policy included nonforfeiture protection; the type of nonforfeiture protection; the premium; the premium mode; the gender and age of the policyholder; and the state where the policyholder resides.

## **SURVEY DATA ELEMENTS**

Each survey collected detailed sociodemographic information, as well as asked questions to probe knowledge of long-term care financing and risk,

attitudes toward long-term care insurance, and the desired and potential roles of the private and public sectors in paying for long-term care. The buyer survey also asked questions about why the individual chose to buy a policy, the role of agents in the decision-making process, and awareness of HIPAA and long-term care insurance tax policy. The nonbuyer survey explored the reasons why a potential policyholder chose not to buy a policy and examined the factors that would make him or her more interested in buying a policy. Here too, individuals were queried as to their knowledge of the long-term care insurance tax status of policies. Finally, a sample of persons age 55 and over were asked questions to gauge their knowledge of long-term care services, insurance, and payment sources.

To ensure comparability over time, we asked many questions of buyers and nonbuyers that were identical to those posed in 1995 and 1990. For most questions, nonresponse rates were very low (less than 4 percent). On the more sensitive questions relating to income and assets, item nonresponse was higher, but still relatively low, at 13 percent and 17 percent, respectively. Thus, more than 80 percent of respondents provided information on their income and assets.

## **WEIGHTS**

In order to generalize aggregate results, we weighted company-specific data in all subsequent analyses (see Table 1). For buyers, as well as for the unlinked policy file, individuals were weighted to reflect each company’s market share of new sales in 1999. For nonbuyers we make the simplifying assumption that, for every sale, agents approached approximately two individuals who chose not to purchase a policy. In this way, we were able to construct weights for the nonbuyer sample that also account for company size and market contribution.

**Table 1**  
**Relationship Between Subsamples and Population Size, 2000**

Sample	Size of Population to Which Results Can Be Generalized
Buyer Survey	400,000 buyers
Nonbuyer Survey	800,000 nonbuyers
Policy Files	400,000 policies
Telephone Survey of People Over 55	57,929,000 people

Source: LifePlans, Inc., survey of 2,728 buyers and 638 nonbuyers of long-term care insurance.



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# FINDINGS



In subsequent sections we provide frequency responses to survey questions and selected bivariate analyses of special interest. We track and compare findings to those reported for 1995 and 1990.<sup>10,11</sup>

## **1. SOCIODEMOGRAPHIC PROFILE OF INDIVIDUAL LONG-TERM CARE INSURANCE BUYERS AND NONBUYERS**

In the discussion that follows, we summarize selected characteristics of buyers, nonbuyers, and surveyed individuals age 55 and over. We compare profiles with those reported by the U.S. Census to identify how the surveyed populations differ from the general population. The demographic characteristics of individuals targeted to purchase long-term care insurance differ significantly from the general population age 55 and over (see Table 2). Both buyers and nonbuyers are wealthier than their counterparts in the general population, are more likely to be married, and are far more likely to be college educated. The major demographic differences between buyers and nonbuyers are that the latter tend to be somewhat older, less likely to be employed, and less wealthy. This represents a change from earlier surveys, in which there were few demographic differences between buyers and nonbuyers.

To what extent has the sociodemographic profile of buyers changed over the past decade? Table 1 summarizes these changes. While the average age of

buyers has declined to 67 years, the greatest change is in the under-65 age group, which now buys one-third of individual long-term care insurance policies. The difference is most pronounced when viewed against the profile of buyers in 1995. There has also been an increase in the percentage of new buyers who are married, partly because of the increased discounts that carriers offer to married couples. Also, younger individuals purchasing policies are more likely to be married; among married buyers, 83 percent have policies for both the husband and wife; in 1995 this figure was only 63 percent.

One of the most dramatic changes is the higher income and assets of the buyers in 2000 compared with buyers in 1990 and 1995. The median income of current buyers is \$42,500, compared with a median income of \$30,000 in 1995 and \$27,000 in 1990. Whereas in 1990 and 1995 about 60 percent of buyers had incomes less than \$35,000, by 2000, this figure had declined to 36 percent. The same trend has occurred regarding levels of liquid assets. In the first half of the decade, two in five buyers had liquid assets valued at more than \$100,000. Now the number has increased to roughly five in seven.

A number of factors could explain the increase in wealth. First, because the age of buyers is falling, they are more likely to be employed. In fact, 35 percent of current buyers have someone in the household who is working, compared with 23 percent in 1995. Second, the latter half of the decade has seen a tremendous shift of retirement funds into

**Table 2**  
**Sociodemographic Characteristics of Individual Long-Term Care Insurance Buyers, Nonbuyers, Surveyed Individuals, and the General Population Age 55 and Over, 2000**

Sociodemographic Characteristics	Buyers	Nonbuyers	General Population Age 55 and Over
Average Age	67	71	69
55-64	33%	20%	40%
65-69	27	23	16
70-74	19	24	15
75 and Over	21	33	28
Gender			
Male	45%	48%	44%
Female	55	52	56
Marital Status			
Never Married	4%	3%	4%
Married	70	67	57
Divorced/Separated	6	9	8
Widowed	20	21	33
Income Status			
Less than \$20,000	9%	23%	0
\$20,000-\$24,999	8	14	46% (<\$24,999)
\$25,000-\$34,999	19	22	14
\$35,000-\$49,999	22	16	13
\$50,000 and Over	42	25	27
Total Liquid Assets			
Less than \$20,000	6%	19%	60%
\$20,000-\$29,999	5	12	9
\$30,000-\$49,999	7	11	10
\$50,000-\$74,999	5	10	9
\$75,000-\$99,999	6	6	6
\$100,000 and Over	71	42	7
Educational Level			
Less than High School	5%	9%	27%
High School Graduate	21	28	36
Post High School	27	27	18
College Graduate	47	36	18
Someone in Household Employed	35%	17%	31%

Source: LifePlans, Inc., analysis of 2000 Buyer and Nonbuyer Surveys; U.S. Bureau of the Census, Population Estimates, Annual Population Estimates by Age, Group and Sex, Resident Population Estimates of the United States by Age and Sex (Washington, D.C.: U.S. Bureau of the Census, April 1, 2000); U.S. Bureau of the Census Statistical Abstract of the United States, Section 14: Income, Expenditures and Wealth (Washington, D.C.: U.S. Bureau of the Census, 1999), p. 475; U.S. Bureau of the Census, Current Population Reports; Educational Attainment in the United States (Washington, D.C.: U.S. Bureau of the Census, March 1998), p. 20-513; U.S. Bureau of the Census, Current Population Reports, Marital Status and Living Arrangements, (Washington, D.C.: U.S. Bureau of the Census, March 1998), p. 20-514.; U.S. Bureau of the Census, Current Population Reports (Washington, D.C.: U.S. Bureau of the Census, 1992), p. 25-1095, 20-468., Washington, D.C. Note: Based on sample size of 2,728 buyers and 638 nonbuyers.

the stock and mutual fund markets. Over the past five years, the stock market has almost tripled in value—from an S&P Index of 550 in 1995 to one of 1400 by January 2000 (Commodity Systems, Inc., 2000). Thus, individuals who in 1995 had invested liquid assets valued at \$40,000, for example, could conceivably see the value of these assets increase to over \$100,000 in just five years. Third, lead-generation techniques have significantly improved and companies have become more adept at targeting prospective buyers. From an agent's perspective,

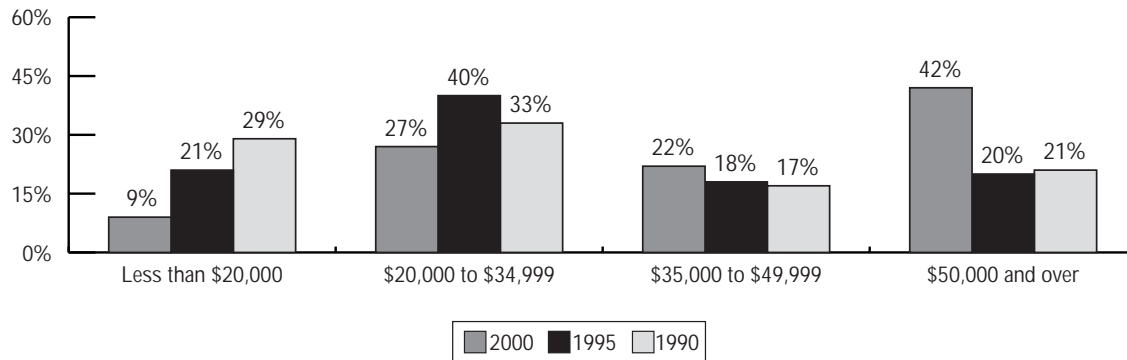
selling long-term care insurance to upper-middle and upper-income individuals presents the best opportunity. Finally, and closely related, "suitability" has been an important regulatory issue over the past five years, and for the most part, agents have been discouraged from selling to individuals with incomes of less than \$20,000. Apparently, agents have heeded this call, as the proportion of buyers with incomes less than \$20,000 has been reduced by 60 percent—from 21 percent in 1995 to just 9 percent in 2000 (see Figure 1).

**Table 3**  
**Sociodemographic Characteristics of Individual Long-Term Care Insurance Buyers in 2000, 1995, and 1990**

Sociodemographic Characteristics	2000	Buyers 1995	1990
Average Age	67	69	68
55-64	33%	19%	25%
65-69	27	32	33
70-74	19	23	25
75 and Over	21	26	17
Gender			
Male	45%	39%	37%
Female	55	61	63
Marital Status			
Never Married	4%	6%	5%
Married	70	62	68
Divorced/Separated	6	6	4
Widowed	20	27	23
Income Status			
Less than \$20,000	9%	21%	29%
\$20,000-\$24,999	8	16	13
\$25,000-\$34,999	19	24	20
\$35,000-\$49,999	22	18	17
\$50,000 and Over	42	20	21
Total Liquid Assets			
Less than \$20,000	6%	18%	16%
\$20,000-\$29,999	5	10	8
\$30,000-\$49,999	7	13	11
\$50,000-\$74,999	5	10	12
\$75,000-\$99,999	6	8	11
\$100,000 and Over	71	41	42
Educational Level			
Less than High School	5%	7%	8%
High School Graduate	21	28	30
Post High School	27	29	29
College Graduate	47	36	33
Someone in Household Is Employed	35%	23%	N.A.

Source: LifePlans, Inc., analysis of 2000, 1995, and 1990 Buyer Surveys.  
Note: Based on sample size of 2,728 (2000 buyers), 2,601 (1995 buyers), and 8,363 (1990 buyers).

**Figure 1**  
**Income Status of Individual Long-Term Care Insurance Buyers in 2000, 1995, and 1990**



Source: LifePlans, Inc., analysis of 2000, 1995, and 1990 Buyer Surveys.  
 Note: Based on sample size of 2,728 (2000 buyers), 2,601 (1995 buyers), and 8,363 (1990 buyers).

An important finding of previous studies was that long-term care insurance was not being purchased by just wealthy individuals but by many middle-income people. Do the current findings substantially change that assessment? It is probably difficult to make a definitive statement. If, however, we focus exclusively on income, and we consider “middle-income” individuals to be those with incomes between \$20,000 and \$35,000, then a substantial proportion of individual long-term care buyers—27 percent—continue to be “middle income” (see Figure 1).

## **2. AFFORDABILITY OF LONG-TERM CARE INSURANCE**

Over the past decade, the potential for private long-term care insurance to become a significant source of financing for formal long-term care services has been much debated (See Cohen et al., 1987; Crown, Capitman, and Leutz, 1992; Families USA, 1993; Friedland, 1990; Rivlin and Wiener, 1988).

Some researchers define affordability in terms of the amount of money that an individual would be willing to spend on a premium.<sup>12,13</sup> Many believe that individuals are not willing to spend more than 5 percent of their income on insurance premiums for long-term care policies. Another assumption is that individuals would be unwilling to allocate a small portion of savings to potentially protect a larger share of savings. We asked a series of questions to address these assumptions. Survey results reveal that buyers are willing to spend part of their income and liquidate some of their assets to pay for long-term care insurance premiums to protect their future savings.

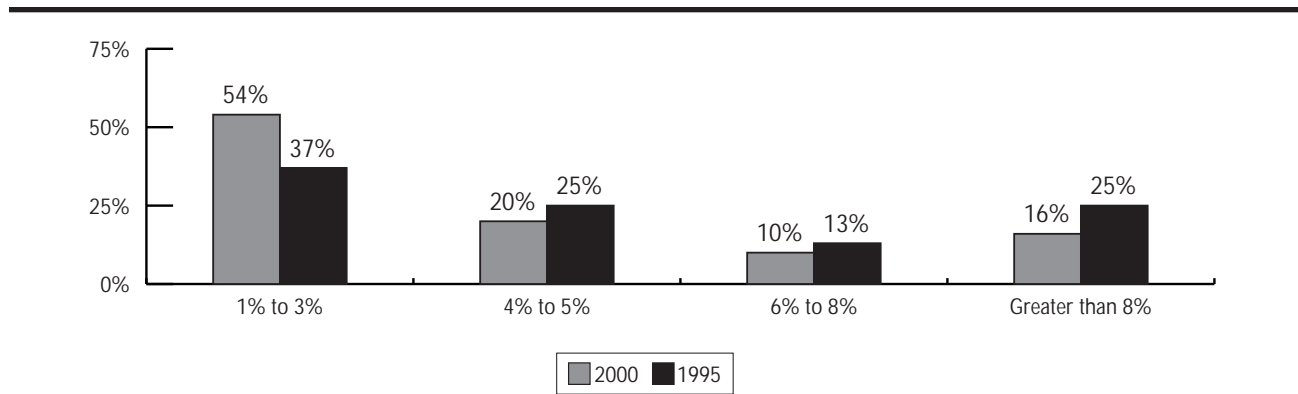
The average proportion of income spent on long-term care insurance premiums is 4.8 percent—down from 6 percent in 1995 (see Figure 2). Given the incomes and assets of buyers, this finding is not unexpected—the drop simply reflects that the cost of the policy represents a smaller proportion of the higher income. Moreover, 99 percent of buyers

indicate that they pay for premiums without help from their children.

An average of 52 percent of buyers indicated that they liquidate savings to help pay for their premiums (see Figure 3); the proportion doing so increases with

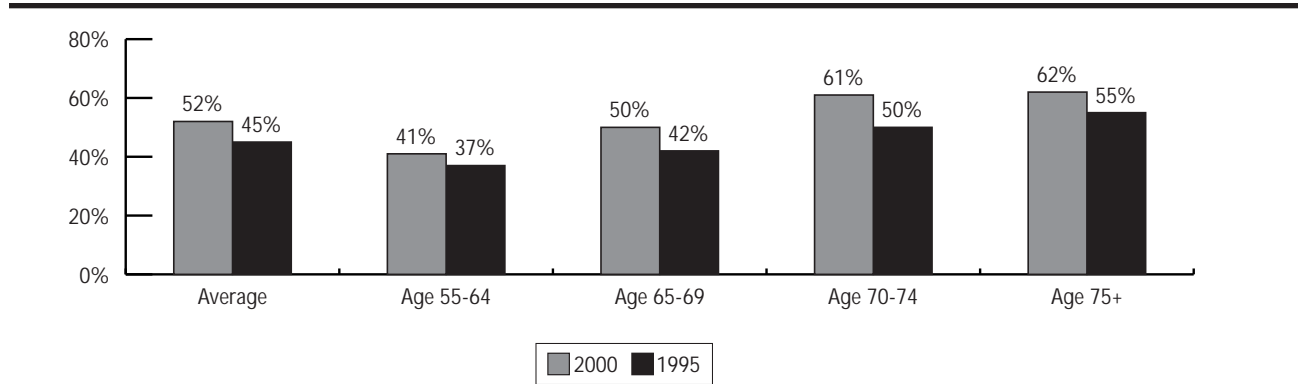
age and decreases with level of income. For example, nearly 67 percent of buyers with incomes of less than \$25,000 use liquid assets to pay for premiums, whereas only 40 percent of those with incomes greater than \$50,000 do so.

**Figure 2**  
**Percentage of Buyer's Income Spent on Individual Long-Term Care Insurance Premiums**



Source: LifePlans, Inc., analysis of 2000, 1995, and 1990 Buyer Surveys.  
 Note: Based on sample size of 2,728 (2000 buyers), 2,601 (1995 buyers).

**Figure 3**  
**Percentage of Buyers Who Liquidate Assets to Help Pay Premiums, by Age and Purchase Year**



Source: LifePlans, Inc., analysis of 2,728 (2000 buyers) and 2,601 (1995 buyers).

### 3. OPINIONS OF INDIVIDUAL LONG-TERM CARE INSURANCE BUYERS AND NONBUYERS ABOUT LONG-TERM CARE

In 1990 and 1995, demographic characteristics of buyers and nonbuyers did not differ markedly. Now, while there appear to be greater differences, attitudinal factors continue to be particularly important in differentiating the two groups. Each group was asked a series of general questions about long-term care followed by more specific questions about risk, payment for services, and other relevant issues.

Many of the attitudinal trends present in 1990 and 1995 persist in 2000 (see Table 4). For example, being a “planner,” that is, one who believes that it is important to plan ahead for the possibility of needing services, is associated with the purchase of long-term care insurance. Consistently, buyers have been almost twice as likely as nonbuyers to strongly agree with the statement that “... it is important to plan now for the possibility of needing long-term care services.”

Buyers also tend to worry less about paying for long-term care services and are much more likely than nonbuyers to view long-term care insurance products

**Table 4**  
**Opinions About Long-Term Care Among Buyers and Nonbuyers of Individual Long-Term Care Insurance**  
**Age 55 and Over, 2000, 1995, 1990**

	2000	Buyers 1995	1990	2000	Nonbuyers 1995	1990
<b>OPINIONS ABOUT LONG-TERM CARE</b>						
Is it important to plan now for the possibility of needing long-term care services:						
Strongly Agree	63%	53%	62%	33%	27%	42%
Agree	36	46	38	59	66	53
Disagree	1	1	---	7	6	4
Strongly Disagree	---	---	---	1	1	1
I worry about how I would pay for care if needed:						
Strongly Agree	22%	22%	46%	32%	28%	44%
Agree	50	52	42	49	55	42
Disagree	24	21	10	15	14	12
Strongly Disagree	5	5	2	3	3	3
The insurance industry provides adequate coverage for services:						
Strongly Agree	10%	9%	9%	4%	5%	7%
Agree	62	65	58	45	43	34
Disagree	23	22	28	37	42	43
Strongly Disagree	5	4	5	14	10	17
If I ever needed care, the government would pay most of the costs:						
Strongly Agree	5%	4%	6%	16%	12%	14%
Agree	10	13	11	17	18	19
Disagree	42	48	52	34	40	44
Strongly Disagree	42	35	31	33	30	23

Source: LifePlans, Inc., analysis of 2,728 buyers and 638 nonbuyers in 2000; 2,601 buyers and 1,245 nonbuyers in 1995; and 8,363 buyers and 1,750 nonbuyers in 1990.

as adequate. Over the past five years, buyers' opinions about the adequacy of insurance products have remained relatively stable, with almost three out of four believing that the insurance industry does provide adequate coverage for long-term care services. Even among nonbuyers, almost half view the products as adequate.

However, nonbuyers continue to be more than twice as likely as buyers to agree with the statement that "...the government will pay for most of the costs of long-term care if services are ever needed." It is therefore not surprising that these individuals do not buy policies. (Given all of the public debate about long-term care financing, as well as the fact that these individuals have had the opportunity to visit with agents, this finding suggests that a great deal of educational work remains to be done.)

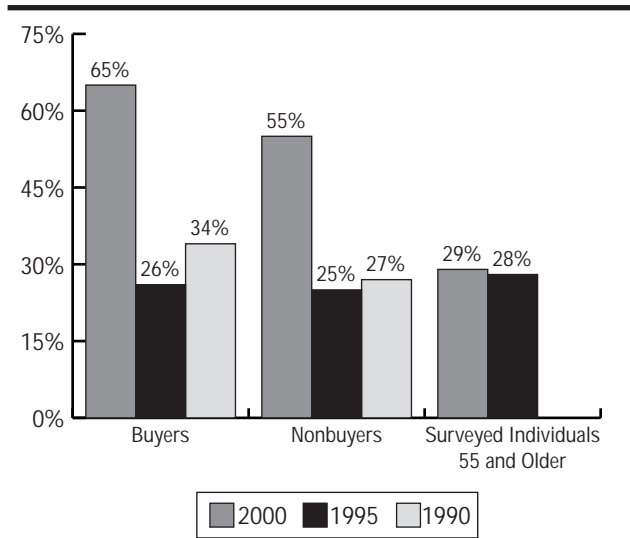
**4. ATTITUDES OF INDIVIDUAL LONG-TERM CARE INSURANCE BUYERS, NONBUYERS, AND SURVEYED INDIVIDUALS TOWARD RISK AND PAYMENT OF LONG-TERM CARE SERVICES**

Respondents were asked about their perceived risk of needing long-term care services and how they would pay for such care. Insurance theory suggests that, other things being equal, individuals who purchase policies are more likely to assess their risk of incurring a high expense to be greater than those who do not. They are, therefore, more willing to trade off a known premium for an unknown greater risk. The risk itself is composed of two components: the probability of using services and the associated costs.

Buyers typically perceive the risk of needing nursing home services to be higher than nonbuyers. And recent buyers—as well as nonbuyers—are much more likely to believe that they face a higher risk of needing nursing home care than cohorts did in earlier years. Finally, among surveyed individuals age 55

and over, less than one in three believe they have a greater than 50 percent chance of needing nursing home care sometime in the future, even though the lifetime risk of needing such care is 43 percent (see Figure 4).

**Figure 4**  
**Self-Assessment of Greater Than 50 Percent Lifetime Chance of Needing Nursing Home Care, by Purchase Year**



Source: LifePlans, Inc., analysis of 2,728 buyers and 638 nonbuyers in 2000; 2,601 buyers and 1,245 nonbuyers in 1995; 8,363 buyers and 1,750 nonbuyers in 1990; and 500 individuals age 55 and over in 2000 and 1,000 in 1995.

Regarding home care, the same patterns persist. Here again, recent buyers are much more likely to assess themselves at high risk for needing services (see Figure 5). Finally, 60 percent of recent buyers and 48 percent of recent nonbuyers believe that they stand a good chance (greater than 50 percent) of having to use assisted living services in the future.

The second component of risk is paying for services. We asked current buyers and nonbuyers how the cost of six months of care would be met if they did not have a long-term care policy. Nonbuyers were asked, "Who would pay for most of the costs of six months of long-term care services?" About three in five buyers believe that in the absence of a policy, they would have to pay for care themselves or receive

help from their families (see Figure 6). The comparable figure for nonbuyers is 42 percent. The general population of surveyed individuals age 55 and over is least likely to believe that they will have to pay for long-term care.

Individuals age 55 and over from the general population were most likely to believe that the government will pay for long-term care or that such care will be covered by other health insurance. A high proportion of nonbuyers also believe that either government programs or their current insurance plans will pay for most long-term care. Thus, these individuals, who have not purchased a policy, believe they face a smaller risk of needing services and that they are already covered should they need care. Noteworthy is roughly one in five of these individuals is uncertain how long-term care costs will be paid. Fewer and fewer buyers believe that government programs will pay for long-term care.

The fact that so many people believe that they are already covered for long-term care, or simply do not know how long-term care services would be paid, may go a long way in explaining why the market for long-term care insurance has not grown more quickly than it already has. These findings clearly point to the need for additional educational efforts by both the public and private sectors.

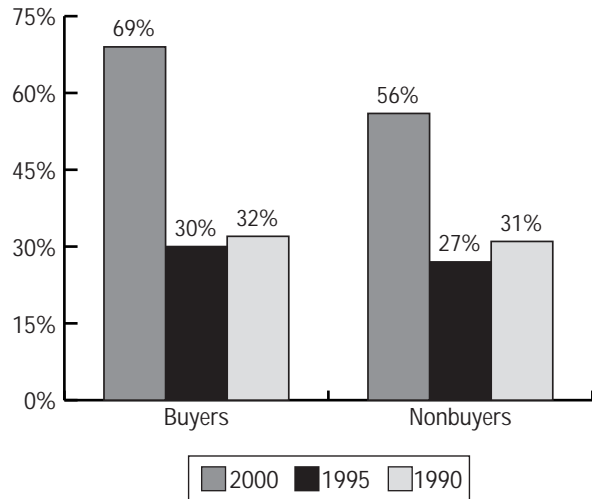
## 5. INDIVIDUAL LONG-TERM CARE INSURANCE POLICIES BOUGHT IN 2000

### A. Policy Design

Examining the types of products being purchased today yields important information about the market and how it has changed over time. In the analysis that follows, information is based on 5,407 policies. The analyses that rely on linkages between policy information and returned surveys are based on a sample size of 2,728 individuals.

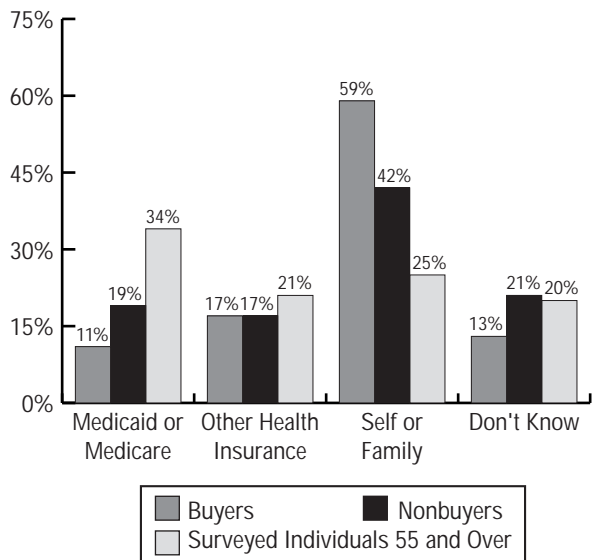
Compared with 1995 and 1990, there has been tremendous change in the types of products being

**Figure 5**  
Self-Assessment of Greater Than 50 Percent Lifetime Chance of Needing Home Care, by Purchase Year



Source: LifePlans, Inc., analysis of 2,728 buyers and 638 nonbuyers in 2000; 2,601 buyers and 1,245 nonbuyers in 1995; and 8,363 buyers and 1,750 nonbuyers in 1990.

**Figure 6**  
Perceptions About Who Would Pay for Long-Term Care, by Buyer Status, 2000



Source: LifePlans, Inc., analysis of 2,728 buyers, 638 nonbuyers, and 500 individuals age 55 and over.

purchased. Put simply, coverage is much more comprehensive (see Table 5 and Table 6).

The proportion of comprehensive policies (those that cover institutional and home care) grew from 37 percent in 1990 to 77 percent in 2000. Whereas “nursing home only” policies dominated the market in 1990, now only one out of every seven policies sold is a nursing home only policy. Over the past five years, the average daily nursing home benefit has increased by 28 percent, greater than the rise in inflation during the period. Moreover, the increase in daily benefit has occurred even as policies have become more comprehensive, and hence, more costly. In addition, the payable difference between the daily benefit payable in an institutional setting and in a home-care setting has narrowed significantly, with the average daily benefit for home care growing by 36 percent over the five-year period. This change reflects that most comprehensive products have a single daily maximum without regard to whether benefits are in an institutional or home-based setting.

The elimination period has also been increasing throughout the decade. Given the trend toward “richer” and more comprehensive coverages, a longer elimination period is one way to reduce policy premiums. On average, people will need about two months of long-term care services before their policy begins paying benefits. In addition, many recent buyers may have opted to purchase a 90-day elimination period so it coincides with HIPAA’s 90-day qualification period. For the most part, payments for short-term institutional claims will, by definition, decline. It is also important to note that about two in five individuals are choosing inflation protection. This represents a sizeable increase from 1995. There is also a growing trend toward the purchase of compound inflation protection, which may reflect the shift toward younger buyers who are more likely to need inflation protection built into their policies.

Finally, annual premiums have increased by 11 percent between 1995 and 2000—from \$1,505 to \$1,677. This increase can be explained by increases in daily benefits amounts, comprehensive policies,

**Table 5**  
**Characteristics of Individual Long-Term Care Insurance Policies Bought in 2000, 1995, and 1990**

Policy Characteristics	Average for 2000	Average for 1995	Average for 1990
Policy Type			
Nursing Home Only	14%	33%	63%
Comprehensive Policies	77	61	37
Home Care Only	9	6	---
Daily Benefit Amount for Nursing Home Care	\$109	\$85	\$72
Daily Benefit Amount for Home Care	\$106	\$78	\$36
Nursing Home Only Elimination Period	65 days	59 days	20 days
Comprehensive Policy Elimination Period	47 days	46 days	---
Nursing Home Benefit Duration	5.5 years	5.1 years	5.6 years
Annual Premium	\$1,677	\$1,505	\$1,071

Source: Based on 5,407 policies sold in 2000, 6,446 policies sold in 1995, and 14,400 policies in 1990.

**Table 6**  
**Individual Long-Term Care Insurance Policy Designs Selling in 2000, 1995, and 1990**

Attributes of Policies	Percentage of 2000 Sales	Percentage of 1995 Sales	Percentage of 1990 Sales
<b>TYPES OF POLICIES SOLD</b>			
Nursing Home Only	14%	33%	63%
Comprehensive Policies	77	61	37
Home Care Only	9	6	---
<b>NURSING HOME DURATION</b>			
1-2 years	17%	24%	23%
3 years	23	20	12
4 years	14	18	15
5 years	11	6	12
6 years	5	2	5
Lifetime Benefits	30	30	33
Average Duration	5.5 years	5.1 years	5.6 years
<b>NURSING HOME DAILY BENEFIT</b>			
up to \$30	1%	1%	2%
\$31-\$59	5	12	25
\$60-\$89	17	40	51
\$90-\$119	43	38	18
\$120 and Over	34	9	4
Average Daily Benefit	\$109	\$85	\$72
<b>HOME HEALTH CARE DURATION</b>			
1 year	5%	20%	N.A.
2 years	14	31	
3 years	22	21	
4 years	13	5	
5 years	10	10	
6 years	7	1	
Lifetime Benefits	30	12	
Average Duration	5.4 years	3.4 years	
<b>HOME HEALTH CARE DAILY BENEFIT</b>			
up to \$30	1%	3%	25%
\$31-\$59	8	26	60
\$60-\$89	17	33	13
\$90-\$119	41	31	2
\$120 and Over	33	8	---
Average Daily Benefit	\$106 <sup>14</sup>	\$78 <sup>14</sup>	\$36 <sup>15</sup>
<b>ELIMINATION PERIOD</b>			
0 day	23%	28%	25%
15-20 days	3	17	41
30-60 days	16	16	12
90-100 days	55	39	22
> 100 days	3		
<b>PERCENT CHOOSING INFLATION PROTECTION</b>			
Simple	41%	33%	40%
Compound	17	14	N.A.
Indexed to Consumer Price Index	22	15	
	2	4	
<b>TOTAL ANNUAL PREMIUM</b>			
up to \$500	5%	10%	19%
\$500-\$999	24	29	40
\$1,000-\$1,499	26	23	21
\$1,500-\$1,999	18	15	11
\$2,000-\$2,499	9	9	5
Greater than \$2,500	18	14	4
Average Annual Premium	\$1,677	\$1,505	\$1,071

Source: Based on 5,407 policies sold in 2000, 6,446 policies sold in 1995, and 14,400 policies in 1990.

durational coverage, and the numbers of buyers who choose inflation protection. With everything else held constant, however, one would have expected average policy premiums to increase by more than 20 percent. Even given the downward shift in the age distribution, efficiencies brought about by increased competition and better information provide consumers with better value for their premium dollar. Put simply, long-term care insurance is a better buy today than it was five and ten years ago.

The key policy design features of comprehensive policies are “richer” when compared with nursing home only policies. They have higher daily benefit amounts, longer durational coverage, and shorter elimination periods. Premiums for comprehensive policies are about 15 percent higher than for the nursing home only policies. (See Table 7.)

Data suggest that nursing home only policies appeal to a very different market segment. Buyers of these

**Table 7**  
**Attributes of Individual Long-Term Care Insurance Policies by Policy Type, 2000**

Attributes of Policies	Nursing Home Only Policies	Comprehensive Policies
<b>NURSING HOME DURATION</b>		
Nonlifetime	79%	69%
Lifetime Benefits	21	31
Average Duration	4.2 years	5.7 years
<b>NURSING HOME DAILY BENEFIT</b>		
Less than \$90	47%	20%
Greater than \$90	53	80
Average Daily Benefit	\$88	\$112
<b>ELIMINATION PERIOD</b>		
Less than 90 Days	39%	40%
90 or More Days	61	60
Average Elimination Period	70 days	66 days
<b>TOTAL ANNUAL PREMIUM</b>		
Less than or Equal to \$1,800	75%	66%
Greater than \$1,800	25	34
Average Annual Premium	\$1,515	\$1,741

Source: Based on 5,407 policies sold in 2000.

policies tend to be older, have lower incomes and fewer assets, are more likely to be single and female, and are less likely to be working. (See Table 8.)

**Table 8**  
**Selected Sociodemographic Characteristics of Individual Long-Term Care Insurance Buyers, by Policy Type, 2000**

Sociodemographic Characteristics	Nursing Home Only Policies	Comprehensive Policies
Average Age	69 years	66 years
Average Income Less than \$25,000	24%	14%
Average Assets Less than \$30,000	17	9
Percent Female	62	53
Percent Married	66	71
College Graduate	14	26
Somone in Household Is Employed	23	34

Source: Based on 5,407 policies sold in 2000.

### ***B. Relationship Between Policy Designs and Age and Income***

The purchase of specific policy designs is largely influenced by the buyer’s age and income. As income increases, individuals are more likely to buy richer plans that have longer durations, higher daily benefit amounts, and more inflation protection (see Table 9). Income is also positively related to home care coverage. There is a negative relationship between income and shorter elimination periods. Individuals with higher incomes choose longer elimination periods. This may reflect their ability to self-pay for the first two to three months of long-term care costs; for them, the concern is with costs associated with longer durations of service utilization. In contrast, those with lower incomes are less able (or willing) to pay for an initial two to three months of care. Premiums do not vary much, at least for those with incomes below \$50,000—about 60 percent of buyers—who spend an average of \$140 per month on long-term care insurance. In contrast, individuals with incomes greater than \$50,000 spend about 10 percent to 13 percent more on premiums than do those with incomes below this amount.

**Table 9**  
**Key Policy Design Parameters Chosen by Individual Long-Term Care Insurance Buyers,**  
**by Level of Income, 2000**

Policy Features	Level of Income			
	<\$20,000	\$20,000-\$34,999	\$35,000-\$49,999	\$50,000 and Over
<b>BENEFIT DURATION</b>				
Average	3.7 years	4.6 years	4.8 years	6.2 years
1-2 years	37%	22%	21%	9%
3-4 years	42	45	42	33
5-6 years	12	11	14	18
Lifetime <sup>16</sup>	10	21	24	40
<b>NURSING HOME BENEFIT AMOUNT</b>				
Average	\$95	\$96	\$98	\$117
up to \$40	5%	4%	2%	2%
\$41-\$50	3	7	8	2
\$51-\$70	8	11	11	8
\$71-\$90	19	10	11	10
\$91 and Over	66	67	68	80
<b>HOME CARE BENEFIT AMOUNT</b>				
Average	\$95	\$92	\$98	\$113
up to \$40	5%	2%	1%	2%
\$41-\$50	7	11	10	6
\$51-\$70	10	13	7	6
\$71-\$90	15	14	13	13
\$91 and Over	64	60	68	73
<b>PERCENT WITH INFLATION PROTECTION</b>				
	31%	31%	37%	53%
<b>AVERAGE ELIMINATION PERIOD</b>				
	60 days	61 days	72 days	70 days
<b>PERCENT WITH HOME CARE</b>				
	86%	80%	79%	95%
<b>AVERAGE ANNUAL PREMIUM MONTHLY PREMIUMS</b>				
	\$1,656	\$1,675	\$1,619	\$1,860
Up to \$50	6%	7%	10%	3%
\$51-\$75	22	18	15	14
\$76-\$100	7	15	18	15
\$101-\$125	24	13	14	16
\$126-\$150	12	12	8	12
\$151 and Over	29	35	35	40

Source: Based on 5,407 policies sold in 2000.

Preferences, as well as the amount of money individuals are willing and able to spend, change dramatically with age (see Table 10). In general, older buyers tend to select shorter durations and lower daily benefit amounts; few choose inflation protection. For example, buyers age 55 to 64 are four times more likely to buy inflation protection than are

buyers over age 75. Put another way, nearly three in five buyers below the age of 65 buy inflation protection, whereas, in the over-75 group, only one in seven does. Younger buyers expect to access benefits 15 to 20 years in the future, so benefit upgrades are particularly important; the older buyers may experience only a few years of inflation, choose

to self-fund this risk, and therefore opt to acquire a higher initial benefit package for the same premium.

As mentioned previously, older individuals are somewhat less likely to have home care coverage than their younger counterparts. Finally, given the fact that long-term care policies are level funded (i.e.,

benefits are prefunded) and the long-term care risk is highly correlated with age, if everything else is held constant, premiums will increase as purchase age increases. Thus, premiums for 75-year-old buyers are 2.1 times higher than for 60-year-olds, even though the latter purchase more comprehensive products.

**Table 10**  
**Key Policy Design Parameters Chosen by Individual Long-Term Care Insurance Buyers,**  
**by Age, 2000**

Policy Features	Age Category			
	55-64	65-69	70-74	75 and Over
<b>BENEFIT DURATION</b>				
Average	6.4 years	5.3 years	4.8 years	3.7 years
1-2 years	11%	18%	20%	31%
3-4 years	29	37	44	51
5-6 years	15	16	14	8
Lifetime <sup>17</sup>	45	29	22	10
<b>NURSING HOME BENEFIT AMOUNT</b>				
Average	\$117	\$108	\$104	\$95
up to \$40	1%	1%	2%	6%
\$41-\$50	2	7	9	8
\$51-\$70	7	11	9	11
\$71-\$90	8	9	14	14
\$91 and Over	82	72	66	61
<b>HOME CARE BENEFIT AMOUNT</b>				
Average	\$113	\$105	\$97	\$95
up to \$40	1%	2%	4%	3%
\$41-\$50	5	6	9	8
\$51-\$70	8	7	11	11
\$71-\$90	12	12	15	15
\$91 and Over	74	73	61	63
<b>PERCENT CHOOSING INFLATION PROTECTION</b>				
	59%	46%	32%	14%
<b>AVERAGE ELIMINATION PERIOD</b>				
	62 days	69 days	72 days	66 days
<b>PERCENT WITH HOME CARE</b>				
	92%	85%	85%	77%
<b>AVERAGE ANNUAL PREMIUM MONTHLY PREMIUMS</b>				
Average	\$1,213	\$1,487	\$1,829	\$2,581
Up to \$50	8%	7%	4%	2%
\$51-\$75	28	16	10	4
\$76-\$100	20	19	14	5
\$101-\$125	19	16	12	13
\$126-\$150	9	14	10	10
\$151 and Over	17	28	50	66

Source: Based on 5,407 policies sold in 2000.

## 6. REASONS BEHIND THE INDIVIDUAL LONG-TERM CARE INSURANCE PURCHASE DECISION

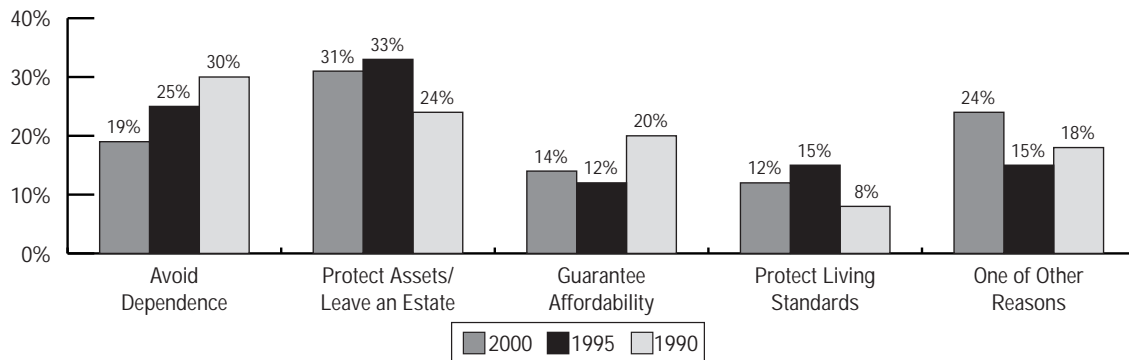
An important finding in previous studies was that people bought long-term care insurance policies for many reasons. These reasons ranged from wanting to ensure the affordability of services, to protecting assets, to ensuring choice in terms of service modality, to protecting a family’s standard of living. We asked buyers to indicate how important a particular factor was in their decision to purchase the insurance. We then asked respondents to select a single most important reason for buying insurance (see Figure 7).

People purchase long-term care insurance for multiple reasons. About one in three indicated that protecting their assets/estate was the single most important reason for purchase. This is roughly the same proportion as in 1995. Fully one-quarter cited one of the other eight reasons as most important to their decision, but no single reason was cited by more than 12 percent of respondents.<sup>18</sup> Again, this

finding supports the proposition that individuals are buying the insurance to meet multiple objectives. It does seem that purchasing the insurance to avoid dependence is a less compelling purchase reason today than it was just a few years ago. This may reflect the shift in the age distribution of new buyers. Given that they are somewhat younger, they may be more concerned with protecting assets during retirement than with having to depend on their children for care.

Regarding specific reasons for purchase, responses changed little in each of the purchase years (see Table 11). An important issue is the extent to which the passage of HIPAA made a difference in the decision to purchase long-term care insurance. About 45 percent indicated that the deductibility of qualified long-term care insurance premiums was an important reason to buy. But 34 percent said it was not important, and 21 percent did not even know about this tax change. Also, almost one-third did not know of the tax change ensuring that benefits from qualified long-term care insurance policies would not be taxable.

Figure 7  
Most Important Reason for Buying Individual Long-Term Care Insurance, by Purchase Year



Source: LifePlans, Inc., analysis of 2,728 (2000 buyers), 2,601 (1995 buyers), and 8,363 (1990 buyers).

**Table 11**  
**Reasons Why Individual Long-Term Care Insurance Buyers Bought Policies, 2000, 1995, and 1990**

Reasons for Insurance Purchase	2000	1995	1990
<b>1. MINIMIZE FINANCIAL EXPOSURE</b>			
The government will not cover the care I may need in the future.			
Very Important Reason	54%	54%	54%
Important Reason	40	38	41
Not Very Important Reason	4	5	4
Not at all Important Reason	2	3	---
With long-term care insurance I do not have to use up my savings or income to pay for nursing home or home health care services. I can protect assets.			
Very Important Reason	71%	67%	72%
Important Reason	28	30	26
Not Very Important Reason	1	2	2
Not at all Important Reason	---	1	---
Long-term care insurance guarantees that I will be able to afford needed health care services.			
Very Important Reason	68%	66%	70%
Important Reason	31	32	29
Not Very Important Reason	1	1	1
Not at all Important Reason	---	<1	---
<b>2. PROTECT FAMILY RESOURCES</b>			
Long-term care insurance helps ensure an adequate income remains for my spouse if I need costly services. <sup>19</sup>			
Very Important Reason	62%	59%	74%
Important Reason	22	22	23
Not Very Important Reason	4	3	2
Not at all Important Reason	13	15	1
I want to leave an estate to family/friends.			
Very Important Reason	43%	43%	38%
Important Reason	36	37	36
Not Very Important Reason	17	15	20
Not at all Important Reason	5	5	6

(Continued)

(Table 11 Continued)

Reasons for Insurance Purchase	2000	1995	1990
<b>3. ENHANCE CHOICE AND INDEPENDENCE</b>			
Long-term care insurance gives me the freedom to choose the nursing home or home care services I prefer.			
Very Important Reason	58%	59%	74%
Important Reason	37	37	24
Not Very Important Reason	4	3	1
Not at all Important Reason	1	1	1
With long-term care insurance, I can preserve my financial independence and avoid having to depend on others for care.			
Very Important Reason	69%	69%	75%
Important Reason	28	29	24
Not Very Important Reason	2	1	1
Not at all Important Reason	1	1	1
With long-term care insurance, I will not have to depend on Medicaid, the public medical assistance program for the needy.			
Very Important Reason	45%	50%	52%
Important Reason	40	41	39
Not Very Important Reason	11	7	7
Not at all Important Reason	4	2	3
<b>4. TAX ADVANTAGES</b>			
Recent tax changes have made premiums for many policies deductible as medical expenses in determining federal income taxes.			
Very Important Reason	19%	N.A.	N.A.
Important Reason	26		
Not Very Important Reason	27		
Not at all Important Reason	7		
I did not know of this recent tax change	21		
Recent tax changes have ensured that benefits payable are not considered taxable to me.			
Very Important Reason	20%	N.A.	N.A.
Important Reason	26		
Not Very Important Reason	18		
Not at all Important Reason	4		
I did not know of this recent tax change	31		

Source: LifePlans, Inc., analysis of 2,728 buyers in 2000, 2,601 buyers in 1995, and 8,363 buyers in 1990.

## 7. THE PROCESS OF BUYING INDIVIDUAL LONG-TERM CARE INSURANCE

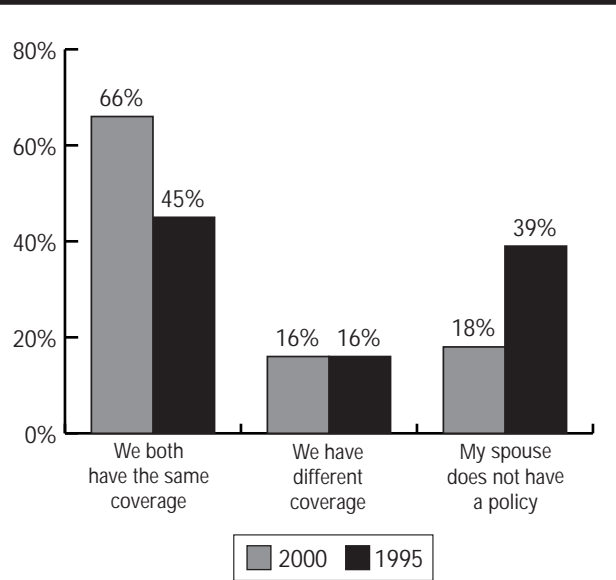
To date, little information has been collected on how people decide to purchase long-term care insurance and who influences their decision to do so. We asked buyers a number of questions relating to their experience with long-term care and with the process of insurance purchase. Most buyers (85 percent) we surveyed were purchasing a long-term care policy for the first time; the others were either replacing a previous policy (11 percent) or adding to an existing policy (4 percent). Most (62 percent) know someone else who has purchased a policy.

Among married couples, 82 percent have a policy for each person, compared with 61 percent in 1995. Most companies are now offering substantial spousal discounts, and some make a counter-offer (rather than underwriting rejections) to the less healthy member of a couple if the healthier member also buys a policy.<sup>20</sup> These strategies appear to be successful, as indicated by the increasing proportion of married couples who have a policy for both persons (see Figure 8).

For the most part, the decision to purchase long-term care insurance is not made alone. In addition to the insurance agent, other people—spouses, children, relatives, and financial planners—contribute to the discussion. Two out of three buyers say spouses and agents have the most influence on their purchase decision (see Figure 9). Only rarely do children take an active role. Moreover, although not shown in the figure, children almost never help pay for the insurance policies purchased by their parents.

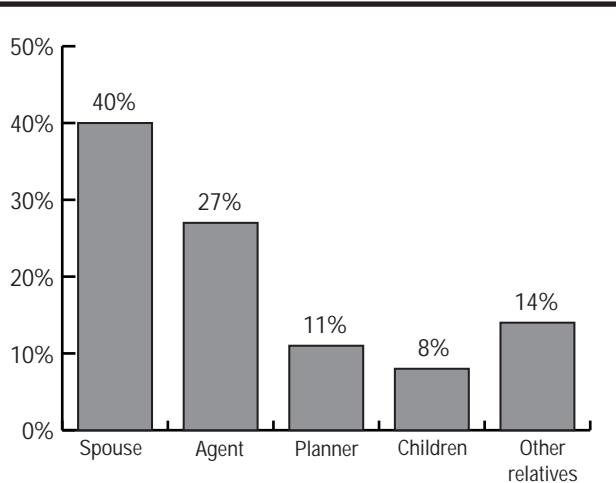
We also asked what made the buyer decide to purchase a long-term care policy from a particular company (see Figure 10). The most common responses were the agent’s recommendation and the insurer’s reputation. Policy benefits were less often

**Figure 8**  
Description of Coverage Among Married Couples Who Purchased Individual Long-Term Care Insurance Policies, by Purchase Year



Source: LifePlans, Inc., analysis of 2,728 buyers in 2000 and 2,601 buyers in 1995.

**Figure 9**  
Individuals Cited by Long-Term Care Insurance Buyers as Most Important to the Purchase Decision, 2000



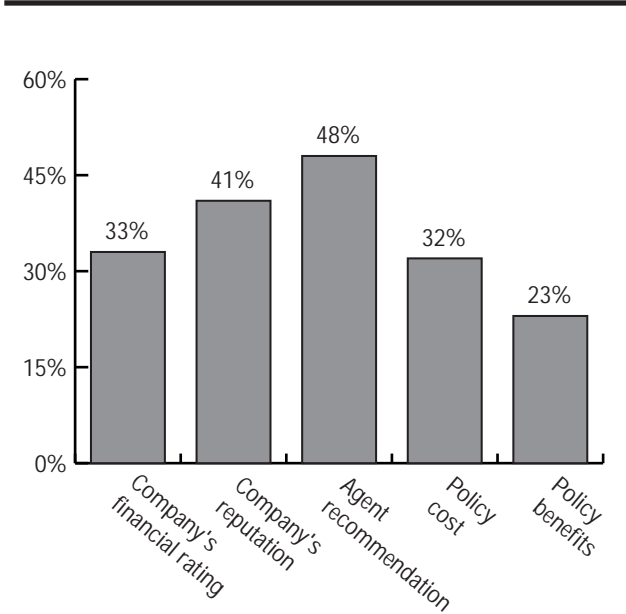
Source: LifePlans, Inc., analysis of 2,728 buyers.

cited. These findings suggest that, from the point of view of consumers, differentiation at the product level is not the most important choice criterion, nor is cost.

Given the prominent role of the agent, we asked a series of questions related to the agent’s knowledge and approach to the sale. The overwhelming majority of both buyers and nonbuyers felt that the agent was knowledgeable; the vast majority of buyers also felt that agents were adept at explaining the insurance and the available coverage options, that they listened well, and that they recommended the policy best suited to the purchaser’s needs (see Figure 11).

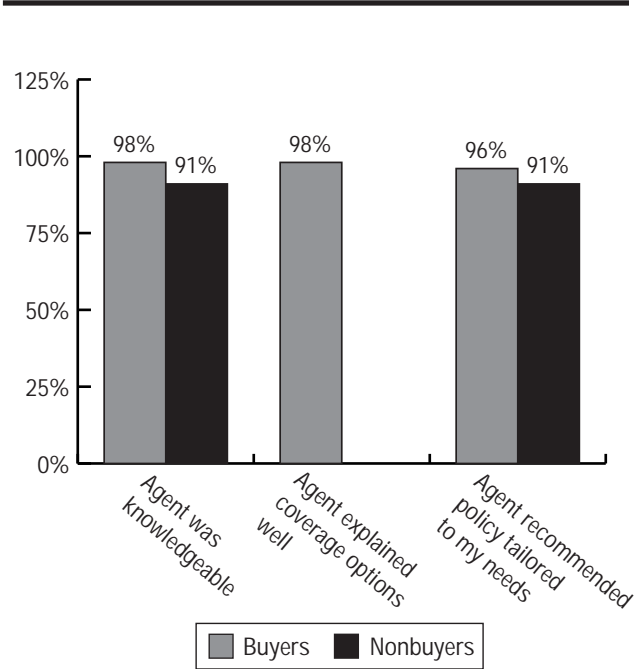
Two-thirds of buyers did look at policies offered by other companies before purchasing. “Comparison shopping” suggests that the market is competitive and that agents are presenting alternatives to consumers. It also explains why a high proportion of one company’s nonbuyers turn out to be another company’s buyers. It may be that individuals are submitting multiple applications to different companies and then making a decision once they pass underwriting. While this may be a reasonable strategy from the consumers’ perspective, it does increase acquisition costs of insurers.

**Figure 10**  
**Factors Cited by Individual Long-Term Care Insurance Buyers as Important to the Purchase Decision, 2000**



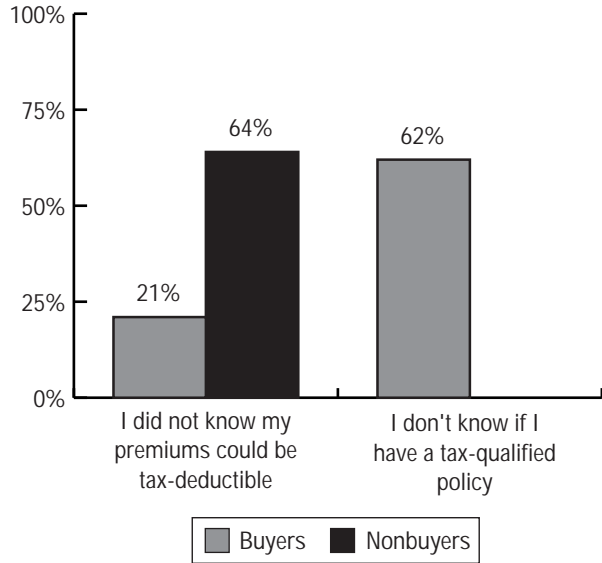
Source: LifePlans, Inc., analysis of 2,728 buyers.

**Figure 11**  
**Evaluation of the Role of the Agent by Individual Long-Term Care Insurance Buyers and Nonbuyers, 2000**



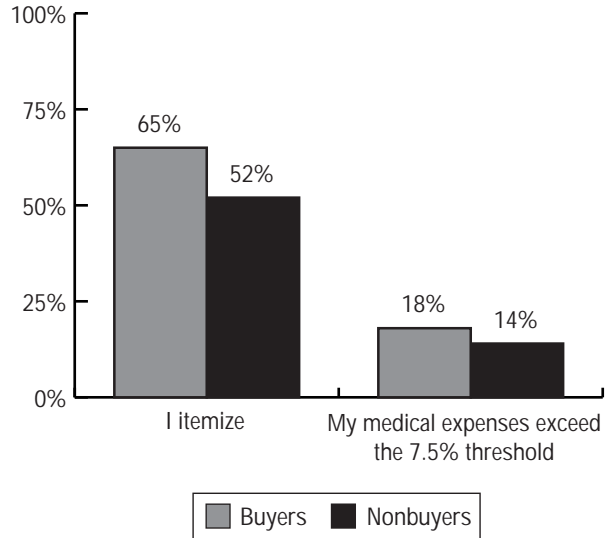
Source: LifePlans, Inc., analysis of 2,728 buyers and 638 nonbuyers.

**Figure 12**  
**Knowledge of Individual Long-Term Care Insurance**  
**Buyers and Nonbuyers About HIPAA, 2000**



Source: LifePlans, Inc., analysis of 2,728 buyers and 638 nonbuyers.

**Figure 13**  
**Income Tax Status of Individual Long-Term Care**  
**Insurance Buyers and Nonbuyers, 2000**



Source: LifePlans, Inc., analysis of 2,728 buyers and 638 nonbuyers.

## 8. PERCEPTIONS OF INDIVIDUAL LONG-TERM CARE INSURANCE BUYERS AND NONBUYERS ABOUT HIPAA

While a majority of buyers did not cite HIPAA-related tax changes as an important factor in their decision to buy, about one in five indicated that it was a very important reason to buy a policy. But about the same proportion was not even aware that the tax benefit existed (see Figure 12). An explanation for this confusion may be that many companies only offer tax-qualified policies to their policyholders. Therefore, whether one's policy is tax-qualified or not would not be a focal point for either the agent or the policyholder at the time of sale.

There is a large difference between the proportion of buyers and nonbuyers who were even aware that tax benefits existed. Nonbuyers are three times more likely to be unaware that, under certain conditions, long-term care insurance premiums are tax deductible.

While most buyers and nonbuyers do itemize their income tax deductions, relatively few have medical expenses that exceed 7.5 percent of adjusted gross income (see Figure 13). Most buyers (62 percent) did not know whether or not they had a tax-qualified policy (see Figure 12). But further analysis revealed that 42 percent of the buyers who itemize their deductions and do report expenses that exceed the 7.5 percent threshold did not know if they had a tax-qualified policy, suggesting that buyers may not have been aware that tax benefits were available to them.

## 9. REASONS INDIVIDUALS DO NOT PURCHASE LONG-TERM CARE INSURANCE POLICIES

Long-term care insurance is one of the fastest growing health insurance business lines; in 1999 alone, growth in premium from new sales was 13 percent (LifePlans, Inc., 2000). More than 5.5 million people will have acquired a policy at one time or

another (HIAA, 1998). Even in the presence of such growth, however, most observers would agree that there remains a great deal of potential for the market to expand. Nonbuyers in 1990, 1995, and 2000 all cited cost as the most significant barrier to purchase, although the percentage has steadily, if modestly, decreased. A number of other factors also contribute to the relatively modest market penetration of long-term care insurance. These factors relate to

suspicious about insurance companies, a lack of understanding about the risk of needing long-term care, confusion about what the government does and does not pay for, and lack of knowledge about the product. To gauge the importance of these and other reasons, we asked nonbuyers to indicate why they chose not to buy a policy (see Table 12). We asked whether a specific reason was “very important,” “important,” “not very important,” or “not at all

**Table 12**  
**Reasons Why Nonbuyers Do Not Buy Long-Term Care Insurance Policies, 2000, 1995, and 1990**

Reasons	2000	1995	1990
<b>1. POLICY COST</b>			
Long-term care insurance costs too much			
Very Important Reason	54%	57%	58%
Important Reason	30	32	33
Not Very Important Reason	10	6	6
Not at all Important Reason	6	5	3
<b>2. POLICY DESIGN/ATTITUDE ABOUT INSURER</b>			
It's too confusing to know which policy is right for me.			
Very Important Reason	18%	28%	54%
Important Reason	28	37	33
Not Very Important Reason	25	16	6
Not at all Important Reason	29	19	7
I felt that there were too many conditions that had to be met before someone could receive benefits.			
Very Important Reason	25%	30%	Did Not Ask
Important Reason	34	34	
Not Very Important Reason	21	17	
Not at all Important Reason	20	19	
I am waiting for better policies.			
Very Important Reason	28%	32%	41%
Important Reason	30	32	34
Not Very Important Reason	16	16	15
Not at all Important Reason	26	20	10
I do not believe that insurance companies will pay benefits as stated in the policy.			
Very Important Reason	15%	21%	36%
Important Reason	29	25	35
Not Very Important Reason	27	24	14
Not at all Important Reason	29	30	15

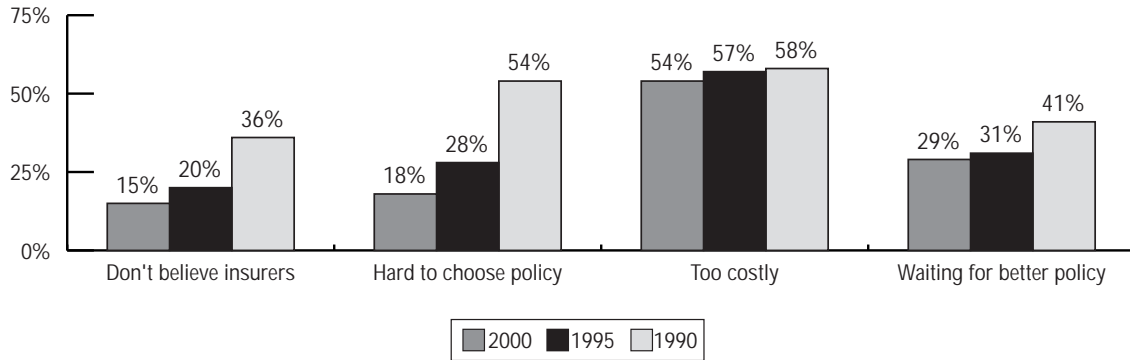
*(Continued)*

(Table 12 Continued)

Reasons	2000	1995	1990
<b>3. FINANCIAL EXPOSURE</b>			
If I need long-term care services, I believe that Medicare will pay. <sup>21</sup>			
Very Important Reason	6%	15%	20%
Important Reason	18	27	38
Not Very Important Reason	37	28	24
Not at all Important Reason	39	30	17
If I need long-term care services, I believe that Medicaid will pay. <sup>22</sup>			
Very Important Reason	9%	12%	20%
Important Reason	13	24	38
Not Very Important Reason	29	24	24
Not at all Important Reason	49	40	17
If I need long-term care services, my family will take care of me.			
Very Important Reason	6%	8%	9%
Important Reason	17	22	26
Not Very Important Reason	30	28	31
Not at all Important Reason	47	42	34
I do not mind using my own income and assets to pay for whatever care I may need.			
Very Important Reason	11%	15%	22%
Important Reason	32	41	50
Not Very Important Reason	30	22	17
Not at all Important Reason	27	22	11
<b>4. OTHER</b>			
I do not think I will ever need services.			
Very Important Reason	10%	9%	15%
Important Reason	24	25	41
Not Very Important Reason	39	36	29
Not at all Important Reason	27	30	14
My spouse could not get coverage so I did not want to buy a policy.			
Very Important Reason	17%	11%	20%
Important Reason	17	12	21
Not Very Important Reason	19	17	16
Not at all Important Reason	47	60	43

Source: LifePlans, Inc., analysis of 638 nonbuyers in 2000, 1,245 nonbuyers in 1995, and 1,750 nonbuyers in 1990.

**Figure 14**  
**Most Frequently Cited Reason for Nonpurchase of Individual Long-Term Care Insurance, by Year**



Source: LifePlans, Inc., analysis of 638 nonbuyers in 2000, 1,245 nonbuyers in 1995, and 1,750 nonbuyers in 1990.

important” to their decision not to buy a policy. We focus on the differing proportions of individuals who cited a reason as “very important.”

Cost is cited most frequently as a very important reason for deciding not to buy. While the proportion of nonbuyers citing cost has remained fairly stable over the decade, confusion about choosing the right policy has dramatically declined. In 1990, 87 percent of nonbuyers said it was too confusing to know which policy was right for them. But by 2000, this figure had dropped almost in half, to 46 percent. This drop reflects greater knowledge about long-term care insurance among the target population and attests to the fact that agents are more knowledgeable and helpful now than in the past.

Also, somewhat fewer individuals indicate that they are waiting for better policies before deciding whether or not to buy. Product innovations have gone a long way toward meeting consumer demand. There also is a greater belief in the integrity of insurance companies. Among nonbuyers, 44 percent said that they did not believe that companies would pay benefits as stated in the policy; at the beginning of the decade, this figure was 71 percent. Finally, nonbuyers are less likely to cite the presence of government programs as a reason for not buying—58 percent in 1990 compared with about 22 percent in 2000.

Cost remains the most significant barrier to purchase; this has remained fairly constant throughout the decade (see Figure 14). On the other hand, lack of confidence in insurance companies or in the ability to choose a policy is cited by fewer people as the most important reason for their decision not to purchase long-term care insurance. A sizeable minority of respondents (29 percent) continues to believe that current policies do not meet their needs. They are, therefore, waiting for better policies to appear on the market.

## **10. FACTORS THAT WOULD MAKE NONBUYERS MORE LIKELY TO PURCHASE INDIVIDUAL LONG-TERM CARE INSURANCE POLICIES**

Given recent federal activities to support the growth in the long-term care insurance market, it is clear that policymakers are looking toward the private market to play a growing role in financing long-term care. How to encourage such growth is a concern for policymakers and the industry alike. While the decade has witnessed rapid growth in the market, fewer than 10 percent of all elderly Americans have coverage. An even smaller percentage of the working-age population has coverage. Finding ways to make the product more attractive to consumers is clearly a challenge.

To begin to understand how the product might be configured or marketed more successfully, or what role the government might play in support of the product, we asked nonbuyers what might make them more interested in purchasing a policy (see Table 13).

Respondents were asked to indicate whether a factor would make them “much more interested,” “more interested,” “not more interested,” or “not at all interested.”

**Table 13**  
**Factors That Would Make Nonbuyers More Interested in Purchasing Long-Term Care Insurance Policies, 2000 and 1995**

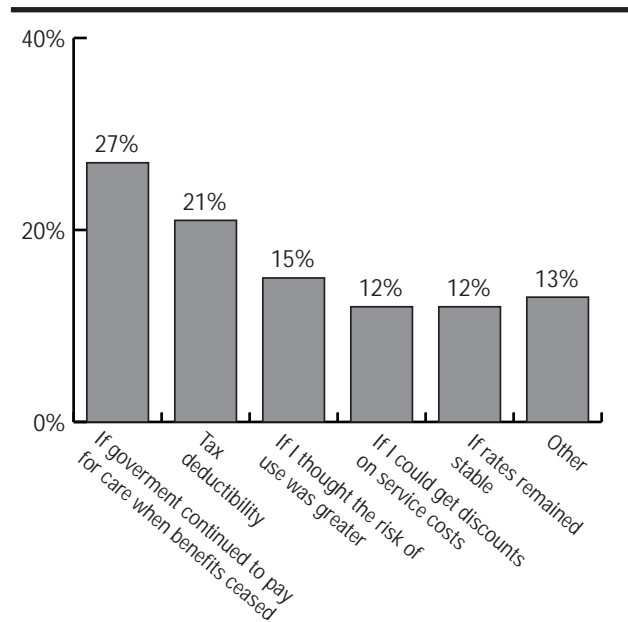
Factors Influencing Potential Purchase	2000	1995
If I could deduct premiums from my income tax I would be...		
Much More Interested	37%	45%
More Interested	44	36
Not More Interested	10	10
Not at all Interested	9	8
If I were certain that the government would continue to pay for my care even after I used up my private insurance benefits...		
Much More Interested	33%	Did Not Ask
More Interested	45	
Not More Interested	15	
Not at all Interested	7	
If I found out that the government was sponsoring a long-term care plan for employees...		
Much More Interested	14%	Did Not Ask
More Interested	29	
Not More Interested	33	
Not at all Interested	24	
If I were certain that the premiums that I paid would not increase over time I would be...		
Much More Interested	29%	36%
More Interested	50	51
Not More Interested	14	8
Not at all Interested	7	5
If I thought there was a good chance that my spouse or I would need long-term care services in the future, I would be...		
Much More Interested	20%	27%
More Interested	48	52
Not More Interested	24	16
Not at all Interested	8	5
If I could use nontaxable funds such as IRAs or 401(k)s to pay premiums		
Much More Interested	11%	Did Not Ask
More Interested	32	
Not More Interested	33	
Not at all Interested	23	
If I could get discounts on the costs of services covered by the policy...		
Much More Interested	21%	Did Not Ask
More Interested	52	
Not More Interested	20	
Not at all Interested	7	

Source: Based on analysis of 1,245 nonbuyers in 1995.

More than three in four current nonbuyers would be more interested in buying a policy if they could deduct all of their premiums regardless of income, if they thought the government would provide stop-loss coverage once their private insurance benefits ran out, or if they felt premiums would remain stable over time. Fewer nonbuyers would be influenced by a federal employee long-term care insurance program or by an option to use funds from an individual retirement account (IRA) or a 401(k) plan to pay premiums.

We then asked nonbuyers to identify the single most important factor that would make them much more interested in buying a policy (see Figure 15). A government stop-loss program (perhaps similar in structure to the Partnership Programs), as well as tax deductibility, are the two most important factors that nonbuyers say would make them more interested in buying a policy. Given the fact that products are less differentiated today than they were just a few years ago, offering some form of rate guarantees and service discounts may become an important base on which to compete by further enhancing confidence in the market and leading to greater marketing success.

**Figure 15**  
Most Important Factors That Would Lead Nonbuyers to Consider Buying a Long-Term Care Insurance Policy, 2000

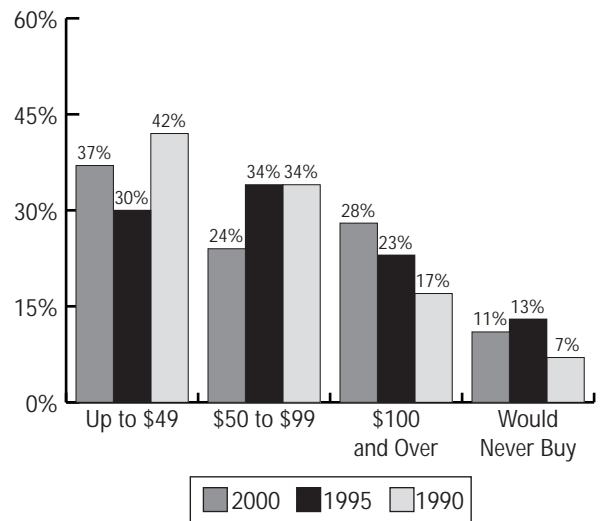


Source: LifePlans, Inc., analysis of 638 nonbuyers in 2000.

## 11. WILLINGNESS TO PAY FOR INDIVIDUAL LONG-TERM CARE INSURANCE POLICIES

How much would nonbuyers be willing to pay for a policy that met their needs? On average, current nonbuyers are willing to pay about \$77 per month, or \$924 per year, for a long-term care insurance policy (see Figure 16). This is roughly half of the average premiums paid by buyers of the same age.

**Figure 16**  
Willingness of Nonbuyers to Pay Monthly Premiums for Policy That Would Meet Their Needs



Source: LifePlans, Inc., analysis of 638 nonbuyers in 2000, 1,245 nonbuyers in 1995, and 1,750 nonbuyers in 1990.

Given that premiums are a function of age, the key issue to explore on an age-adjusted basis is the relationship between the amount that an individual nonbuyer would be willing to spend and what is currently paid in the market. We focus on the proportion of individuals who indicate a willingness to pay for a policy that has a premium greater than or equal to the average premiums paid by like-aged buyers.

**Table 14**  
**Percentage of Nonbuyers Willing to Pay Average Monthly Premiums Paid by Buyers in**  
**2000, 1995, and 1990, by Age**

Age Group	Average Monthly Premiums Paid			Percentage of Nonbuyers Willing to Pay Monthly Premium		
	2000	1995	1990	2000	1995	1990
All Ages	\$140	\$121	\$90	15%	16%	28%
55-64	\$104	\$77	\$60	17%	25%	38%
65-74	\$145	\$120	\$89	15%	15%	26%
75+	\$218	\$179	\$145	14%	11%	8%

Source: Based on analysis of 2,728 buyers and 638 nonbuyers in 2000; 2,601 buyers and 1,245 nonbuyers in 1995; and 8,363 buyers and 1,750 nonbuyers in 1990.

Between 14 and 17 percent of nonbuyers would, under the right circumstances, pay the premiums for policies selling to their age group (see Table 14). This finding is similar to what was found in 1995 and suggests that these nonbuyers do not think that the policy value is greater than its costs or they are not convinced of, or do not understand the value of, the policy relative to its cost.

## **12. ATTITUDES TOWARD GOVERNMENT AND PRIVATE SECTOR ROLES IN FINANCING LONG-TERM CARE**

Confusion about the current or potential role of the government in financing long-term care can have a major impact on the growth of the long-term care insurance market. If individuals believe they are covered for long-term care or believe that the government is likely to provide coverage in the future, they have little incentive to take personal responsibility and acquire a policy today. However, the government does not appear likely to provide coverage for long-term care as a universal entitlement. Recent congressional actions such as the passage of HIPAA, the planned implementation of a federal employee long-term care insurance program, and the bipartisan effort to pass an above-the-line tax deduction for long-term care insurance all point toward personal responsibility for financing one's long-term care needs.

Given this public policy environment, it is important

to gauge how buyers, nonbuyers, and individuals age 55 and over in the general population view the role of government and the private sector in long-term care financing (see Table 15). Across all groups, the majority does not believe that the government will pay for all long-term care services within the next 10 years. There is also a consensus that individuals will have to assume greater responsibility for financing their long-term care needs. This attitude has remained fairly stable between 1995 and 2000. Similarly, most people do not believe it is the responsibility of the federal government to pay for everyone's long-term care needs without regard to personal resources. Finally, those who have purchased insurance are more than twice as likely as nonbuyers and general respondents to agree that insurers provide products that are a good value for the money. Again, this pattern has remained fairly stable over the five-year period.

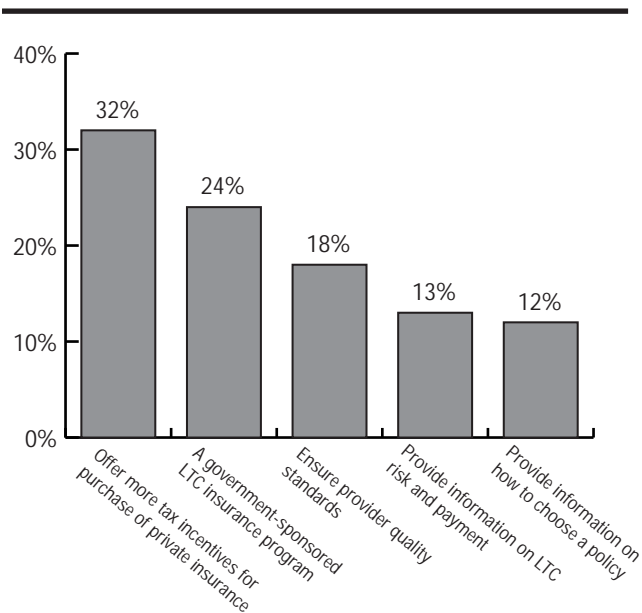
In Figure 17, we present information about the single most important specific actions that individuals age 55 and over believe the government should take in the area of long-term care. Roughly one in three Americans believes that the single most important government action is to offer more tax incentives for the purchase of private insurance policies. Another quarter believes that offering individuals the option of buying a government-sponsored long-term insurance plan is the most important governmental action. This is a particularly interesting finding because it suggests more support for private insurance contracts than for a government-sponsored plan.

**Table 15**  
**Attitudes About Government and Private Sector Roles in Financing Long-Term Care, 2000 and 1995**

Opinions About Long-Term Care Financing	Buyers 2000	Nonbuyers 2000	Surveyed Individuals 55+, 2000	Buyers 1995	Nonbuyers 1995	Surveyed Individuals 55+, 2000
It is the federal government's responsibility to pay for long-term care needs of all people.						
Agree	26%	35%	42%	21%	33%	35%
Disagree	74	65	52	79	67	58
Do Not Know	---	---	6	---	---	7
Within the next 10 years, my state or the federal government will have a new long-term care program to pay for all individuals.						
Agree	24%	35%	38%	28%	39%	37%
Disagree	76	65	49	72	61	48
Do Not Know	---	---	13	---	---	15
Whatever health reform comes about in the next few years, it is more likely that individuals will have to rely on themselves to plan and pay for long-term care.						
Agree	91%	85%	77%	91%	87%	74%
Disagree	9	15	17	9	13	19
Do Not Know	---	---	6	---	---	7
Private insurance companies provide good long-term care products that are a good value for the money.						
Agree	78%	30%	34%	78%	33%	30%
Disagree	22	70	40	22	67	41
Do Not Know	---	---	26	---	---	29

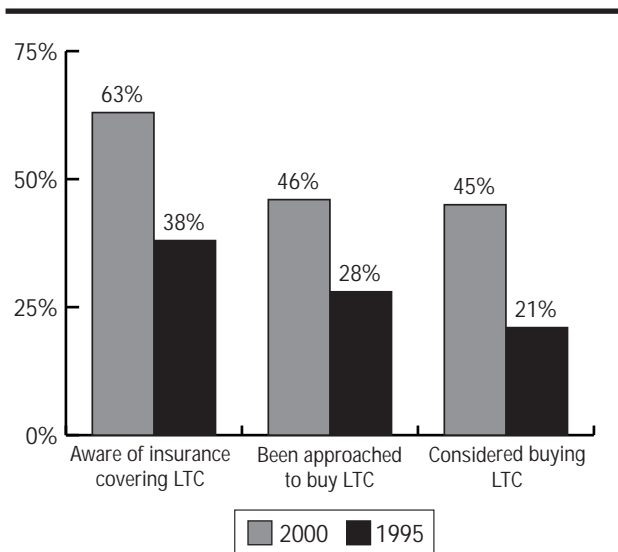
Source: Based on analysis of 2,728 buyers and 638 nonbuyers in 2000; 2,601 buyers and 1,245 nonbuyers in 1995; and 500 individuals age 55 and over in 2000 and 1000 individuals age 55 and over in 1995.

**Figure 17**  
**Single Most Important Action Government Should Take, Responses From Surveyed Individuals Age 55 and Over, 2000**



Source: Based on analysis of 500 individuals age 55 and over in 2000.

**Figure 18**  
**Awareness Among Individuals Age 55 and Over of LTC Insurance**



Source: Based on analysis of 500 individuals age 55 and over surveyed in 2000, and 1,000 individuals age 55 and over surveyed in 1995.

### **13. KNOWLEDGE OF SURVEYED INDIVIDUALS AGE 55 AND OVER REGARDING LONG-TERM CARE INSURANCE**

In 1995 and in 2000 we asked individuals age 55 and over a series of questions about long-term care insurance. Respondents were asked whether or not they knew of companies that offered long-term care insurance that covered extended nursing home stays or home health care services, whether they had ever been approached to buy such a policy, and whether they knew anyone who had a policy.

Since 1995, there has been a major shift in knowledge about long-term care insurance (see Figure 18). More than three in five individuals age 55 and over are aware of companies that offer this insurance. Just five years ago, that proportion was closer to two in five. Moreover, slightly less than half have been approached to buy insurance or have considered

buying it. This is about twice as many as five years ago. Not shown in the figure is that roughly 50 percent of individuals with incomes greater than \$20,000 have considered buying a policy, compared with only 25 percent of those with lower incomes. As was true in 1995, the data suggest a great deal of opportunity for continued market expansion and consumer education.



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# CONCLUSIONS



Results from this study clearly show just how dynamic the market is for long-term care insurance. The products selling on the market offer comprehensive benefits for meeting the needs of individuals with disabilities in both institutional and community settings. Moreover, consumers are continuing to receive more value for their premium dollar. An important finding is that greater numbers of the “young elderly,” that is, individuals between the ages of 55 and 64, are purchasing the product. Apparently, companies are reaching this important market segment and there is more acceptance of the product as an important part of a retirement security strategy.

Our survey also documents an important shift in the wealth profile of buyers. Given the facts that more “younger elders” are buying the product, that over the past five years the stock market has boosted retirement savings, and that agents have been avoiding sales to individuals with less than \$20,000 incomes, the average income and asset level of buyers has increased substantially over the decade. While a substantial proportion of buyers could still be considered middle class, a growing number of individuals with significant levels of liquid assets are purchasing the policies. They are doing so primarily to protect their assets, to preserve their financial independence, to avoid having to depend on others for care, and to guarantee the affordability of services.

The decision to purchase long-term care insurance is not made alone, and the role of the agent in the

process is critical. Most buyers cited agents and spouses as having the most influence on their decision to buy a policy. The agent’s recommendation and the insurer’s reputation are the most important factors behind a specific choice of company. Whether or not someone ultimately chose to buy a policy, there was a consensus that agents were knowledgeable, good communicators, and good listeners.

Cost continues to be the most significant barrier to purchase. While there are other factors behind the decision not to buy, they are less important now than they were a few years ago. For example, five years ago, almost all nonbuyers indicated that it was too confusing to know which policy to buy; now, fewer than half feel that way. Also, even among nonbuyers, a majority believe that insurers will pay benefits as stated in the policy; in 1990, about three in four did not believe this. Thus, there has been an enormous shift in attitudes about the product and the insurer.

Premium deductibility was cited most frequently as the action that would make nonbuyers more interested in purchasing long-term care insurance. Also, one in three Americans age 55 and over think that the single most important thing government can do is to offer tax incentives for the purchase of private insurance policies.

The shift in attitudes observed in the middle of the decade with respect to the role of the public and private sectors in long-term care financing has

continued through the end of the decade. A majority of individuals believe that they will have to rely on themselves to pay for long-term care in part because they do not believe that the government—either federal or state—will implement new programs. Moreover, most do not believe that it is the government’s responsibility to pay for long-term care.

There is much greater knowledge of long-term care insurance among the general population age 55 and over. Most have heard of long-term care insurance and many have actually considered its purchase. This represents a dramatic change from just a few years ago. Still, the data suggest that there is a great deal of untapped market potential. Given the favorable public policy environment, the improvements in product design, and the growing interest among Americans age 55 and over in acquiring this insurance, the market for long-term care insurance will continue to grow. Over time, this insurance will play a more meaningful role in meeting the needs of disabled elders and financing their long-term care needs.

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# NOTES



1. Source: Health Care Financing Administration, Office of the Actuary, Data from the Office of National Health Statistics in *Health Care Financing Review* 16, no. 1 (1994).
2. Various other state and federal programs paid the remainder—5 percent—of long-term care costs.
3. Among others, these included the Mitchell Bill, which proposed paying for the care of individuals who stayed more than two years in a nursing home, and the Kennedy bill which proposed paying for front-end long-term care costs.
4. For more information, see the Office of the Actuary, National Health Statistics Group, Personal Health Care Expenditures, HCFA, DHHS, 2000.
5. See Internal Revenue Code Sections 213(a), 7702B(b), 7702B(d), 7702B(g), and 106(a).
6. Also noteworthy is the fact that about 19 states have enacted tax incentives for the purchase of long-term care insurance and another 19 have undertaken public education programs to educate individuals about the risk and costs of long-term care and alternatives available for financing such care.
7. In July 2000, the U.S. Congress approved H.R. 4040, Long-Term Care Security Act, a bill that will create a long-term care program for federal employees.
8. One company does not use agents in its sales process; instead, it uses a direct mail marketing technique and holds sales seminars. For that company, a nonbuyer is someone who requested and received enrollment materials, including applications, rate sheets, and an outline of coverage, but who did not buy. It may also include individuals who attended a seminar on the company's long-term care plan.
9. The California Public Employees Program is the largest self-insured program in the United States.
10. See Health Insurance Association of America, Policy and Research Findings, *Who Buys Long-Term Care Insurance?* (Washington, D.C.: 1992).
11. See Health Insurance Association of America, Managed Care and Insurance Operations Report, *Who Buys Long-Term Care Insurance? Profiles and Innovations in a Dynamic Market 1994-1995* (Washington, D.C.: 1995).
12. A. Rivlin and J. Wiener, *Caring for the Disabled Elderly: Who Will Pay?* (Washington, D.C.: The Brookings Institution, 1988).
13. S. Zedlewski and T. McBride, "The Changing Profile of the Elderly: Effects on Future Long-Term Care Needs and Financing," *Milbank Memorial Fund Quarterly* (1992).
14. This figure also accounts for the value of home care benefits in integrated "pot of money" products.
15. Estimates only. Typically the home care benefit was 50 percent of the nursing home benefit.
16. Lifetime protection is evaluated as 10 years of coverage.
17. Lifetime coverage is evaluated as 10 years of coverage.
18. Some of these "other" reasons include not wanting to depend on Medicaid, being able to

choose services, ensuring an adequate income for spouse, and tax advantages.

19. The 1990 study gives the reason as “...protecting my family’s standard of living.”

20. A counter-offer occurs when an individual wants to purchase a particular policy design configuration but because of that person’s health situation, the company offers a policy that typically is less comprehensive in its coverage. This is done in lieu of an outright rejection.

21. In 1990, only a single question was asked: “...I believe government will pay.”

22. In 1990, only a single question was asked: “...I believe government will pay.”