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# WHO BUYS LONG-TERM CARE INSURANCE IN THE WORKPLACE?

A Study of Employer  
Long-Term Care Insurance Plans  
2000–2001

Prepared for  
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# EXECUTIVE SUMMARY



The purpose of this study is to provide new information about the people who choose to enroll or not to enroll in group long-term care insurance plans through work. We seek to understand what motivates employees to make this choice; to understand their attitudes toward long-term care, insurance, and retirement; and to compare certain findings to the general population of working individuals age 30 and over. Where appropriate, we also make comparisons with findings about the individual market as reported in *Who Buys Long-Term Care Insurance in 2000? A Decade of Study of Buyers and Nonbuyers*.

Five insurance companies representing a large share of the employer group market participated in the study by soliciting the cooperation of nine employer groups of varying sizes and type. An enrolled individual was defined as an employee who had enrolled in his or her employer-sponsored long-term care plan and was considered by the insurance company to be enrolled at the time the sample was drawn. A nonenrolled individual was defined as an active employee who had requested an enrollment package but had not subsequently enrolled in the plan. In total, companies contributed a sample of 1,018 enrolled employees, 315 nonenrolled employees, and policy design information on 3,712 policies. In addition, 500 employed individuals age 30 and over were surveyed from the general population.

## FINDINGS

### *Sociodemographic Characteristics*

- ◆ Enrolled employees are slightly older and have higher incomes and more assets than nonenrolled employees. They are also more likely to be college educated. There is little difference between enrolled and nonenrolled employees with respect to sex and marital status.
- ◆ As was true among buyers and nonbuyers in the individual market, both enrolled and nonenrolled survey respondents are older, more affluent, and more highly educated than their counterparts in the general working-age population.
- ◆ The percent of individuals with incomes over \$50,000 is much higher among the employer group enrollees (82 percent) than among individual buyers (42 percent). Given their age difference and the fact that only 35 percent of individual market buyers were employed, this is not surprising. In contrast, individual market buyers have slightly higher assets compared to the group market enrollees. This is likely due to the fact that the working-age population is still in the process of accumulating assets, whereas retirees and older individual policyholders are more likely to have accumulated greater assets.

### ***Opinions About Long-Term Care Financing***

- ◆ There are important attitudinal differences between the enrolled and nonenrolled groups. Enrolled employees are more likely to agree that it is important to plan now for future long-term care needs and only about half as likely to believe that the government would finance most of the cost of care if it were needed. These same attitudinal differences are seen for buyers and nonbuyers in the individual market.
- ◆ Those who are not enrolled in the long-term care plan are more worried about how they will pay for care in the future.

### ***Attitudes Toward Risk and Payment of Long-Term Care Services***

- ◆ Enrolled employees believe that they face a greater risk for needing long-term care services than do the nonenrolled.
- ◆ Surveyed workers in the general population assess their lifetime risk of needing care as lower than enrolled employees, and for the most part, lower than the nonenrolled employees as well.
- ◆ Nonenrolled employees are more likely than enrolled employees to believe they can rely on some other form of health insurance to pay for long-term care services if they need them for six months or more—20 percent compared to 14 percent. Surveyed workers in the general population were the most likely of all to believe they would be able to rely on other health insurance (39 percent).
- ◆ Enrolled and nonenrolled employees were relatively well informed regarding long-term care coverage from public programs. Less than one in five believe that they could rely on Medicare or Medicaid to pay for their long-term care services.

### ***Group Market Long-Term Care Insurance Policy Designs***

- ◆ The vast majority of policies for the group market sample are comprehensive and integrated. This means that they cover both nursing home and home care services and there is one pool of money that serves as the cap or maximum total benefit amount payable under the policy regardless of what type of qualified services are used.
- ◆ Almost all of the group policies in this sample pay on a reimbursement basis, meaning the insurance company will reimburse the cost of covered services for qualified claimants up to the chosen daily benefit amount.
- ◆ The average nursing home daily benefit is \$124—about 1.5 times greater than that for home care (\$79). Home care daily benefit amounts are typically chosen (either by the employer or the employee) as a percentage of the nursing home daily benefit amount. Here, the average home care daily benefit is about 60 percent of the nursing home daily benefit.
- ◆ Eighty-eight percent of the group policies include some type of inflation protection provisions; half are compound protection and the other half offer benefit increase options at predetermined intervals.
- ◆ The average premium for a long-term care policy in the group market is less than half that of the individual market—\$722 compared to \$1,677.

### ***Understanding the Decision to Enroll or Not to Enroll***

- ◆ Employees who chose to enroll in the plan were more likely to discuss the purchase decision with others than nonenrollees. Employees were most likely to discuss the purchase with a spouse or co-worker. Among enrollees and nonenrollees who indicated that another person had influenced their decision to participate or not in their plan, most of both groups said their spouses were the most influential.

- ◆ Employees are using long-term care insurance to meet multiple objectives—much like new buyers in the individual market. One in four employees says that protecting assets or leaving an estate is the most important reason to enroll in the long-term care insurance plan. This compares to one in three in the individual market. About one in five indicates that preserving financial independence and guaranteeing the affordability of needed services are the most important reasons for enrolling.
- ◆ Almost 40 percent of employees enrolled in long-term care plans are not aware of tax incentives for the purchase of the product. However, among those employees who are aware of tax incentives for the purchase of long-term care insurance, about half indicate that it is important in their decision to enroll in their company plan.
- ◆ The purchase of insurance provides tremendous psychological benefits, most of which are related to enhancing feelings of security. Almost all respondents felt that having the insurance made them more secure about their future and feel better about the way they planned to secure that future, and that they had taken appropriate steps to protect their spouses.
- ◆ Nonenrolled employees in this sample—much like nonbuyers in the individual market—overwhelmingly cite the cost of long-term care insurance as the most important barrier to enrollment.
- ◆ Three out of five respondents indicate that confusion about which policy is right for them was an important factor in their decision not to enroll.
- ◆ When asked about all the factors that would make nonenrolled employees much more interested in enrolling in their company long-term care plan, over two-thirds of the respondents (67 percent) said that an employer contribution to the policy premium would make them more interested in enrolling. Another important factor (cited by 59 percent of respondents) was the option to deduct premium costs from income tax.
- ◆ When asked specifically what factor would make them most interested in enrolling in a long-term care plan, over one-third of nonenrolled employees indicate that an above-the-line tax deduction, that is, tax incentives for the purchase of long-term care insurance (regardless of whether people itemize or not), would make them most interested in enrolling in a long-term care plan.
- ◆ When nonenrollees were asked if they plan to enroll in a group plan or buy a long-term care insurance policy at some time in the future, 50 percent of them indicated that they would do so.
- ◆ Between 17 percent and 47 percent of nonenrolled employees are willing to pay the associated age-adjusted premium for a policy that meets their needs.

### ***Attitudes Toward Government and Private Sector Roles in Financing Long-Term Care***

- ◆ Enrolled employees are less likely to believe that it is the federal government's responsibility to finance long-term care; however, the majority of both enrolled and nonenrolled employees, as well as those employed individuals surveyed from the general population, do not believe the government should or will pay for long-term care services.
- ◆ Enrolled employees are twice as likely as both nonenrolled employees and respondents in the general population to agree that private insurance companies provide products that are a good value for the money.
- ◆ When asked about the single most important action the government should take in the area of long-term care, the most common action cited by enrolled and nonenrolled survey respondents, as well as surveyed workers in the general population, is to offer more tax incentives for the purchase of private insurance.

While cost remains a significant enrollment barrier, it is important to note that enrolled employees appear to view an investment in long-term care insurance as a

long-range proposition. However, to make such a commitment requires a great deal of knowledge and education about long-term care in general and insurance in particular, as well as confidence in the insurance company and in the long-term care product. For their part, employers and consumer organizations should continue to provide education and information to younger, working-age people, encouraging them to plan for events

that may seem unlikely or far off in the future. At the same time, continuing to develop and market long-term care policies that can keep pace with the rapidly changing service delivery environment is an important challenge for insurance companies. Only when such constructive change occurs among both consumers and producers will greater numbers of working-age individuals enroll in long-term care insurance programs offered through their employers.

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# INTRODUCTION



Over the past decade, the market for private long-term care (LTC) insurance has changed dramatically. By 1990, approximately 1 million policies had been sold, mostly to individuals age 55 and over. By the end of the decade, the number of policies sold (in both the individual and group markets combined) had increased to more than 6 million. While there has been substantial growth in the sale of policies to individuals, most notably, the employer-sponsored market has witnessed an even more tremendous gain. Since its inception in 1987, the sale of long-term care insurance policies in the workplace has increased at an average annual rate of more than 30 percent. Over the last five years, hundreds of employers have begun adding long-term care to their benefit programs (HIAA, 2000a). There are many who believe that the future of the private long-term care insurance market depends on growth in the employer group segment. Most agree that without significant growth in this area, long-term care insurance will play only a small role in addressing the growing long-term care financing crisis.

Over the past 10 years, the Health Insurance Association of America (HIAA) has sponsored longitudinal studies of buyers and nonbuyers of long-term care insurance in the individual market. Three such studies tracked attitudes and purchase trends among buyers and nonbuyers, as well as the reasons for buying or not buying long-term care policies (HIAA, 2000b). Until recently, there has been little opportunity to study the employer group market, in part because too few employees were enrolling in employer policies. As a re-

sult, there is little information about what motivates employees to enroll or not to enroll in company-sponsored long-term care insurance programs. Also, we know very little about the attitudes and opinions of employees regarding long-term care in general, and insurance in particular.

There have been a growing number of macro-studies that have examined premium volumes, sales growth, the number of insurance companies that sell group plans, the employers they represent, and best practices vis-à-vis marketing (LIMRA, 1999; HIAA, 2000a; EBRI, 2000; HHS, 2000). While these studies provide an important context for understanding the market, they do not provide the micro-data on purchaser trends and attitudes necessary to inform long-term care public policy and regulatory strategies.

As of 1999, there were over 3,000 employers who offered long-term care insurance to their employees, and about 800,000 individuals who have purchased such a plan. Sales to new employees in that same year were up 126 percent (LIMRA, 1999). In the late 1980s to the early 1990s, it was typically large employers (those with over 500 employees) who offered long-term care benefits. However, the average size of employers offering the benefit is on the decline. Today, about 68 percent of all employers offering long-term care benefits have fewer than 500 employees (HIAA, 2000a). Now that there are a substantial number of employers offering long-term care benefits and more employees enrolled, a comprehensive examination of employee attitudes and characteristics can be made.

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# PURPOSE



The purpose of this study is to provide new information about the people who choose to enroll or not to enroll in group long-term care insurance plans. We seek to understand what motivates employees to make this choice; to understand their attitudes toward long-term care, insurance, and retirement; and to compare certain findings about this group with the general population of working individuals age 30 and over. Accordingly, the study sought to:

- ◆ Profile buyers (enrolled) and nonbuyers (nonenrolled) of long-term care insurance in the employer group market in terms of their:
  1. sociodemographic characteristics,
  2. attitudes about long-term care insurance, risk, and financing programs, and
  3. beliefs about the role of the public and private sectors in financing long-term care;
- ◆ Identify the policy design features that are offered in the employer setting;
- ◆ Understand why some employees enroll in their company's long-term care plan and others do not;
- ◆ Assess the extent to which recently passed federal legislation has influenced the decision to enroll in a long-term care insurance plan at work or has increased awareness of long-term care insurance as an option available to working individuals;
- ◆ Identify the factors that would make nonenrolled employees more interested in enrolling in a company-sponsored long-term care plan;
- ◆ Identify the potential role that employers can play in encouraging the purchase of policies; and
- ◆ Identify the barriers and opportunities to market expansion unique to the employer group market, and assess whether and how long-term care insurance can become a more standard part of retirement planning for this working-age segment.

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# METHOD AND SAMPLE



Three survey instruments—two mail surveys and one telephone survey—were used to collect information:

- (1) a mail survey was sent to employees enrolled in their employer's long-term care plan,
- (2) a mail survey was sent to employees who chose not to enroll in their employer's long-term care plan, and
- (3) a 15-minute telephone survey was used to reach a general population of employees over age 30 who did not have long-term care insurance.

In most cases, introductory letters accompanying the survey instrument were sent out on employer letterhead with a signature from someone in the employee benefits department. This lent weight and legitimacy to the study and encouraged addressees to return their surveys. When employer letterhead was not available, introductory letters were mailed on specially designed study letterhead and signed by HIAA.

Insurers were instructed to contact only those employers who offer a long-term care insurance plan to their employees as a completely or partially voluntary benefit. If employers paid part of the premium, they typically chose a base plan that they provided to all employees; the employee could then choose to “buy up” from that base plan by increasing benefits.

For the purposes of this study, we focus on active employees for both the enrolled and nonenrolled samples. The enrolled sample consists of employees who made a financial investment in the long-term care policy. Often, in addition to active employees, the employer will offer the opportunity to enroll in the plan to retirees,

spouses of active and retired employees, and parents of employees (to name a few). We did not survey retirees, spouses, or any other family members that may have been eligible to enroll in the employer group long-term care plan.

Five insurance companies or insuring entities representing a large share of the employer group market participated in the study by soliciting the cooperation of nine employers. The participating insurers were:

- ◆ Aetna Life and Casualty
- ◆ CalPERS (California Public Employees Retirement System)
- ◆ Medamerica
- ◆ Metropolitan Life
- ◆ UnumProvident

The insurers provided a sample of enrolled and nonenrolled employees from nine different employers. These employers represent a mix of private and public companies, and small, medium, and large employer groups. Two were public sector employers and seven were private sector employers. Many of the seven participating private employers are Fortune 500 companies that have over 10,000 employees. The two public employers include state public employees and teachers. Group long-term care insurance is a fairly recent offering for most of these employers, with many companies offering long-term care plans within the last three years. Penetration rates (the percentage of employees who enroll in the insurance divided by the total number of eligible employees) range from 2 percent to 20 percent. These nine employers employ over 500,000 people in the United States.

In total, the sample can be generalized to the roughly 50,000 employees who are covered by long-term care insurance across these nine groups. All but one of these employers offers long-term care insurance as a voluntary benefit to their employees. For the employer that did pay part of the premium, we surveyed only those enrolled employees who had added to their base plan by purchasing additional coverage that was offered to them through the employer plan.

An enrollee was defined as an employee who had enrolled in the employer-sponsored long-term care plan at any time, and who was considered by the insurance company to be enrolled at the time the sample was drawn. Employees could have enrolled at the time the company initially offered the benefit, or at any open enrollment period thereafter. Thus, this sample is composed of active employees who are currently enrolled in their company's long-term care plan, are responsible for paying all or part of the premium for that benefit, and are considered employer group long-term care plan *participants or certificate holders*. Unlike the study of the individual market, which looked at new buyers, this is a sample of *in-force group certificate holders*.

A nonenrolled individual was defined as an active employee who had requested an enrollment package, but had not subsequently enrolled in the plan. These are employees who were presumably interested in finding out about their company's long-term care plan, but had chosen not to enroll prior to the time the sample was drawn. The definition of a nonenrolled employee for this study reflects our desire to understand the opinions of individuals who considered the purchase and then made an "active decision" not to enroll. This is comparable to the individual market survey, which looked at "nonbuyers" and defined them as people who actively considered long-term care insurance but chose not to buy a policy. Therefore, the available sample of nonenrolled employees was much smaller than it would have been had we taken the total number of active employees who were not enrolled in their company plan. Active employees who were not enrolled at the time the sample was drawn may or may not have known about the long-term care insurance plan. It is important to note that this sample cannot be generalized to the

entire population of employees who are eligible for their company long-term care benefit but haven't enrolled; it can, however, be generalized to those employees who at least considered enrolling in the employer-sponsored plan.

We also telephoned a sample of employees age 30 and over. We included this sample to provide a baseline for attitudinal and demographic comparisons among enrolled employees, nonenrolled employees, and employees in the general population. This sample was obtained through a random-digit dial process.

In total, the sample sizes for the study are:

- ◆ 1,018 employees enrolled in their employers' long-term care plan,
- ◆ 315 nonenrolled employees, and
- ◆ 500 employed individuals age 30 and over from the general population.

Both the enrolled and nonenrolled samples are convenience samples, which means that, while they are descriptive of the employer groups surveyed here, their characteristics cannot be generalized to the entire employer group market. This is because the sample is small relative to the many sizes and types of employers that offer long-term care insurance, and also because over 3,000 employers now offer long-term care insurance. While the results may not permit us to generalize broadly, the attitudes and opinions of these individuals do provide us with information that can 1) help inform future marketing to employers, 2) identify factors that influence employees to enroll, and 3) shed light on how insurance companies and employers can work together to make a long-term care insurance benefit more attractive to employees.

## **POLICY DESIGN INFORMATION**

This study included detailed information on the policy designs chosen by the enrolled employees. The information provided by the insurance companies was linked by an identification code to the returned surveys. This enabled us to analyze the relationship between enrollee attitudes and demographics and their plan selection. In

total, companies sent policy design information on 3,712 enrolled employees, of which 898 were linked to returned surveys.

Typically, in the employer group market, the employer selects a limited number of plan options from the broad array of plan designs that the insurance company can offer. The coverage usually reflects the needs and affordability concerns of the employer's workers. Most employers select one approach with respect to elimination period, premium waiver, and the type of policy (e.g., comprehensive or facility care only). The employees then select from a number of options for both daily and/or lifetime benefit amounts, and they may also be able to choose from one or more options such as inflation protection or nonforfeiture benefits (HHS, 2000).

## **SURVEY DATA ELEMENTS**

Each of the three surveys collected detailed information about the respondents' demographic characteristics and knowledge about long-term care financing and risk, as well as attitudes toward long-term care insurance. The survey also asked respondents their opinions about the desired and potential roles of the private and public sectors in paying for long-term care. The survey of enrolled employees also asked why they enrolled in the

long-term care plan, the role of their employer in offering the plan, and their awareness of HIPAA and tax policies regarding long-term care insurance.<sup>1</sup> The nonenrolled survey explored the reasons why an employee chose not to enroll and examined the factors that might make employees more interested in enrolling in an employer-sponsored group long-term care plan. Here, too, employees were queried as to their knowledge of the tax status of long-term care insurance policies. Finally, for comparison purposes, working individuals age 30 and over in the general population were asked a series of questions related to their knowledge about long-term care services, insurance, and payment sources, as well as their attitudes and opinions regarding the government's role in financing long-term care.

Insurance companies that participated in the study provided policy design information that included the following elements: policy type (e.g., facility only, comprehensive, etc.); presence of employer contribution; 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 sex and age of the policyholder; and the state in which the policyholder resides.

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# FINDINGS



## **SOCIODEMOGRAPHIC CHARACTERISTICS**

Employees enrolled in their employer's long-term care plans are slightly older, have higher incomes, and have greater assets than nonenrolled employees. They also are more likely to be college educated. There is little difference between enrolled and nonenrolled employees with respect to sex and marital status.

The average age of enrolled employees is 50 years old. When broken down by individual employers included in the sample, the average age ranges from 40 to 55, with most in the late 40s (see Table 1). The average age of enrolled employees in this sample is somewhat higher than is typically reported for enrolled employees in the group long-term care insurance market.

Because there is so much variation in employer type and size in the group market, it is difficult to calculate an average age for employees enrolling in company plans that can be generalized to the group market as a whole. The average age is dependent upon the sample of employers being analyzed.

The sample we used includes two large public sector employers that tend to have a slightly higher average age for employees in their long-term care plans when compared to employees participating in private sector-sponsored plans. Finally, this sample is reflective of in-force certificate holders who were asked to provide their current age, not their age at the time of enrollment. It is possible that these enrolled employees have been participating in their company's long-term care plan for a

number of years. The commonly reported average age of enrollees in the group long-term care insurance market (usually in the low 40s) is calculated based on the age of employees at the time they enrolled in their company's plan.

As was true among buyers and nonbuyers in the individual market, both enrolled and nonenrolled survey respondents are older, more affluent, and more highly educated than both the general working-age population reached by the telephone survey and the general population reflected by data from the U.S. Bureau of the Census. This is not surprising given that most insurers would tend to focus their marketing efforts on the employer segment that has the best demographic characteristics to support a successful participation rate. This typically includes an older workforce with higher incomes and greater education.

Enrollees in the group market do not differ greatly from new buyers in the individual market in terms of sex and marital status, but they begin to diverge on income, assets, and educational level (see Figure 1). Individuals with incomes over \$50,000 are more common among those enrolled in employer group long-term care plans (82 percent) than among individual buyers (42 percent). Given the age difference between group and individual buyers, and the fact that only 35 percent of individual market buyers are employed, this is not surprising. In contrast, individual market buyers have slightly more assets compared to the group market enrollees. This is likely due to the fact that the working age population is still in the process of accumulating assets, whereas retirees and older individual policyholders are more likely

**Table 1**  
**Employees in Employer-Sponsored Long-Term Care Plans**

<b>Characteristics</b>	<b>Enrolled in Group Long-Term Care</b>	<b>Nonenrolled in Group Long-Term Care</b>	<b>Surveyed Workers, Ages 30-64</b>	<b>General Population, Ages 30-64</b>
Average age	50	48	45	44
<b>Age</b>				
Younger than 40	13%	21%	28%	34%
40 to 44	12	11	20	18
45 to 49	18	16	24	16
50 to 54	24	29	21	13
55 to 59	20	14	5	10
60 to 64	10	7	2	9
65 and over	3	2		
<b>Sex</b>				
Male	43%	42%	39%	49%
Female	57	58	61	51
<b>Marital status</b>				
Never married	16%	12%	12%	13%
Married	66	70	71	71
Divorced/separated	15	16	12	13
Widowed	3	2	5	3
<b>Income</b>				
Less than \$24,999	2%	4%	12%	22%
\$25,000 to \$34,999	5	8	15	12
\$35,000 to \$49,999	11	14	23	17
\$50,000 to \$74,999	26	33	25	22
\$75,000 and above	56	41	25	27
<b>Liquid assets</b>				
Less than \$20,000	13%	31%	34%	Not Available
\$20,000 to \$29,999	4	4	11	Not Available
\$30,000 to \$49,999	8	12	13	Not Available
\$50,000 to \$74,999	7	6	8	Not Available
\$75,000 to \$99,999	5	6	7	Not Available
\$100,000 to \$199,999	18	16	11	Not Available
\$200,000 and above	45	25	16	Not Available
<b>Education level</b>				
Less than high school	—	1%	3%	12%
High school graduate	6%	8	31	33
Post high school	21	30	26	27
College graduate	73	61	40	28

Sources: LifePlans, Inc. analysis of enrolled and nonenrolled surveys and telephone survey of employed individuals in the general population; U.S. Census Bureau, Population Estimates, Annual Population Estimates by Age, Group and Sex, Washington, DC, November 2000; U.S. Census Bureau, Current Population Reports, Marital Status and Living Arrangement, Washington, DC, March 1998; U.S. Census Bureau, Current Population Reports, P60-209, Money Income in the United States: 1999, U.S. Government Printing Office, Washington, DC, 2000; U.S. Census Bureau, Current Population Reports, Household Economic Status, Series 70-71, Household Net Worth and Asset Ownership: 1995, U.S. Government Printing Office, Washington, DC, 1995; U.S. Census Bureau, Education Attainment in the United States, Detailed Tables, Washington, DC, March 2000.

Notes: Based on sample size of 1,018 enrolled employees, 315 nonenrolled employees, and 460 surveyed workers via telephone. For the U.S. Census information on the general population and information on surveyed workers via telephone, estimates only for persons between the ages of 30 and 64 were used in order to make data more comparable. For all samples, income refers to household or family income. Assets were defined as savings accounts, certificates of deposit, stocks, and other assets—they do not include home equity.

to have accumulated greater assets. Overall, group market policyholders are also more likely to be college educated than new buyers in the individual market.

## OPINIONS ABOUT LONG-TERM CARE FINANCING

The aging of the population and the associated increase in family caregiving responsibilities has increased awareness of long-term care needs and financing issues among working age adults. Prior studies in the individual market have indicated that people's knowledge and attitudes about long-term care are critical factors in the decision to buy long-term care insurance. We examined whether this holds true for the working age population as well.

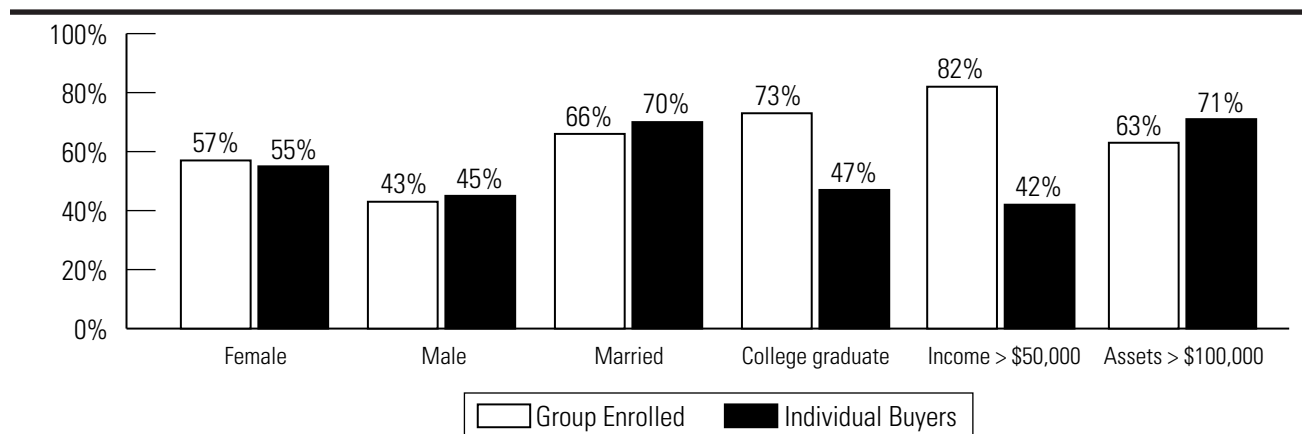
There are important attitudinal differences between the enrolled and nonenrolled groups (see Table 2). For example, enrolled employees are more likely to agree that it is important to plan now for future long-term care needs and less likely to believe that the government would finance most of the cost of care if it were needed. These same attitudinal differences exist for buyers and nonbuyers in the individual market. The vast majority

of both groups did not believe that the government would pay for most of the costs of long-term care. Finally, the high proportion of nonenrolled employees that agreed it was important to plan for future long-term care is reflected by the requests for enrollment packets: these workers are thinking about the possibility of needing long-term care services, even if they have not yet enrolled in the group long-term care plan.

Those who did not enroll in the long-term care plan were understandably more worried about how they would pay for care in the future than enrollees. While the latter have taken action to address their concerns about paying for long-term care, the nonenrolled understand that they need to deal with the exposure to risk.

While enrollees were more likely than nonenrollees to feel that the insurance industry sells adequate coverage for long-term care services, their confidence was not unqualified. Forty-five percent of enrollees still feel that the industry does not sell adequate coverage. This may reflect the general unease associated with a product that is designed to pay for services that may not be needed for 30 to 40 years. Indeed, current buyers in the

**Figure 1**  
**Sociodemographic Comparisons of Employees Enrolled in Group Long-Term Care Plans with Individual Buyers of Long-Term Care Insurance**



Source: Who Buys Long-Term Care Insurance in 2000? A Decade of Study of Buyers and Nonbuyers.

Note: Based on a sample size of 1,018 enrolled employees in the group market and 2,728 new buyers in the individual market.

**Table 2**  
**Opinions About Long-Term Care Financing Among**  
**Enrolled and Nonenrolled Employees**

Opinions	Enrolled	Nonenrolled
It is important to plan now for the possibility of needing long-term care services.		
Strongly agree	62%	31%
Agree	36	59
Disagree	1	9
Strongly disagree	1	1
I worry about how I would pay for care if needed.		
Strongly agree	25%	35%
Agree	50	49
Disagree	21	15
Strongly disagree	4	1
The insurance industry sells adequate coverage for services.		
Strongly agree	5%	4%
Agree	50	41
Disagree	37	43
Strongly disagree	8	12
If I ever needed care, the government would pay most of the costs.		
Strongly agree	3%	6%
Agree	6	11
Disagree	41	46
Strongly disagree	50	37

Source: LifePlans, Inc. analysis of 1,018 enrolled and 315 nonenrolled employees.

individual market who are, on average, older and therefore closer to the time when they might begin using their policies were only about half as likely as enrolled employees to indicate that they were concerned about adequate coverage. Since the service delivery system is rapidly changing, insurers in the group long-term care market need to ensure that product designs continue to be flexible enough to account for changes in the provider marketplace, and to communicate this flexibility to insureds.

### **ATTITUDES TOWARD RISK AND PAYMENT OF LONG-TERM CARE SERVICES**

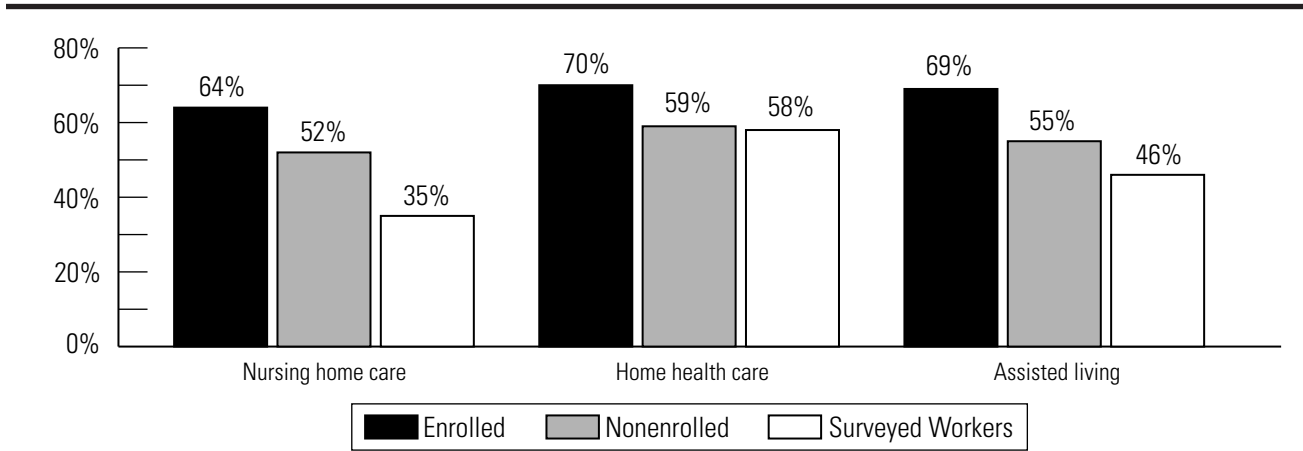
People buy insurance to protect themselves against unknown and potentially catastrophic risks. The theory of insurance suggests that, other things held constant,

the people most likely to buy insurance are those who perceive that the risk of experiencing the insured-for event is “real.” We tested this hypothesis by asking people what they thought were their lifetime chances of requiring care in a nursing home, at home, and in an assisted living facility. Across all service modalities, enrollees believe that they face a greater risk than do the nonenrolled (see Figure 2). This is consistent with findings from the individual market, where buyers consistently cite a perception of higher risks of needing long-term care than nonbuyers. The group with the lowest self-perceived risk of needing long-term care is surveyed workers in the general population. Moreover, surveyed workers assess their risk of needing *home care* services as much higher than nursing home or assisted living, probably a reflection of the desire to receive long-term care at home, rather than in a nursing home. It is important to note that even among the nonenrolled, more than half felt that they were at risk for needing services in one or more of these modalities.

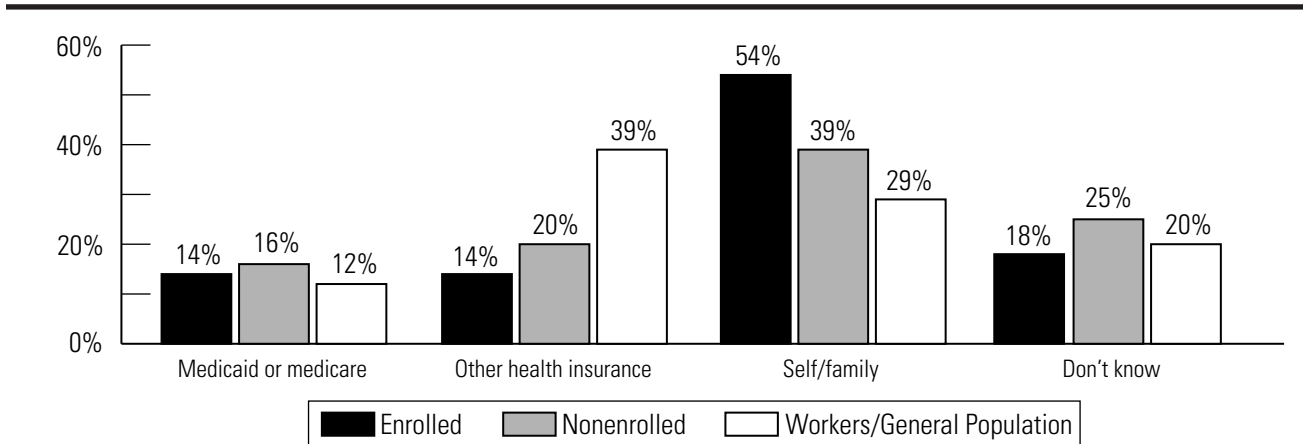
Enrolled employees also have a more accurate view of how long-term care costs would be paid for in the absence of insurance and are more likely to realize that with the absence of insurance they would need to pay for care themselves. They are less likely than nonenrolled employees to indicate that Medicaid, Medicare, or their private health insurance would pay for long-term care. Respondents from the general population had the least accurate knowledge about using their health insurance to pay for long-term care.

All three respondent groups are relatively well informed about public programs. Fewer than one in five believe that they could rely on Medicare or Medicaid to pay for their long-term care services. This is consistent with the earlier finding that both enrolled and nonenrolled groups did not believe that the government would pay for most of the costs of long-term care. Second, the enrolled were significantly more likely to say that they would have to rely on their own income or assets or those of their families to pay for services if they did not have a long-term care insurance policy. About one of every two enrolled employees indicated this would be their payment source, while only about one in three of the nonenrolled said the same.

**Figure 2**  
**Self-Assessment of Greater Than 50 Percent Lifetime Chance**  
**of Needing Long-Term Care Services, by Service Modality**



**Figure 3**  
**Perceptions About Who Would Pay for Long-Term Care**



Source: LifePlans, Inc. analysis of 1,018 enrolled and 315 nonenrolled employees and 460 surveyed workers.

Finally, nonenrolled employees are more likely to say that they do not know how they would pay for long-term care. This is in spite of the fact that they had obtained materials about long-term care insurance. Although not shown in Figure 3, when broken down by age, younger nonenrolled employees are more likely to indicate that they don't know how care will be financed. The proportion declines with age, from 17 percent at ages 65 and higher to 30 percent at ages less than 50. This suggests that, although nonenrolled employees may have requested information about long-term care insurance, they have not yet begun to actively focus on the issue.

One reason that the number of people who have long-term care insurance in general is relatively small is the persistent misconception that other insurance, like private health insurance, covers long-term care services. We see this among employed individuals surveyed from the general population, who are almost twice as likely to indicate that they would use other insurance to pay for long-term care services. This points to the continued need for consumer education, especially for younger people, on differences between coverage for acute and long-term care services.

## GROUP MARKET LONG-TERM CARE INSURANCE POLICY DESIGNS

Typically, people purchasing policies through group plans have a more limited choice of coverage features than do buyers in the individual market. In part, this is because there is little or no opportunity for one-on-one sales assistance in the group market. The plan choices must be simple enough to communicate effectively through written materials or a brief worksite seminar. Many insurers in the employer marketplace feel that keeping plan choices simple is an important factor in achieving higher participation rates. A survey of employers offering long-term care insurance indicated that employee enrollment in long-term care plans was higher at companies that offered policies with fewer choices (HHS, 2000). In many cases, the employer and insurer work together to pare down the choices that are available to potential enrollees to best match policy features with the needs of the population. Therefore, it is not surprising that there is somewhat more homogeneity regarding policy design in the group market.

In the typical group long-term care insurance offering, employees can usually select the daily benefit amount and duration of coverage amounts they prefer. However, other aspects of coverage, such as the elimination period or the services covered under the policy, are usually preselected by the employer from choices the insurance company offers.

The vast majority of policies in the group market are both comprehensive and integrated. They reimburse the costs associated with care provided in both nursing home and home care settings; reimbursements are capped or there is a maximum total benefit amount payable under the policy, regardless of what type of qualified services the claimant is receiving. The slightly higher average benefit amount in the group market, compared to the individual market, probably reflects that younger buyers can afford richer coverage. The purchase of separate specific amounts for home care is usually not an option for buyers in the group market. It is generally preset as a percentage of the nursing home daily benefit. Some plans offer a home care benefit of 50 percent of the nursing home daily benefit, while others may

provide a 60 percent, 75 percent, or 100 percent design. At least one of the plans in the study has a monthly allowance for home care, rather than a daily limit. In contrast, policies in the individual market typically either allow the insured to select any daily benefit amount for home care or offer the same daily benefit amount for all levels of care. This may explain why the home care benefit amount in the individual market is slightly higher than the amount for the group market buyers.

The average elimination period for both markets is about 60 days. While a zero day elimination period is still offered in the individual market, it is not at all typical in the group market. That explains the low percentage of group market buyers with a zero day elimination period, compared to the 23 percent of buyers in the individual market who have this elimination period.

Employees will typically have to choose a nursing home daily (or monthly) maximum and then a policy duration—how long they want the benefits to last. The policy cap or benefit pool for these integrated policies is then calculated by multiplying the nursing home daily benefit amount and the policy duration. The home care daily benefit is chosen as a percentage of the daily benefit amount for nursing home care. This choice of home care percentage can be made by the employer as a part of the basic plan design in an effort to keep premium costs down, or it may be made by the employee from a list of choices offered by the employer. Either way, because the home care daily benefit amounts are less, the duration of coverage will necessarily be longer, given the policy benefit maximum. This is why the average duration for home care benefits in this sample is 1.3 times longer than the duration for nursing home coverage.

Buyers in the group market are more likely to have some type of inflation protection included in their coverage. Typically such provisions either automatically increase daily benefit amounts by a set percentage, say 5 percent, or give individuals the opportunity to upgrade benefits by a set percentage at regular intervals. Finally, a sizeable minority of policies (29 percent) includes nonforfeiture provisions, typically with shortened benefit periods. This enables people who drop their

**Table 3**  
**Policy Design Characteristics in the Long-Term Care Group and Individual Markets**

<b>Policy Characteristics</b>	<b>Group Market</b>	<b>Individual Market</b>
<b>Policy Type</b>		
Nursing Home Only	3%	14%
Comprehensive (Nursing Home & Home Care)	97	77
Home Care Only	—	9
<b>Average Daily Benefit Amount</b>		
Nursing Home	\$124	\$109
Home Care	\$79	\$106
<b>Average Elimination Period (NH &amp; HC)</b>		
	63 days	65 days
0 days	5%	23%
30 days	36	12
60 days	3	6
90 days	56	59
<b>Average Benefit Duration</b>		
	6.3 years*	5.5 years
<b>Nursing Home Duration</b>		
1-2 years	10%	17%
3-5 years	51	48
6-9 years	—	5
10 years to lifetime	39	30
<b>Home Care Benefit Duration</b>		
1-2 years	6%	19%
3-5 years	21	44
6-9 years	21	7
10 years to lifetime	52	30
<b>Percent with Inflation Protection**</b>		
	88%	41%
Simple	—	17%
Compound	40%	22
Future Purchase/Benefit Increase	—	2
Options	48	—
<b>Percent with Nonforfeiture**</b>		
	29%	<1%
Return of Premium	2%	
Shortened Benefit	26	
Other	1	
None	71	
<b>Average Annual Premium</b>		
	\$722	\$1,677

Source: LifePlans, Inc. analysis of 3,212 group market policyholders and 5,407 individual market new buyers.

\*Average benefit durations are calculated based on the total benefit cap and the chosen daily benefit amount. Because home care benefits were typically chosen as a percentage of nursing home benefits, the amount of time needed to exhaust the total benefit pool when using home care benefits is typically greater. For home care benefits, we calculate the average benefit duration to be 7.6 years.

\*\*It is important to note that this represents the percentage of enrollees with these particular policy design features. It is not possible to make a statement about whether the employee chose these options or if they were automatically included in the basic plan design chosen by the employer.

Note: All but one of the participating employers offered long-term care plans on a voluntary basis. Thus, employees were responsible for paying the entire premium if they chose to enroll. Only employees who chose to "buy-up" from the employer-funded base plan were used for comparability.

Note: For the purposes of determining average policy duration, lifetime policy durations were set to 10 years. Elimination periods for the individual market were adjusted to fit the closed categories for the group market. Therefore, for the individual market, 0 days is equal to 0 days, 30 days is equal to 1-30 days, 60 days is equal to 31-60 days, and 90 days is equal to 61-100 days. The average elimination period reported for the individual market is only for nursing home benefits; however, the percentages represent both nursing home and home care benefits.

policies to still obtain benefits for having paid premiums for a certain number of years. However, it is important to note that this percentage includes enrollees who purchased this benefit and those whose policies automatically included some type of nonforfeiture benefits in the basic plan design chosen by their employer. Given the long duration between policy purchase and expected benefit use, the employees who purchased this additional benefit may want to assure that if they drop their policies, they will still receive benefits for having paid premiums for such a long time.

When comparing policy design characteristics in the individual and employer group markets, it is critical to note that there are important demographic differences between buyers in these two markets. Most notable are age and stage-of-life differences that may largely influence the policy design choices that people make. It is also important to note that the plan design selections made by enrollees in the group market are also influenced by the plan choices that the employer made in selecting coverage options to be offered to employees.

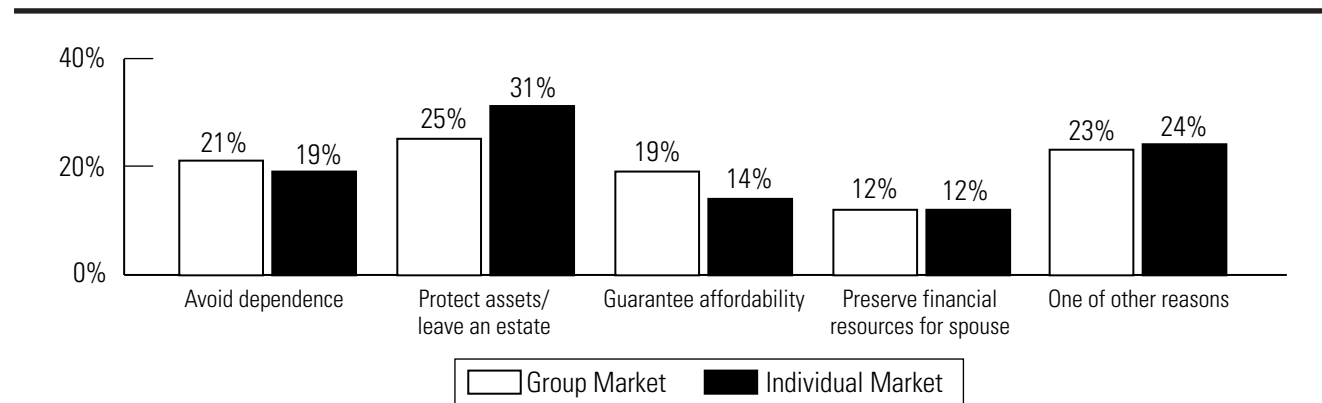
### TO ENROLL OR NOT TO ENROLL: DECISION-MAKING BY EMPLOYEES

We now turn to how employees learned about, and enrolled in, the long-term care plan, and the reasons why some employees chose to enroll in the company sponsored long-term care plan and why some did not.

Employees enrolled in their company long-term care insurance plan for many reasons. One in four employees said that protecting their assets or leaving an estate was the most important reason for enrolling in the long-term care insurance plan. About one in five indicated that avoiding dependence on their spouse or guaranteeing the affordability of services they might need were the most important reasons (see Figure 4). Another 12 percent indicated that they were concerned about preserving their finances for their spouse. The remaining one-quarter cited one of the other nine reasons as most important in their decision to enroll, but no single reason was cited by more than 8 percent of respondents.<sup>2</sup> This suggests that employees are using long-term care insurance to meet multiple objectives, much like new buyers in the individual market. Individual buyers were somewhat more interested in protecting their assets and leaving an estate, perhaps because they were older, more likely to have children, and closer to or in retirement. Overall, having long-term care insurance meets similar objectives for buyers in the individual and group markets.

How did enrollees arrive at the decision? Long-term care insurance is a complicated product. The overwhelming majority of employees (97 percent) indicated that this was (or would be if they enrolled) their first long-term care insurance policy. Thus, it would follow that potential enrollees discussed the issue with others before making a decision. We asked enrolled and nonenrolled respondents to indicate with whom they discussed their decision.

**Figure 4**  
**Most Important Reason for Purchase in the Group and Individual Markets**



Source: LifePlans, Inc. analysis of 1,018 enrolled and 2,728 individual buyers.

Overall, employees who chose to enroll in the plan were more likely to discuss the purchase decision with others than were nonenrollees. This is consistent with other research on the buying process in the group market (Tell, 2000). Employees were most likely to discuss the purchase with a spouse or co-worker (see Figure 5). Less often, they also consulted with an insurance agent or financial planner, the human resource staff at work, or their children.

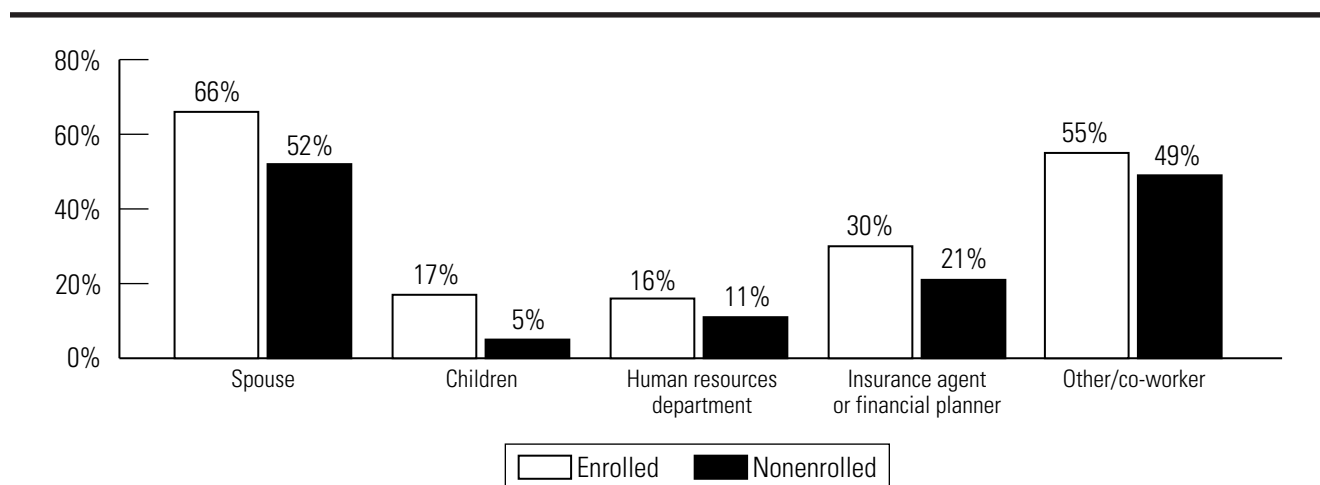
Typically, when a long-term care insurance plan is introduced in the workplace, it is not only offered to active employees, but also to spouses and parents of employees. This is one way to increase participation rates. If, for example, a spouse is offered the chance to enroll in the plan and does, this may influence an active employee's decision about enrollment. To understand this better, we asked employees to tell us who had the most influence on their decision. One-quarter of the respondents indicated that they themselves were the ones to decide whether to enroll in the plan. But of those who indicated that another person had influenced them, the enrollees and nonenrollees said their spouses were the most influential, followed by other relatives, co-workers, or friends (see Figure 6).

The fact that long-term care insurance was offered through the employer also played an important role in

an employee's decision to enroll (see Table 4). The vast majority of employees (82 percent) said that this was an important reason to enroll. Most, if not all, plans offered to employees in the group market are tax qualified under HIPAA. An important issue for public policymakers is whether the passage of HIPAA made a difference. Among those employees who were aware of HIPAA, about half indicated that it was important in their decision to enroll in their company plan. However, about two out of every five employees (38 percent) were not aware of the tax advantages of HIPAA. One explanation may be that employees are not usually offered nontax-qualified policies so they may be less likely to be aware of HIPAA than a buyer in the individual market who may be choosing between tax-qualified and nontax-qualified policies. Also, buyers in the group market are much less likely to be in a position to itemize deductions or have medical expenses that exceed 7.5 percent of their adjusted gross income, so the value of the tax deduction for premium payments is less relevant to them than to older buyers who may be on a fixed income and/or have high medical expenses.

There weren't many differences between the individual and group markets in terms of the reasons for buying or enrolling in a plan. Perhaps the most noticeable difference relates to tax advantages. Employees in the group

**Figure 5**  
**Individuals With Whom Employees Discussed Enrolling in a Long-Term Care Plan**



Source: LifePlans, Inc. analysis of 1,018 enrolled and 315 nonenrolled employees.

Note: Percentages do not add to 100 because respondents could choose more than one answer.

market were less aware of tax legislation regarding long-term care insurance. Among those who were aware, buyers in the individual market were more likely to say that HIPAA played an important role or very important role in their decision to purchase. Also, group market employees seemed to be less likely to indicate that leaving an estate to their family was an important or very important reason for enrolling in the group plan.

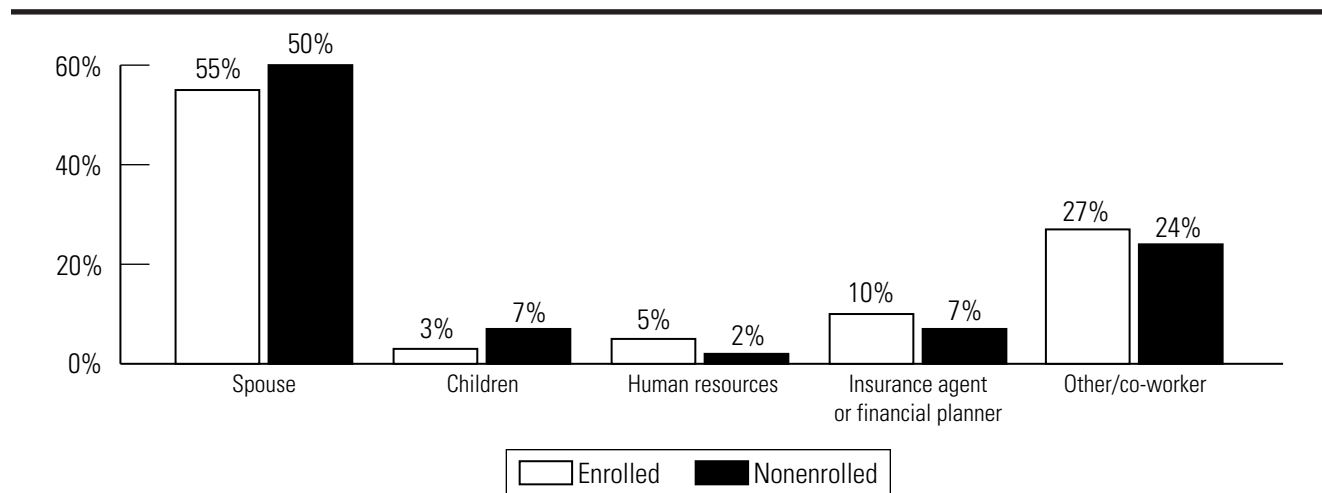
Because long-term care insurance in the workplace is targeted to younger individuals, there is less of an immediate concern about the long-term care issues that motivate people in the individual market to purchase the product. Working-age buyers have more time to amass wealth and plan for retirement, and are further away from the time when they would start thinking about ensuring an inheritance for their children. Therefore, there may be some less tangible reasons why younger people buy long-term care insurance. These reasons may be related to how having a policy makes them *think* and *feel* about their future. We asked enrolled employees to indicate whether they agreed or disagreed with certain statements about having a policy, and discovered that enrolling in an employer-sponsored long-term care plan does provide psychological benefits.

Most of the tremendous psychological benefits of enrolling in a long-term care plan are related to enhanced feelings of security. More specifically, almost all respondents felt that having the insurance not only made them feel more secure about their future, but better about the way they planned to secure that future, and that they had taken appropriate steps to protect their spouse. While not unimportant, a smaller proportion (79 percent) agreed with the statement "...having a long-term care policy makes my children feel good about my retirement planning." This may reflect the fact that these employees have younger children who may not necessarily be concerned with or able to understand the importance of their parent's retirement planning. Thus, the psychological benefits of the insurance relate to the individual and, at most, his or her spouse.

**Reasons Employees Did Not Enroll**

Generally, each employer can decide how involved and supportive it will be in the introduction of long-term care insurance in the workplace. Studies have shown that the nature and extent of employer support can make a difference in employee participation rates (HHS, 2000). On average, "take-up" or participation rates (the number of employees enrolling in the group long-term care

**Figure 6**  
**Most Influential Person in the Decision to Enroll in Long-Term Care**



Source: LifePlans, Inc. analysis of 1,018 enrolled and 315 nonenrolled employees.

**Table 4**  
**Reasons for Insurance Purchase in the Group and Individual Markets**

<b>Reasons for Insurance Purchase</b>	<b>Group Market</b>	<b>Individual Market</b>
<b>Employer-Based Effects</b>		
My employer sponsored the long-term care insurance program and added it to our available employee benefits options.		
Very important reason	35%	Not asked
Important reason	47	
Not very important reason	13	
Not at all important reason	5	
My employer emphasized the importance of planning for long-term care.		
Very important reason	14%	Not asked
Important reason	39	
Not very important reason	30	
Not at all important reason	17	
Many of my co-workers are participating.		
Very important reason	4%	Not asked
Important reason	16	
Not very important reason	39	
Not at all important reason	41	
<b>Minimize Financial Exposure</b>		
The government will not cover the care I may need in the future.		
Very important reason	62%	54%
Important reason	34	40
Not very important reason	3	4
Not at all important reason	1	2
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	76%	71%
Important reason	22	28
Not very important reason	1	1
Not at all important reason	1	—
Long-term care insurance guarantees that I will be able to afford needed services.		
Very important reason	74%	68%
Important reason	25	31
Not very important reason	1	1
Not at all important reason	—	—

**Table 4 (continued)**  
**Reasons for Insurance Purchase in the Group and Individual Markets**

<b>Reasons for Insurance Purchase</b>	<b>Group Market</b>	<b>Individual Market</b>
<b>Protect Family Resources</b>		
Long-term care insurance helps assure an adequate income remains for my spouse if I need costly services.		
Very important reason	59%	62%
Important reason	23	22
Not very important reason	4	4
Not at all important reason	14	13
I want to leave an estate to family/friends.		
Very important reason	36%	43%
Important reason	29	36
Not very important reason	25	17
Not at all important reason	10	5
<b>Enhance Choice and Independence</b>		
Long-term care insurance gives me the freedom to choose the nursing home or home care provider I prefer.		
Very important reason	66%	58%
Important reason	29	37
Not very important reason	4	4
Not at all important reason	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	75%	69%
Important reason	24	28
Not very important reason	1	2
Not at all important reason	—	1
With long-term care insurance, I will not have to depend on Medicaid, the public assistance program for the needy.		
Very important reason	41%	45%
Important reason	41	40
Not very important reason	15	11
Not at all important reason	3	4
<b>Tax Advantages</b>		
Recent tax changes have made premiums for many long-term care insurance policies partially deductible as part of my medical expenses.		
Very important reason	13%	19%
Important reason	20	26
Not very important reason	21	27
Not at all important reason	8	7
I did not know of this tax change	38	21

Source: LifePlans, Inc. analysis of 1,018 enrolled employees and 2,728 new buyers in the individual market.

plan divided by the number of eligible employees) in the employer group market typically range between 6 percent and 15 percent. In comparison, as noted earlier, participation rates for employers in this sample ranged from 2 percent to 20 percent. One of the most basic ways that an employer can be involved is by letting its employees know about the long-term care benefit and by designing a process that makes it easy for employees to learn about and enroll in a plan. Typically there is an enrollment period of about one to three months once a year during which employees can decide if they would like to participate in the plan.

Although the group market is expanding, there still remains a great deal of potential for growth. Increasing the growth rate depends strongly on understanding the reasons why employees choose not to enroll in a com-

**Table 5**  
**Psychological Benefits of a Long-Term Care Insurance Plan**

<b>Having a Long-Term Care Insurance Policy:</b>	<b>Enrolled Employees</b>
Makes me feel more secure about my future.	
Strongly agree	43%
Agree	55
Disagree	2
Strongly disagree	—
Makes me feel that I have planned well for my future.	
Strongly agree	39%
Agree	58
Disagree	3
Strongly disagree	—
Makes my children feel good about my retirement planning.*	
Strongly agree	22%
Agree	57
Disagree	17
Strongly disagree	4
Makes my spouse feel more secure about our future.*	
Strongly agree	38%
Agree	58
Disagree	4
Strongly disagree	—

Source: LifePlans, Inc. analysis of 1,018 enrolled employees.

\*Responses pertain only to those enrollees who have children or are married, respectively.

pany offered long-term care plan. Nonenrolled employees in this sample—much like nonbuyers in the individual market—overwhelmingly cited the cost of long-term care insurance as the most important barrier to enrollment. There were many other reasons why people said they did not enroll, but no other single reason was chosen by more than 9 percent of employees as the most important reason for not enrolling (see Figure 7).

One of the incentives to purchase long-term care insurance at younger ages is the lower premium. The prefunding nature of the product means premiums are typically lowest at younger ages. Even so, those who did not enroll still seemed to think that premiums were too high, even given their relatively high wealth profile. Competing demands on employees' money may explain the high proportion that chose not to enroll. Or, many people do not have an accurate understanding of the costs of insurance relative to the costs of long-term care. Nonenrolled employees (who were younger and less wealthy than enrolled employees) may have more expenses (i.e., children, mortgage, retirement savings, etc.) than those who chose to enroll. This is partially borne out by the fact that nonenrolled employees were significantly more likely to have children living in their homes (37 percent) than enrolled employees (29 percent). Thus, relative to all of their expenses, premiums may not seem so low.

A diversity of reasons exists for employees to choose not to enroll in long-term care plans. Moreover, beliefs about who would pay for long-term care services, or how long-term care services would be financed, while important, were less significant for purchasers in the group market than for individual buyers. In contrast, a larger percentage of nonenrolled employees cited issues related to policy design, and attitudes about the insurance company, as reasons not to enroll. Those employees who did not enroll seemed to be confused about policy design and unsure about the ability of the insurance company to pay benefits. Three out of five respondents indicated that the confusion about which policy was right for them was an important factor in their decision not to enroll. This may reflect plan options perceived as too complex, too many choices, or an employee who is not given enough guidance about policy designs.

This suggests that employers and insurance company representatives might need to work more closely with each other to meet employees' educational needs regarding policy design.

When compared to individual market nonbuyers, nonenrolled employees were 1.3 times more likely to indicate confusion about which policy was right for them. Lack of a positive employer-employee relationship also seems to play a role. Between 23 percent and 29 percent of employees said that they did not enroll because they had been unhappy with their employer's benefit choices in the past or that they were not happy with how the long-term care benefit was presented in the workplace.

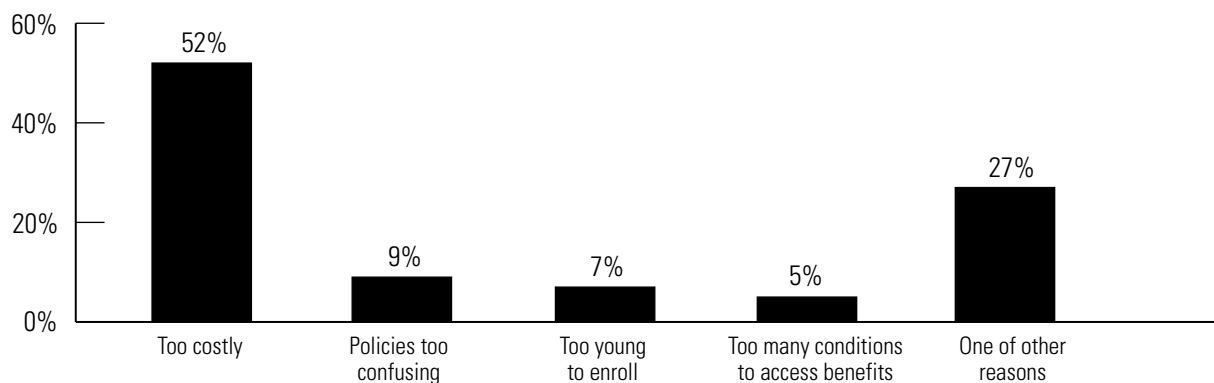
The study of employers offering group long-term care insurance completed by the U.S. Department of Health and Human Services suggested simpler policies *might* increase participation (HHS, 2000). The fact that the policies offered to employees in this study were fairly simple in terms of design and choice, and that three out of five nonenrolled employees still indicated confusion, suggests that, in addition to policy design, other factors may also influence employees. The confusion may be related to the differences between the way information about long-term care insurance is obtained in the individual and group markets. Potential individual market

policyholders typically meet one-on-one with an agent (sometimes more than once) to get their questions answered and to understand the policy. The process in the group market is somewhat different. Generally, enrollment seminars are held at the workplace, and employees can attend if they are interested. These seminars are typically held during open enrollment (generally once a year), and if employees miss the seminar, they can either request information from their human resources department or, in some cases, may call an insurance company customer service number to request information. Therefore, employees have less one-on-one contact with an insurance industry representative. Their learning process about long-term care and insurance is shared with other employees and may be derived solely from the human resources department at their company. Closer partnerships between insurance companies and employers on education-related issues might counteract this. Clearly, improved communication and education should increase participation rates.

***Attitudes and Beliefs About Long-Term Care Among Employees in the General Population***

We also asked employees age 30 to 64 in the general population some of these same basic questions about long-term care risks and cost. At least one-third of the respondents in the general population believe that Medi-

**Figure 7**  
**Most Important Reason for Not Enrolling in Group Long-Term Care Insurance Plans**



Source: LifePlans, Inc. analysis of 315 nonenrolled employees.

Some of these "other" reasons include believing that Medicare will pay for services, thinking long-term care services will not be needed, being unhappy with employers' past benefit choices or how the benefit was presented, etc.

care or Medicaid would pay for long-term care and that their families would take care of them (see Figure 8). A high proportion also believed that they already had insurance that covers long-term care services. Lastly, more than one-third of this sample agreed that they wouldn't need long-term care services. This makes sense since we would expect individuals who had requested enrollment information (whether they bought coverage or not) to have more accurate knowledge about long-term care risks and costs as a result of considering the offer.

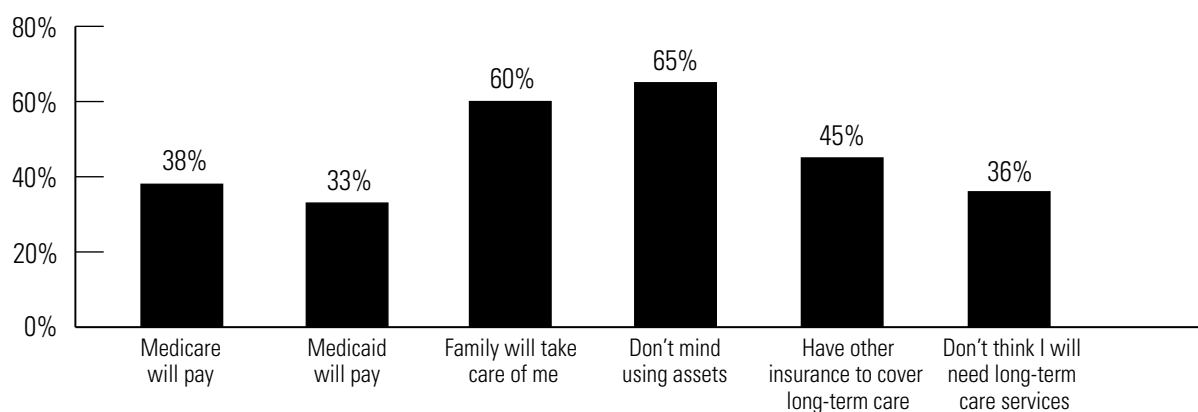
While direct comparisons to the group and individual market samples are somewhat mitigated by the differences in the way the questions were asked, it seems that surveyed employees in the general population were more likely to indicate their willingness to use their own assets to pay for long-term care services, with two out of every three respondents indicating that they did not mind using their savings to pay for long-term care services. This may be because they see less of a risk of needing care and see other sources as also covering the cost (Medicare, health insurance), thus perceiving their own personal financial liability as lower, making them more willing to use some of their own financial resources. Employees in the general population also have the perception that their family will take care of them.

### ***Factors That Would Make the Nonenrolled More Likely to Enroll***

Given recent state and federal action to encourage growth in the private long-term care insurance market (i.e., tax incentives, state and federal employer-sponsored plans, and partnership programs), it is clear that public policymakers are looking toward individuals to take more personal responsibility in the financing of their long-term care needs. They are also looking to insurers to “step up to the plate” and provide attractive products to consumers. While it is important to understand why employees did not enroll in their company long-term care plan, it is equally important to know what factors would make them more interested in enrolling. To begin to understand what role the government might play, what actions employers might take, and how the insurance industry might respond to encourage enrollment in group long-term care plans, we asked nonenrolled employees what might make them more interested in having long-term care insurance.

An important factor that would make nonenrollees more likely to buy coverage would be if their employer made a contribution to the premium cost. Not surprisingly, more than two-thirds (67 percent) of the respondents said that an employer contribution to the policy pre-

**Figure 8**  
**Proportion of Surveyed Employees in the General Population**  
**Agreeing with Financial and Risk Statements About Long-Term Care**



Source: LifePlans, Inc. analysis of 460 employed individuals in the general population.

**Table 6**  
**Reasons for Not Enrolling or Not Purchasing in the Group and Individual Markets**

<b>Reasons for Not Enrolling/Not Purchasing</b>	<b>Group Market</b>	<b>Individual Market</b>
<b>Policy Cost</b>		
Long-term care insurance costs too much.		
Very important reason	40%	54%
Important reason	37	30
Not very important reason	15	10
Not at all important reason	8	6
<b>Policy Design /Attitude About Insurer</b>		
It's too confusing to know which policy is right for me.		
Very important reason	26%	18%
Important reason	34	28
Not very important reason	28	25
Not at all important reason	12	29
I felt that there were too many conditions that had to be met before someone could receive benefits.		
Very important reason	16%	25%
Important reason	35	34
Not very important reason	30	21
Not at all important reason	19	20
I don't believe that insurance companies will pay benefits as stated in the policy.		
Very important reason	13%	15%
Important reason	29	29
Not very important reason	30	27
Not at all important reason	28	29
<b>Financial Exposure</b>		
If I need long-term care services, I believe that Medicare will pay.		
Very important reason	5%	6%
Important reason	15	18
Not very important reason	43	37
Not at all important reason	37	39
If I need long-term care services, I believe that Medicaid will pay.		
Very important reason	5%	9%
Important reason	12	13
Not very important reason	36	29
Not at all important reason	47	49
If I need long-term care services, my family will take care of me.		
Very important reason	3%	6%
Important reason	15	17
Not very important reason	32	30
Not at all important reason	50	47
I don't mind using my own income and assets to pay for whatever care I may need.		
Very important reason	5%	11%
Important reason	20	32
Not very important reason	37	30
Not at all important reason	38	27

**Table 6 (continued)**  
**Reasons for Not Enrolling or Not Purchasing in the Group and Individual Markets**

Reasons for Not Enrolling/Not Purchasing	Group Market	Individual Market
<hr/>		
It is not a priority for me to leave an estate (savings and other assets) to my family/friends.		
Very important reason	8%	Not asked
Important reason	18	
Not very important reason	38	
Not at all important reason	36	
I have other insurance that will pay for long-term care.		
Very important reason	7%	Not asked
Important reason	15	
Not very important reason	26	
Not at all important reason	52	
<hr/>		
<b>Employer-Based Effects</b>		
I have been unhappy with my employer's benefit choices in the past.		
Very important reason	7%	Not asked
Important reason	16	
Not very important reason	35	
Not at all important reason	42	
I was unhappy with the way in which this benefit was presented in my workplace.		
Very important reason	10%	Not asked
Important reason	19	
Not very important reason	28	
Not at all important reason	43	
<hr/>		
<b>Risk</b>		
I don't think I will ever need services.		
Very important reason	3%	10%
Important reason	22	24
Not very important reason	35	39
Not at all important reason	40	27

Source: LifePlans, Inc. analysis of 315 nonenrolled employees and 638 nonbuyers.

mium would make them much more interested in enrolling. Another important factor cited was the option to deduct premium costs from income tax. Almost 60 percent of nonenrolled employees said that this would make them much more interested in a long-term care plan. Nonenrollees also said they would be much more interested in buying coverage if the government would continue to pay for their care after they had used up their private insurance benefits (48 percent) and if they were certain that the premium would not increase over time (51 percent). Having long-term care insurance as part of a cafeteria plan benefit would make 69 percent of nonenrollees more interested. Discounts on services

were also cited by 79 percent of nonenrolled employees as something that would make them more interested in enrolling in their company's long-term care plan. Finally, over one-third of nonenrollees said that they would be much more interested if they knew that they or a spouse would need long-term care.

The nonenrollees in the group market responded more favorably to questions about factors that would make them more interested in buying coverage than did nonbuyers in the individual market. It seems that in general, employees are more receptive to purchasing a policy, albeit not at the present time, if certain key fac-

tors are addressed. The only factor that nonenrolled employees in the group market indicated would not make them more interested in a plan was the ability to use 401(k) or IRA funds to pay for premiums. It may be that these younger employed individuals are thinking about these vehicles for income replacement, whereas nonbuyers in the individual market may be closer to—or at—retirement, and know that they can use a certain portion of their savings for long-term care insurance premiums and still have enough to provide them with sufficient retirement income.

When nonenrolled employees were asked specifically which factor would make them *most interested* in enrolling in a long-term care plan, more than one-third indicated that tax deductibility (regardless of itemization) would have the most influence (see Figure 9). Premium stability was cited by 13 percent of respondents as most important. Given that many of these enrollees would need to pay premiums in excess of 30 years before they accessed benefits, the desire for rate stability is certainly reasonable. Not shown in the figure is the fact that younger employees (those below age 50) were more likely to cite premium stability as the factor that would make them more interested in enrolling.<sup>3</sup>

Nonbuyers in the group and individual markets differ somewhat regarding the single most important change that would make them more interested in having long-

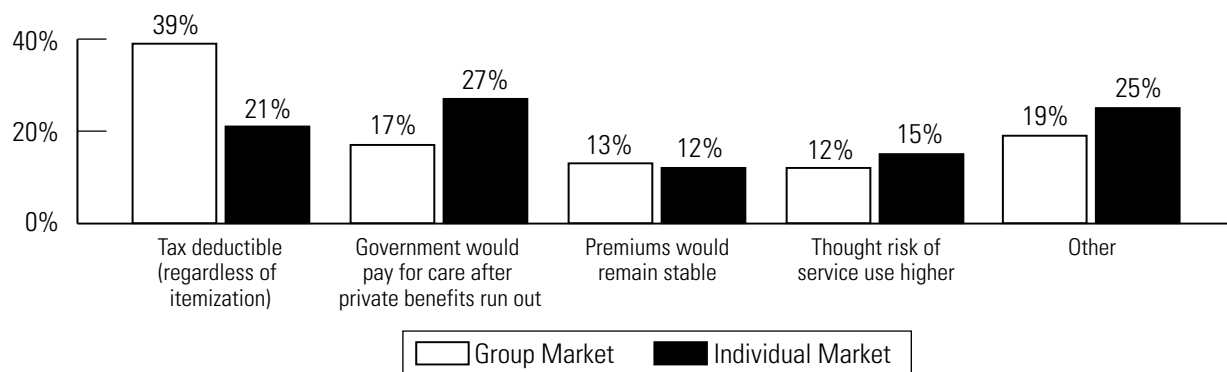
term care insurance. A little more than one-quarter of nonbuyers in the individual market cited a government “stop-loss” program, that is, a program where the government would continue to pay for care after private benefits were exhausted, as the single action that would make them more interested, whereas only one in eight nonenrolled employees cited this action as something that would make them more interested in enrolling.

It is noteworthy that actions designed to reduce product cost, whether initiated by government, employers, or the insurer, are viewed as the most important factor influencing the enrollment decision. Product quality is not cited nearly as frequently. This suggests that the positive marketing effect of investing in product enhancements that lead to premium increases may be more than offset by employees’ negative reaction to increases, and that attention needs to be focused on strategies to reduce premiums or to enhance the value that insureds see in that premium cost.

### WILLINGNESS TO PAY FOR GROUP LONG-TERM CARE POLICIES

How much would nonenrolled employees be willing to pay for a policy that meets their needs? On average, those who did not enroll would be willing to pay about \$40 per month, or \$480 per year, for a long-term care insurance policy (see Figure 10). This is about two-thirds

**Figure 9**  
**Most Important Factor That Would Lead Nonenrolled Employees to Enroll in Group Long-Term Care Plan**



Source: LifePlans, Inc. analysis of 315 nonenrolled employees and 638 nonbuyers.

Note: Nonbuyers in the individual market were not asked questions pertaining to employer actions.

**Table 7**  
**Factors That Would Make Nonenrolled Employees and Nonbuyers More Interested in Enrolling/Purchasing Long-Term Care Insurance**

Factors Influencing Potential Enrollment/Purchase	Group Market	Individual Market
<b>Government Actions</b>		
If I could deduct premiums from my income tax regardless of whether I itemize, I would be . . .		
Much more interested	59%	37%
More interested	36	44
Not more interested	5	10
Not at all interested	—	9
If the government would continue to pay for care even after I used up my private insurance benefits, I would be . . .		
Much more interested	48%	33%
More interested	33	45
Not more interested	15	15
Not at all interested	4	7
If the government sponsored a long-term care plan for its employees, I would be . . .		
Much more interested	23%	14%
More interested	33	29
Not more interested	37	33
Not at all interested	7	24
<b>Employer Actions</b>		
If my employer offered a policy that better met my needs, I would be . . .		
Much more interested	28%	Not asked
More interested	52	
Not more interested	19	
Not at all interested	1	
If my employer paid a portion of the premium, I would be . . .		
Much more interested	67%	Not asked
More interested	27	
Not more interested	5	
Not at all interested	1	
If having a policy were offered as part of a cafeteria plan, I would be . . .		
Much more interested	26%	Not asked
More interested	43	
Not more interested	24	
Not at all interested	7	
<b>Industry Actions</b>		
If I were certain that the premiums that I paid would not increase over time, I would be . . .		
Much more interested	51%	29%
More interested	41	50
Not more interested	7	14
Not at all interested	1	7
If I could obtain discounts on the cost of services covered by the policy, I would be . . .		
Much more interested	30%	21%
More interested	49	52
Not more interested	19	20
Not at all interested	2	7

**Table 7 (continued)**  
**Factors That Would Make Nonenrolled Employees and Nonbuyers More Interested**  
**in Enrolling/Purchasing Long-Term Care Insurance**

Factors Influencing Potential Enrollment/Purchase	Group Market	Individual Market
<b>Other Actions</b>		
If I thought there was a good chance that my spouse would need long-term care services, I would be...		
Much more interested	34%	20%
More interested	40	48
Not more interested	23	24
Not at all interested	3	8
If I could use funds from an IRA or 401(k) to pay premiums, I would be...		
Much more interested	14%	11%
More interested	22	32
Not more interested	44	33
Not at all interested	20	23

Source: LifePlans, Inc. analysis of 315 nonenrolled employees and 638 nonbuyers.

of what the average enrolled employee pays for a policy in our sample. Interestingly, only 1 percent of all nonenrolled employees responded that they would not buy a policy, regardless of the cost.

In fact, when asked if they plan to enroll in a group plan or buy a long-term care insurance policy at some time in the future, 50 percent of nonenrolled employees indicated that they would do so (see Figure 11). Taken together, these findings suggest that there is still a great deal of potential opportunity among the nonenrolled employees in the group market. About 6 percent of nonenrolled employees stated that they did not plan to enroll.

Given that premiums are a function of, and very sensitive to, the age of the purchaser, the key issue to explore on an age-adjusted basis is the relationship between the amount that a nonenrolled employee is willing to spend and what is currently paid by enrolled employees in the market. Between 17 and 47 percent of nonenrolled employees would be willing to pay the premium for a policy that meets their needs (see Table 8). As shown, as the age of the nonenrolled employee increases, the willingness to pay the associated premium

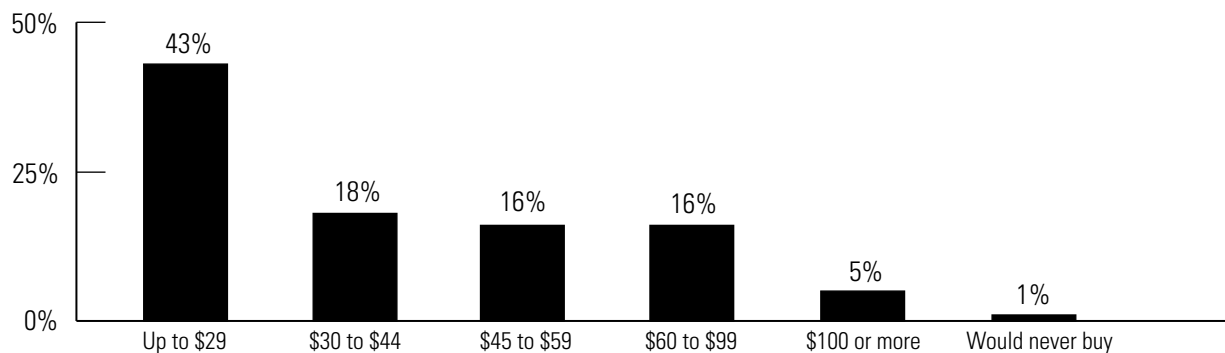
decreases. This is expected, given that premiums increase with age. These findings suggest that one of the biggest opportunities for increasing enrollment is among younger employees where price is less of an issue.

There are a number of possible strategies for reducing policy premiums or, alternatively, enhancing the perceived value of the policy relative to its price. These may include offering plan design changes to incorporate less costly options, savings through list billing opportunities, or linkages with provider networks for service discounts. Active care coordination, preventive care strategies, and programs to help consumers evaluate and choose providers may also serve to make the product more attractive.

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

We sought to understand the attitudes and opinions of both enrolled and nonenrolled employees regarding public and private financing roles. We also surveyed employees from the general population to solicit their opinions.

**Figure 10**  
**Willingness of Nonenrolled to Pay Monthly Premiums for Policy That Would Meet Their Needs**

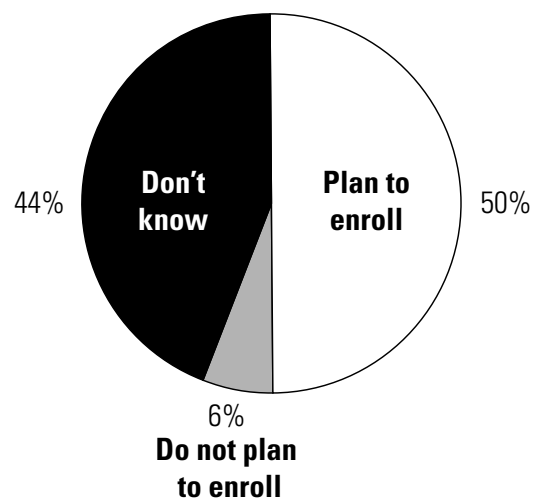


Source: LifePlans, Inc. analysis of 315 nonenrolled employees.

An individual's attitudes and beliefs about the government's role in financing long-term care can influence thoughts and decisions about private long-term care insurance. The extent to which people believe it is the government's or private sector's responsibility to provide financing for long-term care services can have a profound impact on the growth of the long-term care insurance market. For instance, if people believe that the government will or should provide coverage for long-term care, they are unlikely to see the merit in purchasing a long-term care insurance policy. However, if people have little confidence that the government or private sector will make provisions for their future long-term care needs, they will be more likely to take personal responsibility for financing their potential care. The current tenor of the public policy environment and recent actions by Congress—HIPAA and the federal employee long-term care insurance program in particular—suggest that the role of the private insurance sector in financing long-term care is likely to grow.

Not surprisingly, enrolled employees were less likely to believe that the federal government is responsible for financing long-term care. Moreover, the majority of both enrolled and nonenrolled employees, as well as workers from the general population, do not believe the government should or will pay for long-term care services. In fact, across all three survey samples, the vast majority of respondents believe that individuals will have to rely on themselves to plan and pay for long-term care. In addition, enrolled employees are twice as likely

**Figure 11**  
**Proportion of Nonenrolled Employees Indicating They Would Enroll or Purchase Long-Term Care in the Future**



Source: LifePlans, Inc. analysis of 315 nonenrolled employees.

as both nonenrolled employees and respondents in the general population to agree that private insurance companies provide products that are a good value for the money, and buyers in the individual market are more confident about policy value than nonenrolled employees. (Although still a minority, buyers and nonbuyers in the individual market were about one-third more likely to believe that their state or federal government will have a new long-term care insurance program within the next 10 years than their enrolled and nonenrolled counterparts in the group market.)

In addition to understanding the attitudes of employees about the government's role in financing long-term care, we asked what was the single most important action the government should take in the area of long-term care (see Figure 12). The most common action was expanded tax incentives for the purchase of private insurance. As shown earlier, a large proportion of employees in the group market were unaware of current tax incentives. Therefore, one way to encourage participation among the nonenrolled—of whom half cited this as the most important thing the government could do—is to make them more aware of HIPAA and current tax legislation designed to provide an above-the-line deduction for long-term care insurance premiums.

Enrolled employees and employees in the general population also seem to be concerned about provider quality. Compared to nonenrolled employees, the enrolled were 2.5 times more likely to want the government to assure the quality of providers. About one in seven employees in the general population indicated that information on the risk of needing long-term care and possible payment options is critical: This should encourage insurers and consumer organizations to continue their educational campaigns regarding long-term

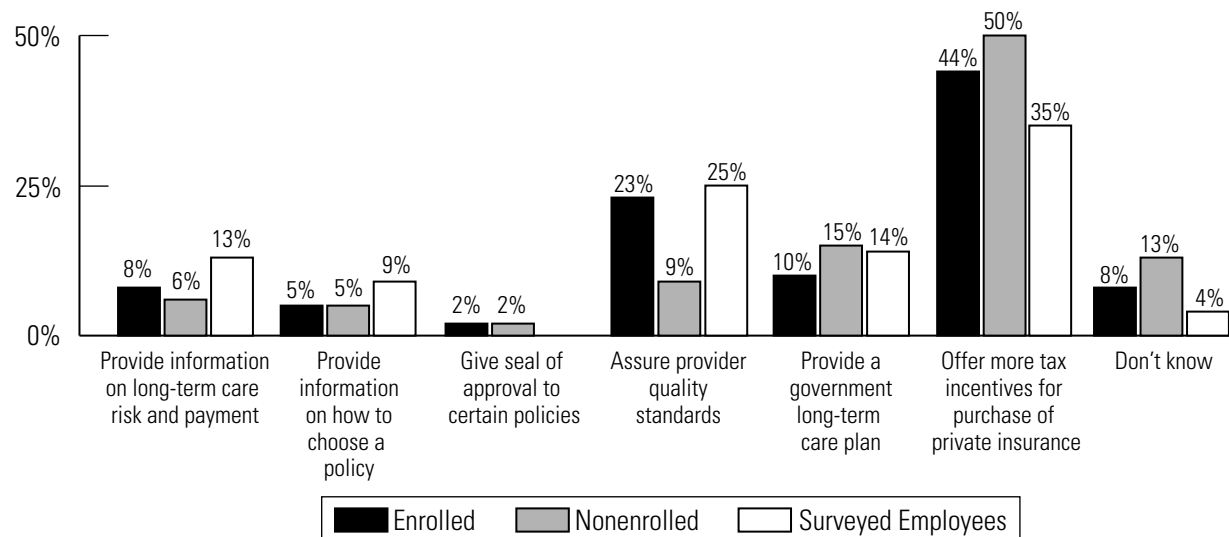
**Table 8**  
**Percentage of Nonenrolled Willing to Pay Average Monthly Premiums Paid by Enrolled Employees**

Age Group	Average Monthly Premiums Paid	Percentage of Nonbuyers Willing to Pay Monthly Premiums
All ages	\$60	29%
Less than 40	\$22	47%
40 to 44	\$37	47%
45 to 49	\$46	47%
50 to 54	\$57	33%
55 to 59	\$80	28%
60 to 64	\$105	20%
65 and over	\$113	17%

Source: LifePlans, Inc. analysis of 1,018 enrolled and 315 nonenrolled employees.

care and perhaps to concentrate on younger employed individuals.

**Figure 12**  
**Single Most Important Action Government or Private Sector Should Take**



Source: LifePlans, Inc. analysis of 1,018 enrolled and 315 nonenrolled employees and 460 surveyed workers.

**Table 9**  
**Attitudes About Government and Private Sector Roles in Financing Long-Term Care**

<b>Opinions About Financing Long-Term Care</b>	<b>Enrolled</b>	<b>Nonenrolled</b>	<b>Surveyed Employees 30–64</b>
It is the federal government's responsibility to pay for the long-term care needs of all people.			
Strongly agree	6%	11%	8%
Agree	18	25	31
Disagree	54	44	47
Strongly disagree	22	20	14
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.			
Strongly agree	32%	29%	19%
Agree	61	56	67
Disagree	7	13	13
Strongly disagree	—	2	1
In the next 10 years, my state or the federal government will have a new long-term care program to pay for all individuals.			
Strongly agree	2%	5%	2%
Agree	16	19	24
Disagree	63	55	58
Strongly disagree	19	21	16
It is the federal government's responsibility to encourage people to buy long-term care insurance by allowing premiums to be fully tax deductible, whether or not one itemizes.			
Strongly agree	48%	47%	22%
Agree	37	35	63
Disagree	12	13	12
Strongly disagree	3	5	3
Private insurance companies provide long-term care products that are a good value for the money.			
Strongly agree	7%	4%	5%
Agree	59	31	43
Disagree	31	56	46
Strongly disagree	3	9	6

Source: LifePlans, Inc. analysis of 1,018 enrolled and 315 nonenrolled employees and 460 surveyed workers.



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# CONCLUSIONS



Results from this study show that there is great potential for growth in the group long-term care market. Half of all employees who are not currently enrolled in their company plan indicated that they plan to enroll or purchase long-term care insurance at some time in the future. Compared to the general population, nonenrolled employees seemed to have a more accurate understanding of coverage for long-term care by public financing programs, as well as a belief that they were at risk for needing long-term care services. Taken together, these findings point to the potential for tremendous growth in the group market.

The group market seems to be facing many of the issues today that the individual market dealt with over the last decade—confusion about products, skepticism regarding insurer reliability, and concerns with premium stability. The average employee enrolling in a company long-term care plan in this sample is a 50-year-old, married, college-educated person. The average age at which a person is likely to use a long-term care insurance policy is about 80. Because they can anticipate paying their premiums for a minimum of 25 to 30 years before they file a claim, it is understandable that they are concerned about insurance product quality and premium stability. Moreover, there are many product innovations and services that are included in policies today that were not available 10 or even five years ago, and employees are wondering if policy designs will be appropriate when they need them.

There are many who hope the employer group market will help to increase the number of people who are covered by long-term care insurance. Indeed, employ-

ers have a critical role to play in helping employees learn about long-term care risks and financing and giving them access to long-term care insurance products. There is still much to do in this area. Much like the individual market in the past, it is necessary to provide more education to employees—particularly at younger ages—about long-term care insurance and product design. One interesting finding here was the amount of confusion about policies that occurred among employees who did not enroll in their company plan. This high degree of confusion points to an increased need for partnerships between employers and insurance companies, as well as a more active role taken by employers to help educate their employees about long-term care and about the particular plan offered in the workplace. This is important to do on an on-going basis and not just during open enrollment periods.

The decision to enroll in a group plan is usually made with the help of a spouse or other relative, friend, or co-worker, and is made to meet multiple objectives. For these employees, asset protection and financial independence were among the most important reasons to enroll. Taken together with the fact that additional tax incentives is seen by both enrolled and nonenrolled employees as the most significant action that the government should take suggests strong support for an above-the-line tax deduction for long-term care insurance premiums.

Purchasing a long-term care insurance policy at a relatively young age requires a great deal of knowledge and education about long-term care needs in general, and insurance in particular, as well as confidence in the

insurer and product. Designing policies that can keep pace with the rapidly changing service delivery environment as well as the desires of individuals to receive care in more “home-like” settings is a difficult challenge. Yet, for the product to gain more widespread accep-

tance, insurers will have to find innovative and creative ways to meet this challenge. Only when this careful balance has been reached can one expect greater numbers of workers to consider and enroll in long-term care insurance programs.

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# NOTES



- <sup>1</sup> Under the Health Insurance Portability and Accountability Act (HIPAA) of 1996, the tax advantages associated with the purchase of accident and health insurance were extended to long-term care insurance. This means that individuals who itemize and whose total medical expenses (including long-term care insurance premiums) exceed a threshold of 7.5 percent of adjusted gross income can deduct the excess. Moreover, HIPAA stipulated that benefits received under long-term care contracts would be excluded from income and that employer contributions for the purchase of long-term care insurance also would be excluded from income. The changes were intended to encourage growth in the market for long-term care insurance.
- <sup>2</sup> Some of the other reasons included avoiding dependence on Medicaid, having the freedom to choose providers, employer encouragement, and the fact that co-workers were participating.
- <sup>3</sup> For comparative purposes, the reason “if an employer paid a portion of the premium” was removed from this figure. When viewing the group market alone, employer contribution to premium was chosen by one-third of nonenrolled employees as the most important factor for them to consider enrolling.