

Who Purchases Long-Term Care Insurance?

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Most Americans will eventually need long-term care, which is often expensive and not usually covered by public programs until care recipients have nearly exhausted their savings. Yet, relatively few Americans purchase private long-term care insurance, exposing many families to potentially high out-of-pocket costs.

What Is Long-Term Care?

Long-term care encompasses a wide range of services for people who need regular assistance because of chronic illness or physical or mental disabilities. It can include skilled nursing care, but it consists primarily of help with basic activities of daily living (such as bathing, eating, and dressing) and with tasks necessary for independent living (such as shopping, cooking, and housework).

Most long-term care is provided informally by family members and friends (Johnson and Wiener 2006). Some people with disabilities receive assistance at home from paid helpers, including skilled nurses and paraprofessional nursing and home care aides. Nursing homes are increasingly viewed as a last resort for people who are too disabled to live in the community.

How Many Americans Need Long-Term Care?

In 2009, 10.0 million Americans age 18 and older living in the community (not in institutions) had long-term care needs, including 5.2 million adults age 65 and older and 1.7 million age 85 and older. Those with long-term care needs accounted for 14 percent of the community-dwelling population age 65 and older and 38 percent of those age 85 and older.¹

Another 1.8 million adults lived in nursing homes, including 1.6 million adults age 65 and older and 800,000 age 85 and older.²

Many more Americans, however, will develop disabilities at some point in their lives. According to one study, about 7 in 10 65-year-olds will eventually need long-term care (Kemper, Komisar, and Alexih 2005).

How Much Does Long-Term Care Cost?

The cost of long-term care services, especially nursing home care, can be staggering. In 2010, the private-pay rate for a semiprivate room in a nursing home averaged \$205 per day, or about \$75,000 per year, and the hourly private rate for home health aides averaged \$21 (MetLife Mature Market Institute 2010).³ The typical home care recipient who receives 15 hours of care per week (Johnson and Weiner 2006) would pay about \$16,000 per year.

Long-term care costs totaled \$240 billion in the United States in 2009 (Kaiser Commission on Medicaid and the Uninsured 2011). Much of the costs were picked up by the federal and state governments, with Medicaid covering 43 percent and Medicare 24 percent, but these programs do not insulate families from high out-of-pocket spending. Medicaid covers care only for those who meet strict income and asset tests, forcing many people with long-term care needs to deplete nearly all of their wealth to qualify for coverage. Medicare covers only skilled home health visits and temporary stays in skilled nursing facilities that follow hospitalizations. It does not cover any nonmedical home care.

What Is Private Long-Term Care Insurance?

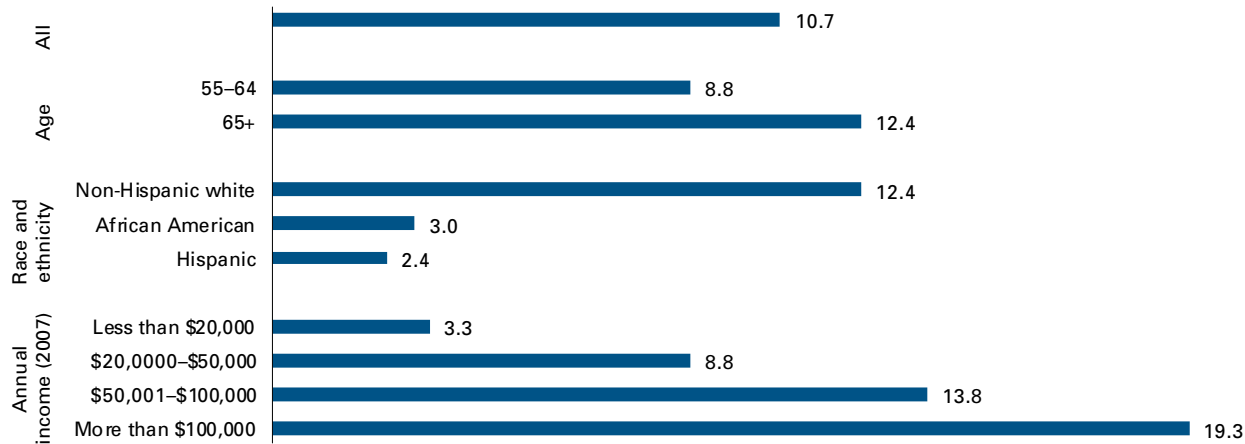
Like traditional medical insurance, private long-term care insurance is a financial contract whereby the insurer agrees to provide covered benefits in exchange for regular premium payments by the policyholder. Policies may cover a wide range of services, including nursing home stays, home care, adult day care, and assisted living. Coverage may be purchased through either the individual or the group market. Group plans are typically sponsored—but not subsidized—by employers. Individual policies continue to dominate, but employer-sponsored plans are growing.

Policyholders cannot collect benefits until their disabilities reach the levels specified in their contracts. Most plans require that beneficiaries need substantial assistance with at least two activities of daily living and that their disabilities are expected to last at least 90 days, or that they need regular supervision because of severe cognitive impairment. Policies specify how much they will pay for each day of care and for how long. Benefit amounts often increase over time, to provide policyholders with some protection against inflation. Most plans also delay the provision of benefits after the onset of a qualified disability (known as the elimination period).

Premiums depend on benefits and the policyholder's age and health at the time of issue. Annual premiums increase rapidly with age at issue, and those applicants with health problems are sometimes denied coverage. Policies are guaranteed renewable, and rates cannot increase because health declines. However, premiums can rise for an entire class of policyholders if insurers can demonstrate that their claims exceed premium revenue.

Private insurance remains relatively rare among those with long-term care needs, covering only 7 percent of total long-term care costs in 2009 (Kaiser Commission on Medicaid

Figure 1. Percentage of Adults Age 55 and Older with Private Long-Term Care Insurance, 2008



Source: Authors' calculations from the 2008 Health and Retirement Study (HRS).

Note: Estimates are restricted to adults living in the community (not in nursing homes).

and the Uninsured 2011). Nearly a fifth of total costs were paid out of pocket by families.

Who Has Private Long-Term Care Insurance?

In 2008, 7.6 million Americans age 55 and older had private long-term care insurance coverage, accounting for 10.7 percent of adults in this age group (figure 1).⁴

- Among adults age 65 and older, 12.4 percent (or 4.8 million adults) had coverage.
- Only 3.0 percent of African Americans age 55 and older and 2.4 percent of Hispanics were covered by private long-term care insurance.
- Coverage rates increased with income, reaching 19.3 percent for those whose annual incomes exceeded \$100,000.

Although coverage rates remain relatively low, they have recently increased somewhat. In 2002, 9.1 percent of Americans age 55 and older had private long-term care insurance coverage, including 10.3 percent of those age 65 and older.⁵

Notes

1. These estimates are from the National Health Interview Survey, a nationwide household survey fielded each year by the U.S. Census Bureau for the National Center for Health Statistics. We classify adults as having long-term care needs if they report needing the “help of other persons with personal care needs, such as eating, bathing, dressing, or getting around inside this home,” or “in handling routine needs, such as everyday household chores, doing necessary business, shopping, or getting around for other purposes” because of a physical, mental, or emotional problem.
2. These estimates are from the American Community Survey, a nationwide household and institutional survey conducted each year by the U.S. Census Bureau. They are annual averages from 2005 to 2009 (U.S. Census Bureau 2010).

3. Genworth Financial (2010) estimates the average 2010 rate for a semi-private room in a nursing home at \$185 per day or \$68,000 per year, somewhat lower than the MetLife estimate.
4. These estimates are from the 2008 Health and Retirement Study (HRS), a large national survey of older Americans conducted by the University of Michigan with primary funding from the National Institute on Aging. The survey asks respondents if they have any long-term care insurance, not including government programs, that “specifically covers nursing home care for a year or more or any part of personal or medical care in your home?” Because many respondents appear to confuse long-term care coverage with traditional medical insurance, a follow-up question distinguishes between them. We classify those who say their long-term care policy is the same as their traditional medical insurance as *not* having long-term care insurance.
5. These estimates are from the 2002 HRS.

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