

Who Buys Long-Term Care Insurance?

A 15-Year Study of Buyers and Non-Buyers, 1990-2005

April 2007

Prepared for America's Health Insurance Plans by LifePlans, Inc.



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EXECUTIVE SUMMARY

Beginning in 1990, America's Health Insurance Plans (AHIP) has conducted a series of studies, updated every 5 years, relating to the purchase of long-term care (LTC) insurance. Why do some individuals choose to buy LTC insurance, while others forgo this protection? What attitudes about insurance, government, and family responsibility influence decisions? What do consumers know about LTC insurance? What could government do to encourage more people to purchase LTC coverage for their families and for themselves?

Findings for "buyers" of LTC insurance are compared in our work with findings for a sample of "non-buyers"—individuals who chose not to purchase LTC after they had contact with an agent or attended a sales seminar where they were presented with the details of a policy. Findings for buyers of LTC are also compared with a sample of "other Americans" 50 and over from the general population who did not have contact with an agent or attend a sales seminar.

Our study included 10 companies who together represent more than 80 percent of all LTC insurance purchased in 2005. Our sample includes 1,274 purchasers of LTC insurance and 214 non-buyers, as well as design information on 8,208 policies. In addition, 500 individuals age 50 and over were surveyed from the general population.

Who Buys Long-Term Care Insurance in 2005 highlights important trends in consumer attitudes and the LTC market. Our goal is to help the industry overcome obstacles and take advantage of opportunities as the need for LTC coverage to protect the health and financial well-being of our population continues to grow.

MAJOR FINDINGS

Policies purchased by consumers today provide broader coverage.

- The proportion of policies that cover both institutional care and home care has grown from 37 percent in 1990 to 90 percent in 2005. Virtually all policies sold in 2005, 97 percent, cover home care. Data suggest that "nursing home only" policies appeal to buyers who are older, have lower incomes and fewer assets, and are no longer working.
- Between 2000 and 2005, the average daily home care and nursing home benefits have increased by around 30 percent, more than keeping pace with inflation.
- Over three-quarters of policyholders chose some form of inflation protection in 2005, up from less than half in 2000.
- LTC premiums have remained stable over time. (They
 declined in the late 1990's and increased subsequently
 between 2000 and 2005 commensurate with the increase
 in policy value over that 5-year period.)
- Given that the policies purchased by consumers today provide broader coverage than they did in 1995, this means that consumers are receiving better value for their premium dollars today.

The average age of policyholders is getting younger.

- The average age of individuals who purchase LTC insurance has been getting younger, from 68 years in 1990 to 61 years in 2005. It is interesting to note that the "non-buyers" in our survey—those who forgo purchasing LTC coverage—are somewhat older, and, in addition, are less likely to be employed, have lower incomes, and have fewer assets than buyers.
- The proportion of buyers younger than 65 has almost tripled from 1990 to 2006, growing from one-fourth to two-thirds of all individual LTC insurance buyers. This

- suggests an increase in understanding of the need for this form of protection.
- Being a "planner"—one who believes that it is important
 to plan for the possibility of needing services—is associated
 with the purchase of LTC insurance. Consistently,
 purchasers of LTC coverage are almost twice as likely to
 strongly agree with the statement "it is important to plan
 now for the possibility of needing LTC services" than those
 who forgo purchase of LTC insurance.

There is a great opp ortunity for consumer education related to LTC.

- Individuals who forgo purchase of LTC coverage are more likely than buyers to underestimate the cost of nursing homes in their areas. While only 14 percent of those who purchase LTC underestimate the cost of nursing home care, 70 percent of non-buyers believe that nursing home care costs less than it actually does.
- In addition, buyers typically perceive the risk of needing nursing home services to be higher than do non-buyers.
- Only 30 percent of non-buyers stated that they do not plan to buy LTC insurance at all, while 56 percent remain undecided about whether to buy. This would seem to point to a large potential market for LTC insurance and an opportunity to provide information about the value of LTC protection.
- Between 14 and 25 percent of non-buyers would, under the right circumstances, be willing to pay the premium level for policies being sold to their age group.
- Most purchasers (65 percent) did not know whether or not they had tax-qualified policies. In addition, over half of buyers did not know of the potential tax benefit associated with the purchase of LTC insurance. Many companies only offer tax-qualified policies to new buyers and therefore the issue of whether one's policy is tax-qualified or not may not be discussed at the time a policy is sold.

- Two-thirds of individuals 50 and over are aware of companies that offer LTC insurance, up from just two in five in 1995. Moreover, 43 percent of those 50 and over in the general population sample of our survey have had contact with a company that offers LTC insurance.
- Non-buyers are twice as likely to believe that "the government will pay for most of the costs of LTC, if services are ever needed" than purchasers of LTC.
- Individuals age 50 and over from the general population were most likely to believe that the government will pay for LTC.

Consumers weigh many options in their decision to purchase or not purchase LTC coverage.

- While individuals who forgo purchase of an LTC policy continue to cite cost as the most significant barrier to purchase, they also cite lack of understanding about the need for LTC, confusion about what the government c overs, and lack of knowledge about LTC companies and products.
- While people continue to purchase LTC insurance for multiple reasons, in 2005, the single most important reason for purchase was to protect assets. This is consistent with the observation that, as younger buyers purchase policies, they view LTC protection as part of a broader retirement planning process.
- For most of the "buyers" in our survey, this was a first-time purchase of LTC insurance. Only 13 percent were either replacing a previous policy or adding to an existing policy. Among married couples who have purchased a policy, 79 percent have a policy for each spouse.
- For the most part, people do not decide to purchase LTC coverage on their own. In addition to the insurance agent, other people contribute to the discussion. Spouses, followed by agents and financial planners, were cited as having the most influence on the decision. Only rarely do adult children take an active role in the purchase decision.
- The agent's recommendation and the insurer's reputation are the reasons most often cited for the purchase of a particular company's policy.
- The overwhelming majority of buyers and non-buyers alike agreed that their agents were knowledgeable, adept

- at explaining the available coverage options, and good listeners. They also believed that agents recommended the policies best suited to their needs.
- Evaluating an LTC policy appears to have become an
 easier process over time as more individuals find the
 process and information presented to be clear and believe
 they are in a good position to determine which policy is
 right for them.
- About half of non-buyers indicated that uncertainty about purchasing a policy designed to cover services that may be needed at some time in the distant future contributed to the decision to forgo coverage. Close to one-quarter said concerns about rate increases factored greatly into their decision making.
- Few in the survey used the Internet to gather information during their decision making process. Those who did used it to gather information about LTC in general and to decide what coverage to purchase, not to find an agent. Among those in the general population, many would use the Internet to research a variety of LTC related topics, including LTC and LTC companies, different plan designs and premiums, and Medicare and Medicaid coverage for LTC services.

Establishing parity between the tax treatment of acute expenses and LTC expenses could encourage more individuals to purchase LTC protection.

- The single most important step government could take to encourage the purchase of LTC coverage is to offer tax incentives. More than 80 percent of those who currently forgo purchase of LTC insurance would be more interested in buying a policy if they could deduct premiums from their taxes.
- There is consensus that it is not the responsibility of the federal government to pay for the LTC needs of everyone without regard to personal resources, and a belief that individuals need to assume greater responsibility for their LTC needs.
- Most Americans over 50 do not believe the government will develop a new LTC program in the next 10 years.

INTRODUCTION

Over the 15-year period between 1990 and 2005, there have been dramatic changes in purchase patterns among buyers of LTC insurance. The profile of a "typical" buyer in 2005 looks very different from a "typical buyer in 1990. The types of policies being purchased by individuals in 2005 vary significantly from those purchased in 1990. In the following pages, we focus on purchase trends over the past 15 years and the reasons why individuals choose to buy, or not to buy, policies. These choices reflect attitudes about insurance and the role of government, the available public and private options, prices, knowledge about LTC, views about family responsibility, and more.

We focus on 1990 as a starting point, because it was then that America's Health Insurance Plans (AHIP)¹ conducted the first comprehensive study of buyers and non-buyers of LTC insurance. At that time, roughly 1.9 million policies had been sold to individuals age 55 and over and the number of policies in force was roughly 1.2 million. Since then, the market has increased significantly. By 2005, roughly 5 million policies were in-force in the individual market. Moreover, the group market, which barely existed at that time, now boasts up to 2 million certificates in force. Recent analysis shows that among Americans who are 65 years old and older and have incomes greater than \$20,000, 16 percent have LTC insurance.² Thus, with premiums in excess of \$7 billion, many contend that LTC insurance is now more a part of the mainstream of the health insurance world.

While there has been significant growth and change in the LTC insurance market, there have also been fairly dramatic changes in the more general LTC landscape. Some of the most important trends are occurring in the provider world, where new models of care provision dot the national landscape. We now see a growing number of individuals accessing care in assisted living facilities and using in-home high and low tech assistive devices to support individuals' desire to age in place. Today, even in the presence of significant disability, individuals seek these alternatives when in the past, nursing homes were

viewed as the only place where severely disabled individuals could be taken cared of.

Public policies are supporting these trends. A growing number of states are obtaining waivers for their Medicaid programs so that they can now provide more home and community-based services to disabled individuals. There appears to be a growing understanding of the importance of developing programs that allow people to remain in their own homes whenever possible and for as long as possible. Moreover, there is a new willingness to pay for non-traditional LTC services in the hope that, over the long run, the fiscal burden on states will be reduced. Finally, there has been growing support for the private insurance market. This is evidenced by the passage of two federal proposals that recognized the role of LTC insurance in financing LTC expenses. The passage of the Health Insurance Portability and Accountability Act (HIPAA) in the latter half of the 1990s clarified that premiums for tax-qualified LTC insurance are partially deductible and benefits received from these policies are not taxable. The recent passage of LTC partnerships legislation contained in the Deficit Reduction Act of 2005 (DRA) now allows states to establish LTC partnership programs that would give individuals Medicaid asset protection for purchasing LTC insurance. Furthermore, in addition to the Federal Long-Term Care Insurance Program established for Federal employees, many states have implemented LTC insurance programs for public employees and have passed legislation providing for tax deductions or credits for the premiums spent on LTC insurance. In addition, a growing number of states are undertaking public awareness programs designed to educate the public about the risks and costs of LTC. These changes are intended to encourage growth in the market for LTC insurance by providing a financial incentive for its purchase, and by signaling the government's desire for the public to seriously consider private alternatives.

All of these changes necessarily influence people's attitudes and opinions about the role of the government and the private sector in providing and paying for LTC. Moreover, growth in the use

of the internet ensures much greater access to information, and this too can be expected to influence attitudes and opinion. The current study of buyers and non-buyers is designed to capture some of this change, to identify where there has been relative stability, and to begin to provide an empirical basis for projecting where the industry is headed in the years ahead.

PURPOSE

The purpose of this study, which built on work completed in 1990, 1995, and 2000, was to identify who buys LTC insurance and understand what motivates them to do so. We also compared these findings with those of a sample of non-buyers and other Americans age 50 and over. In addition, we tracked how product purchase decisions have changed over this 15-year period. More specific objectives include the following:

- to compare socio-demographic characteristics of buyers, non-buyers, and a sample of individuals age 50 and older in the general population over this 15-year period;
- to compare the attitudes of buyers, non-buyers, and a sample of individuals age 50 and older in the general population regarding LTC risk and financing, and the role of the government and private sector in financing LTC;
- to understand why some individuals purchase policies and others do not, and to determine how these reasons may have changed over time;
- to identify the policy design features that people prefer and compare them with features in policies bought 5, 10, and 15 years ago;
- to identify the factors that would make non-buyers more interested in purchasing policies;
- to examine the extent to which individuals are using the internet to support purchase decisions and stay abreast of recent development in the market;
- to gain insight into the decision-making process of purchasing LTC insurance and the role of the agent in selling LTC insurance;
- to understand the extent of knowledge about government and private LTC financing issues among a sample of individuals age 50 and over; and
- to assess market opportunities for and barriers to the purchase of LTC insurance.

METHOD AND SAMPLE

We used three survey instruments to collect information: (1) a mail survey addressed to buyers; (2) a mail survey addressed to non-buyers; and (3) a 15-minute phone survey of Americans over age 50. A buyer was defined as an individual who had purchased a policy in 2005, paid premiums, and not returned the policy within 30 days. A non-buyer was defined as an individual who had been approached by an agent or who had attended a sales seminar and had been presented with the details of a policy or policies, but who had chosen not to buy a policy.³ In previous years, we have used this definition exclusively. However, due to tighter confidentiality regulations and greater sensitivity among participating companies and agents regarding the surveying of non-buyers, many companies were more comfortable providing a sample of "not-takens". People in the "not-taken" group are defined as those who have chosen a policy, paid the initial premium, but decided not to take the policy during the 30day free look period. We did comparisons of the traditional non-buyer sample (i.e., those who did not get as far as paying a premium before deciding not to purchase) and the not-taken samples on key demographic and attitudinal characteristics and found that they do not differ from each other in any meaningful way. Therefore, our non-buyer sample is comprised of both non-buyers (in the more traditional sense) and "not-takens." Hereinafter, they will be referred to as non-buyers.

This study also included a random sample of 500 individuals age 50 and over from the general population who participated in a 15-minute phone interview. These interviews provided a baseline for attitudinal and demographic comparisons among buyers, non-buyers, and a group of individuals age 50 and over.

Ten companies, representing more than 80 percent of total individual LTC insurance sales in 2005, contributed samples to the study. These companies sold more than 250,000 policies in 2005, and most have been selling policies for more than 5 years. Companies included Bankers Life and Casualty, California Public Employees (CalPERS),⁴ Genworth Financial, John Hancock, MedAmerica, Metropolitan Life, Mutual of Omaha, Northwestern Mutual, Penn Treaty, and Prudential.

Each of the companies entered into a business associate agreement with LifePlans, Inc., so as to ensure the privacy and confidentiality of any protected health information collected from the samples of the participants. At the conclusion of the study, companies received only a data file with their participant's survey responses and attached administrative data stripped of all identifying information. Each participant in the study was notified that the information was being collected for research purposes only, that participation in the study was voluntary, that the participant's insurance company would not be able to determine who opted to participate in the survey, and that the information collected would not be used to influence the participant's LTC insurance policy, premiums, or any claims that they have filed or will file in the future.

Results of this study provide a snapshot of recent market activity and attitudes about the private and public sector roles in LTC financing, and suggest where the market might be going in the near future, as well as where it has been in the past. Because many of the survey questions are similar to those asked of buyers and non-buyers in 1990, 1995 and 2000, we are able to present a longitudinal view of market trends over this 15-year period.

In total, the sample size for the study includes

- 1,274 buyers;
- 214 non-buyers; and
- 500 individuals age 50 and over from the general population.

Policy Design Information

In order to identify and track the types of policies that are selling in the marketplace, companies provided detailed information on the designs of policies purchased by a random sample of individuals. This information was then linked by an identification code to returned surveys, thus permitting us to correlate policies purchased with the attitudinal and

demographic profiles of respondents. In total, companies sent information on 8,208 recently purchased policies: 1,274 policies were linked to surveyed buyers and the remaining 6,934 policies were unlinked policies used for policy design analysis.

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

Survey Data Elements

Each survey collected detailed socio-demographic information, as well as asked questions to probe knowledge of LTC financing and risk, attitudes toward LTC insurance, and the desired and potential roles of the private and public sectors in paying for LTC, and recent market trends. The buyer survey also asked questions about why the individual chose to buy a policy, the role of agents in the decision-making process, and awareness of internet-based information. The non-buyer survey explored

the reasons why a potential policyholder chose not to buy a policy and examined the factors that would make them more interested in buying a policy. Finally, a sample of persons age 50 and over was asked questions to gauge their knowledge of LTC services, insurance, and payment sources.

To ensure comparability over time, we asked many questions of buyers and non-buyers that were identical to those posed in 2000, 1995, and 1990. For most questions, non-response rates were very low (less than 4 percent). On the more sensitive questions relating to income and assets, non-response was higher, but still relatively low, at 14 percent and 17 percent, respectively. Thus, more than 80 percent of respondents provided information on their income and assets.

Weights

In order to generalize aggregate results, we weighted company-specific data in all subsequent analyses. For buyers, as well as for the unlinked policy file, individuals were weighted to reflect each company's market share of new sales in 2005. No weights were used for the non-buyer sample.⁵ The sample of surveyed elders age 50 and over was weighted to reflect the gender breakdown of all people over age 50 in the general population using 2004 Census data.

FINDINGS

In subsequent sections, we provide frequency responses to survey questions and selected bivariate analyses of special interest. We track and compare findings to those reported for 2000, 1995 and 1990. ^{6,7,8}

Socio-Demographic Profile of Individual Long-Term Care Insurance Buyers and Non-Buyers

In the discussion that follows, we summarize selected characteristics of buyers, non-buyers, and individuals from the general population age 50 and over. We compare profiles with those reported by the U.S. Census to identify how the surveyed populations differ from the general population. The demographic characteristics of individuals targeted to purchase LTC insurance differ from the general population age 50 and over (see Table 1). Both buyers and non-buyers have more assets than their counterparts in the general population and are far more likely to be college educated. Although differences remain, the non-buyers have profiles that are more similar to those in the general population than they had in years past. As the average age of non-buyers continues to decline, their profile begins to look more and more like that of the general population, particularly in terms of income, marital status and employment. The major difference between buyers and non-buyers is that the latter tend to be somewhat older, are more likely to be male, less likely to live in a household where someone is employed, and less wealthy than are buyers of LTC insurance. This continues the trend we began to see in 2000.

To what extent has the socio-demographic profile of buyers changed over this 15-year period? Table 2 summarizes these changes.

The average age of buyers has gotten younger, down to 61 years—the lowest average age over the years and the sharpest shift in ages over a 5-year period. Although, in previous years, we did not collect data on individuals under age 55, the fact

that two out of three policies are now sold to those under age 65 is of particular note, and there has been a dramatic rise in the number of policies being sold to individuals between ages 55 and 64. Even when those under age 55 are removed from the 2005 sample, the average age only increases by 1 year to 62 years, further highlighting the dramatic downward shift in the average purchase age.

The alternative way of viewing this shift is in terms of what was once considered the traditional LTC insurance market—individuals age 70 and over. Between 1990 and 2000, the market was consistently comprised—at least 40 percent—of new buyers over age 70. By 2005, this percentage had been cut by more than half, to 16 percent. Clearly the industry is targeting younger buyers, in part because it may be easier to sell the insurance as part of a retirement planning strategy. Also, as age-specific premiums have increased, individuals over age 70, who tend to be on fixed incomes, may find the insurance too costly relative to perceived value. Finally, as most states now require that agents ensure consumers of LTC insurance meet suitability standards or have appropriate levels of income and assets, agents now target a more affluent market segment among the elderly, further limiting the share of the "older" buyers.

The proportion of married couples buying insurance has also increased. This is a reflection of the younger purchase age, where married couples dominate, as well as the discounts that insurers are giving to attract married couples. They do so because there is a growing and significant body of experience (as well as research) that suggests that married people tend to rely on formal (paid) LTC services much less than do singles. Therefore, the expectation that couples will use less LTC services supports the discounts.

Another notable change is the higher income of buyers in 2005 compared with buyers in years past—and, in particular, in the years between 2000 and 2005. The median income of 2005 buyers was \$62,500, compared with a median income of \$42,500 in 2000, \$30,000 in 1995, and \$27,000 in 1990.

TABLE 1: Socio-Demographic Characteristics of Individual Long-Term Care Insurance Buyers, Non-Buyers, and the General Population Age 50 and Over, 2005

Demographic Characteristics	Buyers	Non-buyers	General Population Age 50 And Over
Average Age	61	64	64
Less than 50	7%	5%	- -
50-54	15	13	23%
55-64	45	36	34
65-69	17	20	12
70-74	9	11	10
75 and over	7	15	21
Gender			
Male	43%	51%	46%
Female	57	49	54
Marital Status			
Never Married	6%	4%	6%
Married	73	65	68
Divorced/Separated	10	12	13
Widowed	9	15	13
Domestic Partner	2	4	_
Income Status			
Less than \$20,000	3%	8%	19%
\$20,000-\$24,999	4	5	7
\$25,000-\$34,999	9	17	11
\$35,000-\$49,999	13	16	14
\$50,000-\$74,999	22	24	18
\$75,000 and Over	49	30	31
Total Liquid Assets			
Less than \$20,000	4%	20%	38%
\$20,000-\$29,999	3	6	7
\$30,000-\$49,999	6	9	13
\$50,000-\$74,999	6	7	5
\$75,000-\$99,999	5	5	7
\$100,000 and Over	76	53	30
Education Level			
Less than High School	2%	2%	16%
High School Graduate	13	15	33
Post High School	24	29	24
College Graduate	61	53	27
Someone in Household Employed	71%	54%	53%

Source: LifePlans, Inc. analysis of 2005 Buyer and Non-Buyer Surveys; U.S. Bureau of the Census, Population Division, Annual Estimates of the Population by Sex and 5-Year Age Groups for the United States: April 1, 2000 to July 1, 2004; U.S. Bureau of the Census, 2003 American Community Survey; U.S. Bureau of the Census, Current Population Survey, 2005 Annual Social and Economic Supplement; U.S. Bureau of the Census, Current Population Survey, 2004; U.S. Bureau of the Census, 2004 American Community Survey. Note: Based on sample size of 1,274 buyers and 214 non-buyers. Data for marital status, income and employment are based on people age 45 and over.

TABLE 2: Socio-Demographic Characteristics of Individual Long-Term Care Insurance by Purchase Year

		Bu	yers	
Socio-demographic characteristics	2005	2000	1995	1990
Average Age	61	67	69	68
Less than 55	22%	_	_	_
55-64	45	33%	19%	25%
65-69	17	27	32	33
70-74	9	19	23	25
75 and over	7	21	26	17
Gender				
Male	43%	45%	39%	37%
Female	57	55	61	63
Marital Status				
Never Married	6%	4%	6%	5%
Married	73	70	62	68
Divorced/Separated	10	6	6	4
Widowed	9	20	27	23
Domestic Partner	2	_	_	_
Income Status				
Less than \$20,000	3%	9%	21%	29%
\$20,000-\$24,999	4	8	16	13
\$25,000-\$34,999	9	19	24	20
\$35,000-\$49,999	13	22	18	17
\$50,000 and Over	71	42	20	21
Total Liquid Assets				
Less than \$20,000	4%	6%	18%	16%
\$20,000-\$29,999	3	5	10	8
\$30,000-\$49,999	6	7	13	11
\$50,000-\$74,999	6	5	10	12
\$75,000-\$99,999	5	6	8	11
\$100,000 and Over	76	71	41	42
Education Level				
Less than High School	2%	5%	7%	8%
High School Graduate	13	21	28	30
Post High School	24	27	29	29
College Graduate	61	47	36	33
Someone in household is employed	71%	35%	23%	N.A.

Source: LifePlans, Inc., analysis of 2005, 2000, 1995, and 1990 Buyer Surveys. Note: Based on sample size of 1,274 (2005 buyers), 2,728 (2000 buyers), 2,601 (1995 buyers), and 8,363 (1990 buyers). In 1990, 1995 and 2000, sample did not include individuals under age 55.

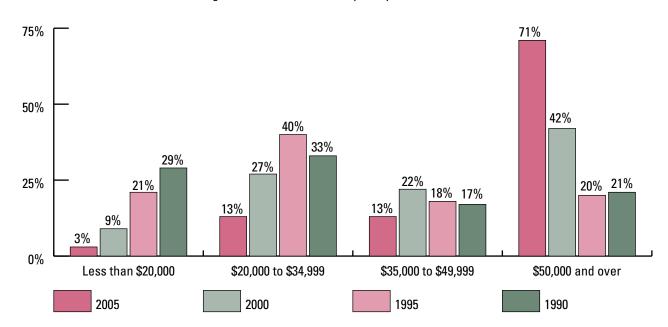


FIGURE 1: Income Status of Individual Long-Term Care Insurance Buyers by Purchase Year

Source: LifePlans, Inc., analysis of 2005, 2000, 1995, and 1990 Buyer Surveys.

Note: Based on sample size of 1,274 (2005 buyers), 2,728 (2000 buyers), 2,601 (1995 buyers), and 8,363 (1990 buyers).

Whereas in 2000, less than half of new buyers reported incomes over \$50,000, by 2005, this figure had risen to 71 percent. This reflects the fact that agents are targeting younger buyers who are more likely actively employed and, therefore, would have higher incomes than older buyers who are more likely to be on fixed incomes.

Although there has been a modest increase in assets, they have remained relatively stable since 2000. Given the shift in age, 2005 buyers had 6 fewer years to accumulate those assets. In 1995, two in five buyers had liquid assets valued at more than \$100,000. A decade later, the number had increased to roughly three out of four.

A number of factors could explain the increase in wealth. First, because the age of buyers is getting younger (below the typical retirement age of 65), they are more likely to be employed. In fact, more than twice as many buyers in 2005 than in 2000 had someone in the household who is working (compared to only 23 percent in 1995). Second, the education level of buyers has also increased dramatically, which perhaps allowed them to obtain

better jobs, with better pay. Again, "suitability" continues to be an important regulatory issue, and for the most part, agents have been discouraged from selling to individuals with incomes of less than \$20,000. In 2000, the proportion of buyers with incomes less than \$20,000 was significantly reduced, and continued to drop in 2005 (see Figure 1).

Over the 10-year period between 1995 and 2005, we tracked the percentage of income that buyers spent on their LTC insurance premiums. This percentage continued to drop regardless of the steady increase in average premiums because the average income of purchasers had risen and the shift in age resulted in lower premium levels. The drop simply reflects that the cost of the policy represents a smaller proportion of the higher income. In fact, assuming that all other variables held constant, one would expect that the age-effect would lead to premiums that on average would be 33 percent lower. Figure 2 shows that the average proportion of income spent on LTC insurance premiums in 2005 is 3.5 percent—down from 4.8 percent in 2000. Moreover, almost all (99 percent) of buyers indicated that they paid for premiums without help from their children.

Opinions of Individual Long-Term Care Insurance Buyers and Non-Buyers About Long-Term Care

The socio-demographic profile of buyers and non-buyers has changed dramatically over this 15-year period. A key question is whether differences in buyer profiles had any influence over attitudes and opinions about LTC. Each group was asked a series of general questions about LTC, followed by more specific questions about their perceived risk for LTC, payment source, and other relevant issues.

Many of the attitudinal trends present in past surveys persisted in 2005 (see Table 3). For example, being a "planner," that is, one who believes that it is important to plan ahead for the possibility of needing services, is associated with the purchase of LTC insurance. Consistently, buyers have been almost twice as likely to strongly agree with the statement that "it is important to plan now for the possibility of needing LTC services" than non-buyers.

Buyers also tend to worry less about paying for LTC services and are much more likely than non-buyers to view LTC insurance products as adequate. After all, they do have the insurance. Between 2000 and 2005, buyers were more confident about the adequacy of insurance products, with close to 80 percent believing that the insurance industry provides adequate coverage for LTC services. The growing positive trend among buyers suggested greater satisfaction with products. Even among non-buyers, almost half now viewed the products as adequate.

Even if there is no comprehensive public coverage for LTC, non-buyers continue to be roughly twice as likely as buyers to agree with the statement that "...the government will pay for most of the costs of LTC if services are ever needed" than buyers. It is, therefore, not surprising that these individuals do not buy policies.

Given all of the public debate about LTC financing, as well as the fact that these individuals have had the opportunity to visit with agents, this finding suggests that a great deal of educational work remains to be done.

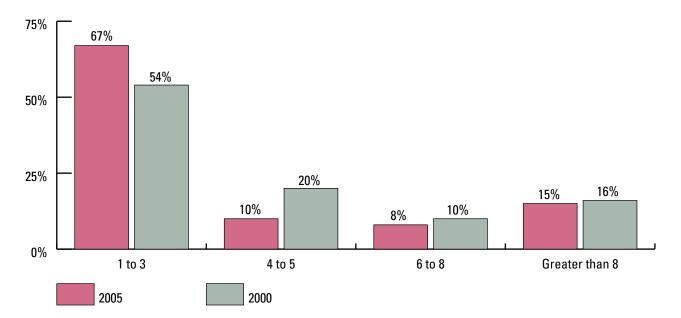


FIGURE 2: Percentage of Buyers' Income Spent on Individual Long-Term Care Insurance Premiums

Source: LifePlans, Inc., analysis of 2005 and 2000 Buyer Surveys.

Note: Based on sample size of 1,274 (2005 buyers) and 2,728 (2000 buyers).

TABLE 3: Opinions About Long-Term Care Among Buyers and Non-Buyers, 1990-2005

		Buy	/ers			Non-E	Buyers	
Opinions About LTC	2005	2000	1995	1990	2005	2000	1995	1990
It is important to plan now for the								
possibility of needing LTC services:								
Strongly Agree	62%	63%	53%	62%	30%	33%	27%	42%
Agree	36	36	46	38	59	59	66	53
Disagree	1	1	1	_	10	7	6	4
Strongly Disagree	1	_	_	_	1	1	1	1
I worry about how I would pay for care if								
needed:								
Strongly Agree	22%	22%	22%	46%	28%	32%	28%	44%
Agree	48	50	52	42	51	49	55	42
Disagree	25	24	21	10	17	15	14	12
Strongly Disagree	5	5	5	2	4	3	3	3
The insurance industry sells adequate								
coverage for services:								
Strongly Agree	11%	10%	9%	9%	5%	4%	5%	7%
Agree	68	62	65	58	40	45	43	34
Disagree	18	23	22	28	38	37	42	43
Strongly Disagree	3	5	4	5	16	14	10	17
If I ever needed care, the government								
would pay most of the costs:								
Strongly Agree	4%	5%	4%	6%	7%	16%	12%	14%
Agree	8	10	13	11	15	17	18	19
Disagree	41	42	48	52	41	34	40	44
Strongly Disagree	47	42	35	31	37	33	30	23
I am confident that I would be able to find								
providers in my area if I need them:								
Strongly Agree	29%				20%			
Agree	60				62			
Disagree	9				15			
Strongly Disagree	2	N.A.	N.A.	N.A.	3	N.A.	N.A.	N.A.

Source: LifePlans, Inc., analysis of 1,274 buyers and 214 non-buyers in 2005; 2,728 buyers and 638 non-buyers in 2000; 2,601 buyers and 1,245 non-buyers in 1995; and 8,363 buyers and 1,750 non-buyers in 1990.

There has been much talk recently about the strain on the LTC service delivery system and the shortage of paid caregivers and nurses. An additional question was asked of 2005 buyers and non-buyers to gauge how they felt about securing services if they were needed. It seems that most buyers and non-buyers (89 percent and 82 percent, respectively) agreed that they were "confident that I would be able to find nursing home, assisted living or home care service providers in my area if I ever needed them."

3. Attitudes of Individual Long-Term Care Insurance Buyers, Non-Buyers, and Surveyed Individuals Toward Risk and Payment of Long-Term Care Services

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

In recent surveys, buyers have perceived their risk of needing nursing home services as slightly higher than non-buyers and, in 2000, we saw a significant increase in the proportion of both samples perception of the risk of needing nursing home services (see Figure 3). This trend remained stable in 2005, and relatively the same proportion thought there was a greater than 50 percent chance of needing nursing home services than we saw in 2000. Again, non-buyers tended to view their risk as lower than buyers did. Finally, among surveyed individuals age 50 and over, there was a small increase in their assessed risk from 2000, but still just over one in three believed they had a greater than 50 percent chance of needing nursing home care sometime in the future.

Regarding home care, the same patterns persist. Here again, recent buyers continued to assess themselves at higher risk for needing services (see Figure 4). Finally, although not shown in the graphs, two-thirds of recent buyers and 51 percent of recent non-buyers believed that they stood a good chance (greater than 50 percent) of having to use assisted living services in the future. These figures too have remained consistent with 2000 responses, and, again, suggest a relationship between perceived risk and insurance purchase: those who perceive their future risk to be higher are more likely to purchase a policy than are those who believe the risk is lower.



FIGURE 3: Self-Assessment of Greater Than 50 Percent Lifetime Chance of Needing Nursing Home Care, by Purchase Year

Source: LifePlans, Inc., analysis of 1,274 buyers and 214 non-buyers in 2005; 2,728 buyers and 638 non-buyers in 2000; 2,601 buyers and 1,245 non-buyers in 1995; 8,363 buyers and 1,750 non-buyers in 1990; 500 individuals age 50 and over in 2005; and 500 individuals age 55 and over in 2000 and 1,000 individuals age 55 and over in 1995.

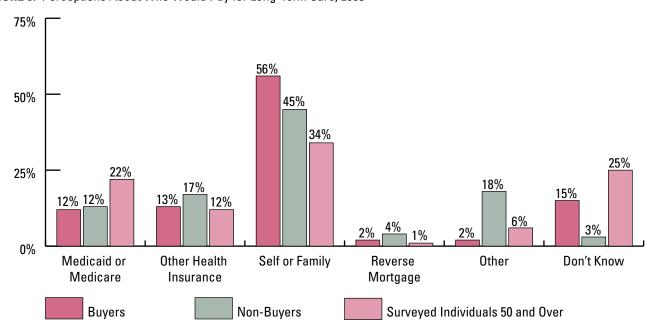
No data on age of surveyed individuals was available for 1990.

FIGURE 4: Self-Assessment of Greater Than 50 Percent Lifetime Chance of Needing Home Care, by Purchase Year



Source: LifePlans, Inc., analysis of 1,274 buyer and 214 non-buyers in 2005; 2,728 buyers and 638 non-buyers in 2000; and 2,601 buyers and 1,245 non-buyers in 1995; 8,363 buyers and 1,750 non-buyers in 1990; and 500 individuals age 50 and over in 2005.

FIGURE 5: Perceptions About Who Would Pay for Long-Term Care, 2005



Source: LifePlans, Inc. analysis of 1,274 buyers, 214 non-buyers, and 500 individuals age 50 and over.

The second component of risk is paying for services. We asked 2005 buyers how the cost of 6 months of care would be met if they did not have a LTC policy. Non-buyers were asked, "Who would pay for most of the costs of 6 months of LTC services?" More than half, 56 percent of buyers, believe that in the absence of a policy, they would have to pay for care themselves or receive help from their families (see Figure 5). The comparable figure for non-buyers is 45 percent. Noteworthy is the fact that non-buyers were much more likely to think that they had other means available to pay for care. It was unclear (given the alternatives offered) what these sources might have been, but close to one in five said they existed. The general population of surveyed individuals age 50 and over was least likely to believe that they would have to pay for LTC; however, they were much more likely than those in 2000 to understand that they face the liability. (Only one-quarter of surveyed individuals in 2000 said they would have to pay).

Individuals age 50 and over from the general population were most likely to believe that the government will pay for LTC, although this number has declined from 2000 as well. Of those surveyed in the general population in 2000, 34 percent indicated that some form of public program would cover their

LTC needs, while that number dropped to 22 percent in 2005. Thus, these individuals, who have not purchased a policy, believe they face a smaller risk of needing services and that they are either already covered or have another means of paying for care should it be needed. Thus, for many, their decision not to purchase a policy seems quite rational.

In addition to understanding the risk of needing care and how it will be financed, another important variable is a person's perception about the cost of that care. We asked each buyer and non-buyer how much they thought it cost per month to stay in a nursing home in their area (in 2005). Respondents were asked to choose a thousand dollar range (i.e., \$4,001 to \$5,000 or \$5,001 to \$6,000, etc.). We then compared respondents' answers to the actual cost of a nursing home in their regions. As shown in Figure 6, we found that 26 percent of new buyers estimated the monthly cost of a nursing home in their areas within the correct range, 14 percent underestimated the cost and about three in five (61 percent) thought the cost of a nursing home in their area was higher than it actually is. Among non-buyers, only 17 percent estimated the monthly cost of a private room in a nursing home correctly for their areas (less

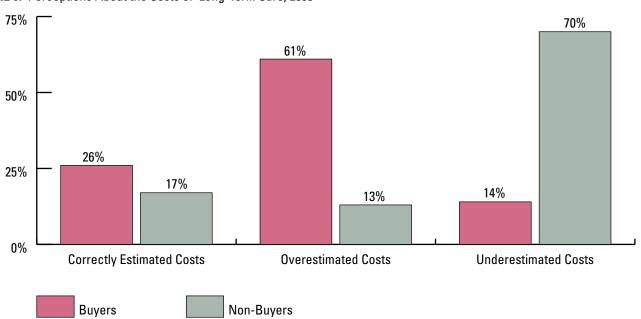


FIGURE 6: Perceptions About the Costs of Long-Term Care, 2005

Source: LifePlans, Inc., analysis of 2005, 2000, 1995, and 1990 Buyer Surveys.

Note: Based on sample size of 1,274 (2005 buyers), 2,728 (2000 buyers), 2,601 (1995 buyers), and 8,363 (1990 buyers).

than the buyers), 13 percent overestimated the costs, and the overwhelming majority (70 percent) thought the monthly cost of a nursing home in their areas is less than it actually is. This is what one would expect to find with more buyers overestimating the costs and non-buyers underestimating the costs.

4. Individual Long-Term Care Insurance Policies Bought in 2005

Policy Design

Examining the types of products being purchased in 2005 yields important information about the market and how it has changed over time. In the analysis that follows, information characterizing what was bought in the market in 2005 was based on 8,208 individual policies. The analyses that relied on linkages between policy information and returned surveys were based on a sample size of 1,274 individuals.

Over this 15-year period, there has been tremendous change in the types of products being purchased. Beginning in 1995, the products became more comprehensive and that trend continued through 2005 (see Table 4 and Table 5).

The proportion of comprehensive policies (those that cover institutional and home care) grew again in 2005 to 90 percent.

Whereas "nursing home or facilities only" policies dominated the market in 1990, now they have all but disappeared as a choice among new buyers. Between 2000 and 2005, the average daily nursing home benefit increased by 30 percent, which was greater than the rise in the general level of inflation during the period. Moreover, the increase in the daily benefit occurred even as policies became more comprehensive, and hence, more costly. The average daily benefit for homecare grew by 27 percent over this 5-year period. Interestingly, the average policy duration for new buyers in 2005 remained about the same—right around 5 years. There was also a decline in the proportion of people choosing lifetime coverage. This could reflect a desire to mitigate the cost of choosing more comprehensive polices or it could mean that insureds are refining their estimates of how long they believe they will need care.

Another possibility for the lack of increase in policy duration is that these wealthier insureds are planning to pre-fund or pay for a certain amount of any care they may need themselves. Another indicator of this would be the increase in the chosen elimination period. In fact, new buyers in 2005 typically chose longer elimination periods than their counterparts in 2000. On average, people will need to pay for almost 3 months of care before their policy begins paying benefits. This is a 15-day increase from 2000. Given the trend toward "richer" and more comprehensive coverages, a longer elimination period is also a way to reduce policy premiums.

TABLE 4: Characteristics of Individual Long-Term Care Insurance Policies Bought in 2005, 2000, 1995, and 1990

Policy Characteristics	Average for 2005	Average for 2000	Average for 1995	Average for 1990
Policy Type				
Nursing Home Only	3%	14%	33%	63%
Nursing Home & Home Care	90%	77%	61%	37%
Home Care Only	7%	9%	6%	_
Daily Benefit Amount for NH Care	\$142	\$109	\$85	\$72
Daily Benefit Amount for Home Care	\$135	\$106	\$78	\$36
Nursing Home Only Elimination Period	80 days	65 days	59 days	20 days
Integrated Policy Elimination Period	81 days	47 days	46 days	-
Nursing Home Benefit Duration	5.4 years	5.5 years	5.1 years	5.6 years
Inflation Protection	76%	41%	33%	40%
Annual Premium	\$1,918	\$1,677	\$1,505	\$1,071

Source: Based on 8,208 policies sold in 2005; 5,407 policies sold in 2000; 6,446 policies sold in 1995; and 14,400 policies in 1990.

 TABLE 5:
 Individual Long-Term Care Insurance Policy Designs Selling by Purchase Year

Attributes of Policies	Percentage of 2005 Sales	Percentage of 2000 Sales	Percentage of 1995 Sales	Percentage of 1990 Sales
Types of Policies Sold				
NH Only	3%	14%	33%	63%
NH and Home Care	90%	77	61	37
Home Care Only	7%	9	6	_
NH Duration ¹⁰				
1–2 years	11%	17%	24%	23%
3 years	22	23	20	12
4 years	17	14	18	15
5 years	16	11	6	12
6 years	6	5	2	5
7-8 years	5	_	_	_
Lifetime Benefits	23	30	30	33
Average Duration	5.4 years	5.5 years	5.1 years	5.6 years
NH Daily Benefit	·		·	-
up to \$30	_	1%	1%	2%
\$31 to \$59	2%	5	12	25
\$60 to \$89	6	17	40	51
\$90 to \$119	25	43	38	18
\$120 and Over	67	34	9	4
Average Daily Benefit	\$142	\$109	\$85	\$72
Home Health Care Duration ¹¹				
1 year	4%	5%	20%	Not available
2 years	10	14	31	
, 3 years	22	22	21	
4 years	17	13	5	
5 years	16	10	10	
6 years	6	7	1	
7–8 years	4	_	_	
Lifetime Benefits	22	30	12	
Average Duration	5.2 years	5.4 years	3.4 years	Not available
Home Health Care Daily Benefit				
up to \$30	_	1%	3%	25% ¹²
\$31 to \$59	3%	8	26	60
\$60 to \$89	9	17	33	13
\$90 to \$119	26	41	31	2
\$120 and Over	62	33	8	_
Average Daily Benefit	\$135	\$106	\$7812	\$36
Elimination Period				
0 day	1%	23%	28%	25%
15 to 20 day	6	3	17	41
30 to 60	20	16	16	12
90 to 100 day	67	55	39	22
> 100 days	6	3	JJ	LL

TABLE 5: continued

Attributes of Policies	Percentage of 2005 Sales	Percentage of 2000 Sales	Percentage of 1995 Sales	Percentage of 1990 Sales
Percent Choosing Inflation Protection ¹³	76%	41%	33%	40%
Simple	23%	17%	14%	
Compound	49	22	15	N.A.
Indexed to CPI	4	2	4	
Total Annual Premium				
up to \$500	4%	5%	10%	19%
\$500 to \$999	18	24	29	40
\$1,000 to \$1,499	25	26	23	21
\$1,500 to \$1,999	20	18	15	11
\$2,000 to \$2,499	12	9	9	5
Greater than \$2,500	22	18	14	4
Average Annual Premium	\$1,918	\$1,677	\$1,505	\$1,071

Source: Based on analysis of 8,208 policies sold in 2005; 5,407 policies sold in 2000; 6,446 policies sold in 1995; and 14,400 policies in 1990.

Note: The term facility refers to both nursing home and assisted living. The percentages for nursing and assisted living facility duration, the daily benefit, and elimination periods were identical.

TABLE 6: Impact of Change in Policy Parameters on Policy Premiums

	Year 2005	Year 2000	Impact of Change on Premium Levels
Coverage	1641 2003	16a1 2000	T Tellium Levels
Coverage			
Comprehensive	90%	77%	5%
Duration	5.4 years	5.5 years	0%
Daily Benefit			29%
Nursing home	\$142	\$109	
Home Care	\$135	\$106	
Elimination period	80 days	60 days	-6%
Inflation Protection			25%
Simple	23%	17%	
Compound	49%	22%	
Indexed to CPI	4%	2%	
None	24%	59%	
Average Age	61	67	-33%
Total Projected Impact of Changes			13%
Actual Impact in Premium	\$1918	\$1677	14%

There is also a growing trend toward the purchase of compound inflation protection, which may reflect the shift toward younger buyers who are more likely to need inflation protection built into their policies. Three quarters of individuals purchasing policies in 2005 paid for either compound or simple inflation protection.

Finally, annual premiums have increased by 14 percent between 2000 and 2005, from \$1,677 to \$1,918. This increase can be explained by increases in daily benefits amounts, increased comprehensiveness or coverage of policies, and the numbers of buyers who choose inflation protection. Moreover, given that premiums are age-rated, the dramatic decline in average purchase age also affects premiums. Table 6 examines the impact of changes in each of these parameters on premiums. We did this analysis to evaluate whether the relative value in the policy has changed over this 5-year period. In 2000, we found that policy premiums increased less than what would have been expected, given the changes in policy value. In our 2000 study, we therefore concluded that buyers were getting better value for the premium dollar.

Table 6 shows, for example, that the increase in percentage of comprehensive policies being purchased between the years increases premiums by 5 percent. Moreover, the increase in daily benefit has the effect of increasing premiums by 29 percent. On the other hand, the decline in average age would, other parameters held constant, serve to reduce premiums by 33 percent. Taken together, the expected increase in premiums due to these changes in policy and age parameters is 13 percent. The actual difference in average premiums is 14 percent. Thus, one can conclude that the value in the policy has stayed relatively constant between 2000 and 2005.

The key policy design features of comprehensive policies are "richer" when compared with nursing home only policies. They have higher daily benefit amounts, longer durational coverage, but similar elimination periods. Premiums for comprehensive policies are about 9 percent higher than for the facility only policies (See Table 7). The reason that the premium difference is not that great is because older individuals are purchasing facility-only policies compared to those purchasing comprehensive coverage. Data suggest that facility-only policies appeal to a very different market segment. Buyers of these

TABLE 7: Attributes of Individual Long-Term Care Insurance Policies by Policy Type, 2005

Attributes of Policies	Facility Only Policies	Comprehensive Policies
Nursing Home Duration		
Non-Lifetime	87%	77%
Lifetime Benefits	13%	23%
Average	3.6 years	5.5 years
Nursing Home Daily Benefit		
Less than \$90	28%	8%
Greater than \$90	72%	92%
Average	\$104	\$143
Elimination Period		
Less than 90 days	34%	27%
90 or more days	66%	73%
Average	80 days	81 days
Total Annual Premium		
Less than or equal to \$1,800	65%	58%
Greater than \$1,800	35%	42%
Average	\$1,801	\$1,973

Source: Based on analysis of 8,208 policies sold in 2005.

policies tend to be older, have lower incomes and fewer assets, are less likely to be employed and less likely to be a college graduate (See Table 8).

TABLE 8: Selected Socio-Demographic Characteristics of Individual Long-Term Care Insurance Buyers by Policy Type, 2005

Socio-Demographic Characteristics	Nursing Home Only Policies	Comprehensive Policies	
Average age			
Income less than \$50,000	65 years	60 years	
Assets less than \$150,000	53%	20%	
Female	42%	26%	
Married	55%	57%	
College Graduate	73%	74%	
Someone in household	54%	62%	
is employed	52%	74%	

Source: Based on analysis of 1,274 buyers in 2005.

Relationship between Policy Designs and Age and Income

The purchase of specific policy designs is largely influenced by the buyer's age and income. As income increases, individuals are more likely to buy richer plans that have longer durations, higher daily benefit amounts, and more inflation protection (see Table 9). While in 2000, there was a positive relationship between income level and having home care coverage, this seems to have evened out somewhat. Also in 2000, there was a negative relationship between income and shorter elimination periods. This seems to have changed somewhat also. While the elimination period continued to lengthen as income increases, this changed for those with incomes over \$75,000. For this group, the average elimination period dropped again. An

TABLE 9: Key Policy Design Parameters Chosen by Individual Long-Term Care Insurance Buyers by Level of Income, 2005

Policy Features	LEVEL OF INCOME			
	<\$25,000	\$25,000-\$49,999	\$50,000-\$74,999	\$75,000+
Benefit Duration ¹⁴				
Average	3.6 years	5.1 years	5.3 years	5.6 years
1-2 years	35%	8%	9%	8%
3-4 years	35	52	47	38
5-6 years	24	16	15	23
7-8 years	_	6	7	7
Lifetime	6	18	22	24
Nursing Home Benefit Amount				
Average	\$116	\$121	\$131	\$147
up to \$80	14%	16%	9%	7%
\$81 to \$100	38	28	23	15
\$101 to \$120	14	11	14	8
\$121 to \$150	22	37	35	38
\$151 and Over	12	9	19	32
Home Care Benefit Amount				
Average	\$105	\$116	\$126	\$142
up to \$80	18%	23%	14%	10%
\$81 to \$100	43	26	24	15
\$101 to \$120	19	13	14	9
\$121 to \$150	15	29	32	37
\$151 and Over	5	10	18	29
Percent with Inflation Protection	44%	67%	71%	86%
Average Elimination Period	73 days	79 days	85 days	79 days
Percent with Home Care	94%	89%	96%	97%
Average Annual Premium	\$1,807	\$2,079	\$2,011	\$1,844
Monthly Premiums				
Up to \$50	11%	3%	3%	8%
\$51-\$75	15	7	13	13
\$76-\$100	13	15	12	12
\$101 to \$125	11	18	17	13
\$126 to \$150	15	10	12	14
\$151 to \$200	11	18	17	21
\$201 and Over	23	29	26	20

Source: Analysis of 1,274 linked surveys and policy design information in 2005.

increase in the elimination period may have reflected wealthier individuals' ability to self-pay for the first 2 to 3 months of LTC costs; for them, the concern was with costs associated with longer durations of service utilization.

For the buyers with incomes over \$75,000, their elimination periods decreased slightly. This may be explained by the fact

that these buyers had greater disposable income, and, perhaps, they could afford the higher premiums associated with shorter elimination periods and did not wish to spend their money paying for care. It is important to note that there was a decline in the elimination period—but it was a small one. In contrast, those with lower incomes were less able (or willing) to pay for an initial 2 to 3 months of care. Premiums did not vary much

TABLE 10: Key Policy Design Parameters Chosen by Individual Long-Term Care Insurance Buyers by Age, 2005

Policy Features	AGE CATEGORY					
	Less than 55	55 to 64	65 to 69	70 to 74	75 and Over	
Benefit Duration ¹⁵						
Average	5.9 years	5.6 years	4.4 years	3.8 years	3.0 years	
1-2 years	8%	6%	16%	21%	33%	
3-4 years	32	41	50	55	57	
5-6 years	24	24	20	16	8	
7-8 years	7	5	4	_	1	
Lifetime	29	24	10	8	1	
Nursing Home Benefit Amount						
Average	\$151	\$142	\$132	\$119	\$112	
up to \$80	6%	6%	10%	16%	29%	
\$81 to \$100	16	22	25	33	28	
\$101 to \$120	8	11	12	13	11	
\$121 to \$150	37	35	33	26	21	
\$151 and Over	33	26	20	12	11	
Home Care Benefit Amount						
Average	\$146	\$136	\$127	\$113	\$106	
up to \$80	8%	10%	14%	23%	30%	
\$81 to \$100	16	21	25	32	33	
\$101 to \$120	11	12	13	15	10	
\$121 to \$150	35	34	30	20	20	
\$151 and Over	30	23	18	10	7	
Percent choosing Inflation Protection	87%	85%	62%	39%	19%	
Average Elimination Period	78 days	83 days	80 days	88 days	82 days	
Percent with Home Care	98%	97%	94%	92%	91%	
Average Annual Premium						
Monthly Premium	\$1,740	\$1,877	\$2,003	\$2,341	\$2,604	
Up to \$50	10%	5%	4%	4%	3%	
\$51-\$75	12	10	11	8	8	
\$76-\$100	16	14	14	11	10	
\$101 to \$125	15	17	14	10	15	
\$126 to \$150	14	15	11	10	9	
\$151 to \$200	15	17	17	18	16	
\$201 and Over	18	22	29	39	39	

Source: Analysis of 1,274 linked surveys and policy design information in 2005.

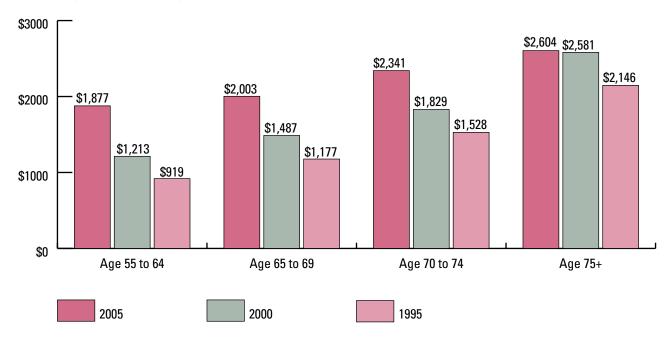


FIGURE 7: Age-Specific Premiums by Purchase Year

Source: Based on analysis of 8,208 policies sold in 2005; 5,407 sold in 2000; and 6,446 policies sold in 1995.

across the board—the highest premiums paid were by those in the \$25,000-\$75,000 range. One potential reason for this could have been the average age of those in each income category. The average age got younger as income increased—those making less than \$25,000 were an average of 68 years old and those making \$75,000 or more were an average of more than 10 years younger, 57 years.

Preferences, as well as the amount of money individuals are willing and able to spend, change dramatically with age (see Table 10). In general, older buyers tend to select shorter durations and lower daily benefit amounts, and few choose inflation protection. For example, buyers age 55 to 64 are four and a half times more likely to buy inflation protection than are buyers over age 75. Younger buyers expect to access benefits 15 to 20 years in the future, so benefit increases are particularly important; the older buyers may experience only a few years of inflation, choose to self-fund this risk, and therefore opt to

acquire a higher initial benefit package for the same premium. Again, there choices seem perfectly rational.

As mentioned previously, older individuals are somewhat less likely to have home care coverage than are their younger counterparts. Finally, given the fact that LTC policies are level funded (i.e., benefits are prefunded) and the LTC risk is highly correlated with age, if everything else holds constant, premiums will increase as purchase age increases (see Figure 7). Thus, premiums for 75-year-old buyers are 40 percent higher than for those 55- to 64-year-old buyers, even though the latter purchase more comprehensive products. In 2000, there was a much greater difference in premiums between the ages. The average premium for a policy chosen by a 55- to 64-year-old in 2000 was \$1,213—35 percent less than the same age group in 2005. The average premium for a policy chosen by a new buyer over age 75 in 2000 was \$2,581—only slightly less than that of the same age group in 2005

5. Reasons Behind the Individual Long-Term Care Insurance Purchase Decision

These studies of buyers of LTC insurance have reviewed reasons why people bought LTC insurance policies. These reasons included: wanting to ensure the affordability of services, protecting assets, ensuring choice in terms of service modality, and protecting a family's standard of living. We asked buyers to indicate how important a particular factor was in their decision to purchase the insurance. We then asked respondents to select the single most important reason for buying insurance (see Figure 8).

People purchase LTC insurance for multiple reasons. In 2005, a little more than one in three indicated that protecting their assets/estate was the single most important reason for purchase. This is roughly the same proportion as in 1995 and 2000. Again, this finding supports the proposition that individuals are buying the insurance to meet multiple objectives. It also shows

that the four top purchase reasons now account for 90 percent of the most important reasons people purchase policies.

Regarding specific reasons for purchase, responses changed little in each of the purchase years (see Table 11), with the exception of "protecting assets," which has increased. This is consistent with the observation that as younger buyers purchase policies, they view the protection as part of a broader retirement planning process. One item we added to the 2005 survey had to do with awareness about the Federal Long-Term Care Insurance Program (FLTCIP). In 2002, the Federal government launched the largest education and enrollment effort of group LTC insurance to date. It was believed, at the time, by those in the industry that this program would lead to an increase in awareness and purchase of LTC insurance. Therefore, we wanted to test whether buyers (and non-buyers) were aware of the program and if this awareness might be an important reason for a buyer to buy insurance. Of those buyers who were aware of the FLTCIP (21 percent), 24 percent said that this was an important reason to buy. Thus, one can deduce that roughly 4 percent of buyers were aware of the FLTCIP and that this awareness had a positive influence on their desire

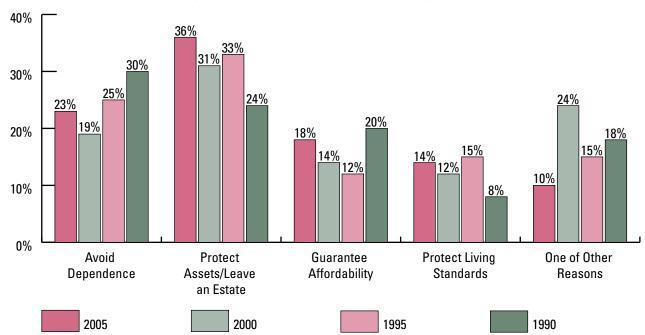


FIGURE 8: Most Important Reason for Buying Individual Long-Term Care Insurance, by Purchase Year

Source: LifePlans, Inc., analysis of 1,274 (2005 buyers); 2,728 (2000 buyers); 2,601 (1995 buyers); and 8,363 (1990 buyers).

Reasons for Insurance Purchase	2005	2000	1995	1990
1. Minimizing Financial Exposure				
The government will not cover the care I may need in the future.				
Very Important Reason	55%	54%	54%	54%
Important Reason	36	40	38	41
Not Very Import ant Reason	6	4	5	4
Not at all Important Reason	3	2	3	_
With LTC 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%	67%	72%
Important Reason	22	28	30	26
Not Very Important Reason	1	1	2	2
Not at all Important Reason	1	_	1	_
LTC insurance guarantees that I will be able to afford needed health care services.				
Very Important Reason	68%	68%	66%	70%
Important Reason	31	31	32	29
Not Very Important Reason	1	1	1	1
Not at all Important Reason	_	_	<1	_
2. Protect Family Resources LTC insurance helps assure an adequate income remains for my spouse if need costly services. ¹⁶				
Very Important Reason	57%	62%	59%	74%
Important Reason	26	22	22	23
Not Very Important Reason	3	4	3	2
Not at all Important Reason	14	13	15	1
want to leave an estate to family/friends.				
Very Important Reason	39%	43%	43%	38%
Important Reason	32	36	37	36
Not Very Important Reason	18	17	15	20
Not at all Important Reason	11	5	5	6
B. Enhance Choice and Independence TC insurance gives me the freedom to choose the nursing home or home care services I prefer.				
Very Important Reason	59%	58%	59%	74%
Important Reason	35	37	37	24
Not Very Important Reason	5	4	3	1
Not at all Important Reason	1	1	1	1

Reasons for Insurance Purchase	2005	2000	1995	1990
With LTC insurance, I can preserve my financial independence and avoid				
having to depend on others for care.				
Very Important Reason	72%	69%	69%	75%
Important Reason	26	28	29	24
Not Very Important Reason	1	2	1	1
Not at all Important Reason	1	1	1	1
medical assistance program for the needy. Very Important Reason	39%	45%	50%	52%
Important Reason	42	40	41	39
Not Very Important Reason	15	11	7	7
Not at all Important Reason	4	4	2	3
4. Federal Government Sponsor ¹⁷				
I know that the Federal Government is sponsoring a LTC insurance				
program for Federal employees.				
Very Important Reason	7%			
Important Reason	17			
Not Very Important Reason	37	N. A	N. A	N
Not at all Important Reason	39	N.A	N.A.	N.A.

Source: LifePlans, Inc. analysis of 1,274 buyers in 2005; 2,728 buyers in 2000; 2,601 buyers in 1995; and 8,363 buyers in 1990.

to purchase a policy. Although over three-quarters of buyers were not aware of the federal program, a higher proportion (86 percent) of non-buyers indicated they did not know about it.

We were also interested in what made new buyers purchase their policies in 2005. One of the significant findings from a study of buyers and non-buyers of the FLTCIP, was that 70 percent of retired federal employee non-buyers and 54 percent of working federal employee non-buyer thought it was at least likely that they would purchase the FLTCIP (at the time they requested the application), and 52 percent of working federal employee non-buyers said they plan to purchase the FLTCIP later. He This suggested that interest in the FLTCIP was high among non-buyers; however there was something that kept them from making the purchase in the present. In an effort to understand this phenomenon, we asked new buyers in this study why they bought their policies in 2005. Figure 9 shows the results (answers are not mutually exclusive, therefore percentages do not add to 100).

An overwhelming majority of buyers said that the reason they bought the insurance in 2005 was that they knew it would get more expensive if they waited to buy it in the future. This was the reason most often chosen by buyers. Most were not too worried about their health—understandable for these younger buyers. One-third of new buyers also thought it was a good idea to have the insurance at this time and slightly less than one-quarter were comfortable with the product and the information on which to make a decision. This seems to indicate that knowledge of the fact that premiums increase with age was a large part of why buyers didn't wait to purchase policies until later.

6. The Process of Buying Individual Long-Term Care Insurance

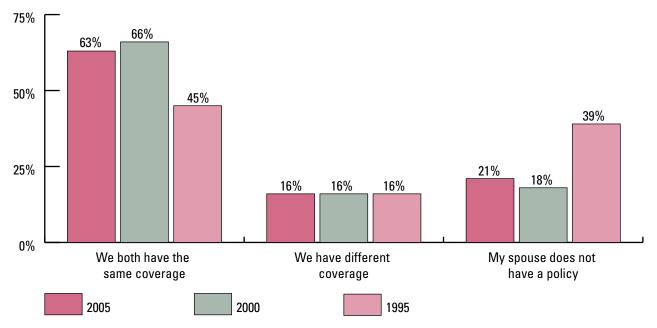
We asked buyers a number of questions relating to their experience with LTC and with the process of insurance purchase. Most buyers we surveyed (87 percent) were

80% 70% 60% 40% 31% 28% 21% 20% 14% 12% 0% Worried health Cost of Thought it I could afford Know Comfortable would prevent insurance it now with product was a good someone who would increase idea to have and have getting recently insurance later in future right now needed LTC enough information to make decision

FIGURE 9: Reasons Why New Buyers Bought Their Policies in 2005

Source: LifePlans, Inc. analysis of 1,274 buyers in 2005.

FIGURE 10: Description of Coverage Among Married Couples Who Purchased Individual Long-Term Care Insurance Policies, by Purchase Year



Source: LifePlans, Inc., analysis of 1,274 buyers in 2005; 2,728 buyers in 2000; and 2,601 buyers in 1995.

purchasing a LTC policy for the first time; the others were either replacing a previous policy (8 percent) or adding to an existing policy (5 percent).

Among married couples, 79 percent had a policy for each person, compared with 82 percent in 2000. Most companies are now offering substantial spousal discounts, and some make a counter-offer to the less healthy member of a couple if the healthier member also buys a policy. These strategies appear to be successful, as indicated by the fact that the proportion of married couples who have a policy for both persons has remained relatively constant (see Figure 10).

For the most part, the decision to purchase LTC insurance is not made alone. In addition to the insurance agent, other people—spouses, children, relatives, and financial planners—contribute to the discussion. While spouses remain the most influential (see Figure 11), followed by agents, there has been a rise in the influence of the financial planner. Only rarely do children take an active role (even less so in 2005), which is most likely due to the decrease in the average age of the buyer, hence the average age of children as well.

Recently, there has been some media focus on companies leaving the LTC insurance market or merging with other carriers and the some LTC insurers raising premiums for their LTC insurance blocks of business. We added questions to the 2005 survey to examine the awareness and importance of these issues to both buyers and non-buyers. We were interested in knowing if buyers and non-buyers had ever heard of any LTC insurance companies that had gone out of business or were no longer selling LTC insurance, and if they were aware of companies who had raised premiums for policyholders after policy purchase. Roughly one-third of both buyers and non-buyers indicated they had heard about companies who had gone out of business, while a considerable number of buyers (three out of every five) had heard of companies raising their premiums. The number was lower for non-buyers—39 percent (see Figure 12). We asked buyers if the company from which they purchased their LTC insurance had ever increased premiums for other policyholders. Twenty-nine percent weren't sure, but, of those who knew, the majority indicated that their company had not raised premiums (82 percent).

50% 40% 40% 40% 30% 27% 22% 21% 20% 14% 14% 11% 8% 10% 3% 0% Spouse Agent Financial Planner Children Other relatives/friends 2005 2000

FIGURE 11: Individuals Cited by Long-Term Care Insurance Buyers as Most Important to the Purchase Decision, by Purchase Year

Source: LifePlans, Inc., analysis of 1,274 buyers in 2005 and 2,728 buyers in 2000.

70% 32% 60% 50% 32% 40% 32% 32% 30% 20% 10% 0% Heard of any LTC companies going out of Heard of other LTC companies raising business/no longer selling LTCI premiums after policy purchase 2005 Buyers 2005 Non-Buyers

FIGURE 12: Awareness of Long-Term Care Market Fluctuation Among Buyers and Non-Buyers

Source: LifePlans, Inc., analysis of 1,274 buyers and 214 non-buyers in 2005.

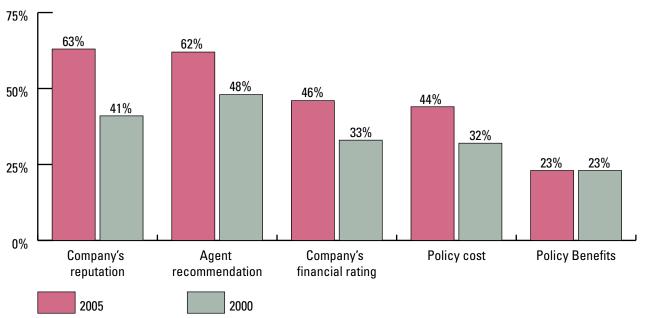


FIGURE 13: Factors Cited by Individual Long-Term Care Insurance Buyers as Important to the Purchase Decision, by Purchase Year

Source: LifePlans, Inc., analysis of 1,274 buyers in 2005 and 2,728 buyers in 2000.

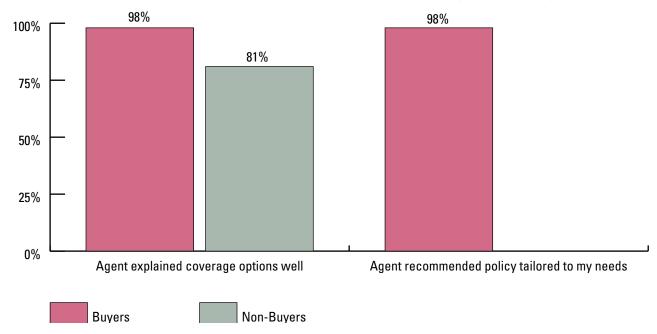


FIGURE 14: Evaluation of the Role of the Agent by Individual Long-Term Care Insurance Buyers and Non-Buyers, 2005

Source: LifePlans, Inc., analysis of 1,274 buyers and 214 non-buyers.

We also asked what made the buyers decide to purchase a LTC policy from a particular company (see Figure 13). The most common responses were the agent's recommendation and the insurer's reputation. It would seem that new buyers in 2005 view the insurer's financial rating as more important than in the past. Policy benefits were less often cited. These findings suggest that, from the point of view of consumers, differentiation at the product level is not the most important choice criterion. Interestingly, even though buyers in 2005 are much wealthier than their counterparts in 2000, they were more likely to indicate policy cost as important to their purchase decision. This may reflect the fact that younger buyers have more competing demands on their money (i.e., mortgage, college tuition, etc.).

Other factors, such as the length of time an insurance company had been selling LTC insurance, whether or not the insurer had ever raised premiums for LTC after policy purchase, and whether the policyholder had other types of insurance with the carrier they chose, had little influence on their choice of company (18 percent, 16 percent, and 14 percent respectively cited these as important).

Given the prominent role of the agent (they were ranked the highest when asked to choose the most important reason for company selection—26 percent), we asked a series of questions related to the agent's knowledge and approach to the sale. The overwhelming majority of both buyers and non-buyers felt that the agent was adept at explaining the insurance and the available coverage options; the vast majority of buyers felt that agents listened well, and that they recommended the policy best suited to the purchaser's needs (see Figure 14).

Sixty-nine percent of buyers did look at policies offered by other companies before purchasing. "Comparison shopping" suggests that the market is competitive and that agents are presenting alternatives to consumers.

A new question was added to the 2005 survey for non-buyers that asked about their plans related to the potential purchase of LTC insurance (see Figure 15). Only 31 percent indicated that they definitely did not plan to buy the insurance in the future. Thus, the majority of non-buyers do remain potential prospects for the future.

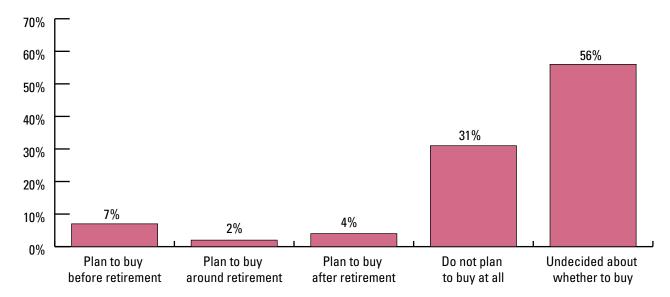


FIGURE 15: Non-Buyers' Plans for Purchasing Long-Term Care Insurance, 2005

Source: LifePlans, Inc., analysis of 214 non-buyers.

7. Use of the Internet Among Buyers, Non-Buyers, and Individuals 50 and Over

As the age of buyers and non-buyers continues to get younger and the use of the Internet among individuals age 50 and over continues to rise, we were interested in knowing what things people use the Internet for regarding LTC services and insurance. First, we asked a series of questions related to provider quality and cost. We wanted to know, if services were needed in the future, would buyers and non-buyers use the Internet to find potential providers, get information about the quality of providers, and research the cost of services (see Figure 16). Buyers are much more inclined to use the Internet to research information about service providers, which is not surprising given that they already have the insurance and are more likely to think they will need care in the future.

Next, we asked buyers and non-buyers what, if anything, they used the Internet for when they were gathering information about LTC insurance, deciding what to buy and who to buy it from (see Figure 17). Answers are not mutually exclusive, therefore percentages do not add to 100. Roughly three-quarters of buyers (74 percent) and non-buyers (78

percent) said they did not use the Internet for the specific actions listed in Figure 17. Percentages are representative of those who use the Internet. Here, we see much less variation between buyers and non-buyers. Most in both groups used the Internet to get information about LTC insurance and about half (slightly fewer buyers) used it to get information about companies selling LTC insurance. Not many people looked for LTC insurance agents on the Internet.

It would appear that while only about one-quarter of buyers and non-buyers used the Internet when researching LTC insurance, those that did used it for research on a variety of issues, most commonly basic information about LTC insurance. Perhaps, once basic information is obtained, people turn to more personal contact to get the remainder of their questions answered.

We also asked individuals age 50 and over if they would use the Internet to research a series of items related to LTC insurance. We first asked if they used the Internet and about half of those surveyed said they did (48 percent). Only those who used the Internet were asked the questions and the responses that are shown in Figure 18. The majority of Internet users surveyed said they would use the Internet when researching LTC and LTC insurance. Close to three-quarters said they would use it to get information

60% 49% 46% 40% 40% 27% 21% 20% 12% 0% Find potential providers Get information about Research the cost quality of providers of LTC services **Buyers** Non-Buyers

FIGURE 16: Use of the Internet to Research Providers and Costs of Long-Term Care Services, 2005

Source: LifePlans, Inc., analysis of 1,274 buyers and 214 non-buyers.

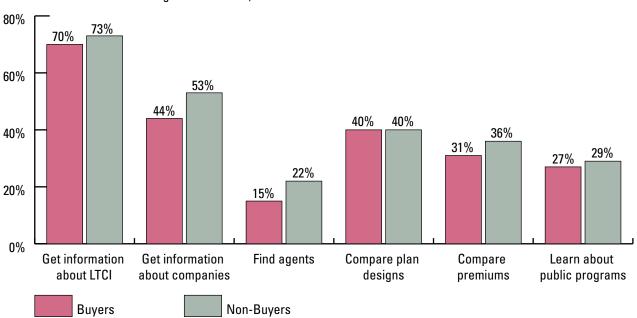


FIGURE 17: Items Researched Among Internet Users, 2005

Source: LifePlans, Inc., analysis of 1,274 buyers and 214 non-buyers.

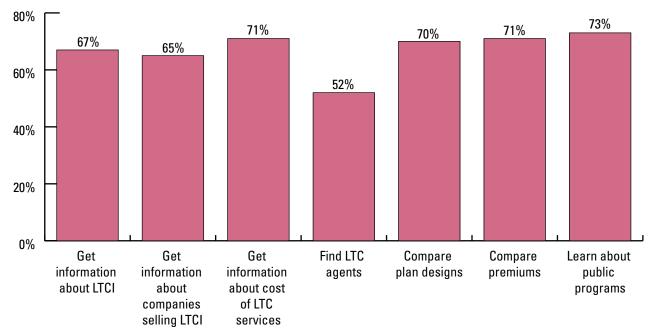


FIGURE 18: Expected Use of the Internet Among Surveyed Individuals 50 and Over, 2005

Source: LifePlans, Inc., analysis of 500 individuals age 50 and over, 2005.

about plan designs, compare premiums, get information about the cost of LTC services, and learn more about Medicare and Medicaid coverage for LTC services. Approximately two out of three said they would use it to get general information about LTC insurance and companies selling the insurance. Only about half said they would use the Internet to find agents.

8. Perceptions of Individual Long-Term Care Insurance Buyers and Non-Buyers about HIPAA

The Health Insurance Portability and Accountability Act of 1996 was touted to be one of the most important and supportive pieces of legislation for the private LTC insurance market. It clarified the tax treatment for LTC insurance by providing tax benefits for the purchase of LTC insurance. In 2000, we tested buyer knowledge of the Act, and we did so in 2005 as well. In 2000, there was a dramatic difference between the knowledge of tax deductibility among buyers and non-buyers. Only 21 percent of buyers in 2000 indicated that they did not know if premiums were tax deductible,

that figure had more than doubled in 2005 to 57 percent (see Figure 19). One explanation for this confusion may be that many companies only offer tax-qualified policies to their new buyers (and potential buyers). Therefore, whether one's policy is tax-qualified or not would not be a focal point for either the agent or the policyholder at the time of sale. Also, because so few buyers would actually be able to take advantage of the deduction (given the way it is defined), it may not be viewed as such a marketing "hot button." Not surprisingly, 65 percent of buyers did not know whether or not they had a tax-qualified policy.

While most buyers and non-buyers do itemize their income tax deductions, relatively few have medical expenses that exceed 7.5 percent of adjusted gross income (see Figure 20). But further analysis revealed that 47 percent of the buyers who itemize their deductions and do report expenses that exceed the 7.5 percent threshold did not know if they had a tax-qualified policy, suggesting that buyers may not have been aware that tax benefits were available to them.

75% 65%
50% 57% 65%

25% I did not know my premiums could be tax deductible a tax qualified policy

Buyers Non-Buyers

FIGURE 19: Knowledge of Individual Long-Term Care Insurance Buyers and Non-Buyers About HIPAA, 2005

Source: LifePlans, Inc. analysis of 1,274 buyers and 214 non-buyers.

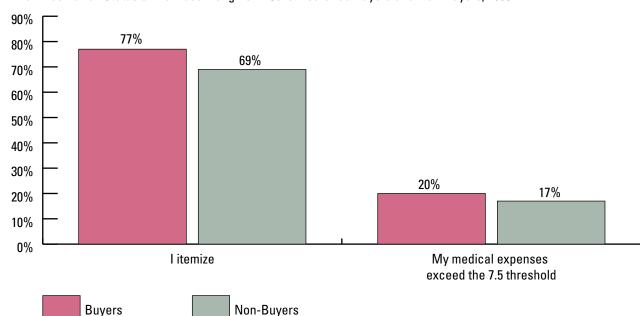


FIGURE 20: Income Tax Status of Individual Long-Term Care Insurance Buyers and Non-Buyers, 2005

Source: LifePlans, Inc., analysis of 1,274 buyers and 214 non-buyers.

9. Reasons Individuals Do Not Purchase Long-Term Care Insurance Policies

As previously mentioned, more than 80 percent of individuals over the age of 65 (with incomes greater than \$20,000) do not have a LTC insurance policy. For the population age 45 and over, the figure is closer to 95 percent. Thus, there remains a great deal of potential for the market to expand. Between 1990 and 2005, non-buyers cited cost as the most significant barrier to purchase, although the percentage has steadily, if modestly, decreased. A number of other factors also contribute to the relatively modest market penetration of LTC insurance. These factors relate to skepticism about insurance companies, a lack of understanding about the risk of needing LTC, confusion about what the government does and does not pay for, and lack of knowledge about the product. To gauge the importance of these and other reasons, we asked non-buyers to indicate why they chose not to buy a policy (see Table 12). We asked whether a specific reason was "very important," "important," "not very important," or "not at all important" to their decision not to buy a policy. We focus on the differing proportions of individuals who cited a reason as "very important."

Cost was cited most frequently as a very important reason for deciding not to buy. While the proportion of non-buyers citing cost has remained fairly stable between 1990 and 2005, confusion about choosing the right policy dramatically declined. In 1990, 54 percent of non-buyers said it was too confusing to know which policy was right for them, but, by 2005, this figure had dropped to a low of 14 percent. This drop reflects greater knowledge about LTC insurance among the target population and attests to the fact that agents are more knowledgeable and helpful now than in the past.

Also, fewer individuals indicated that they were waiting for better policies before deciding whether or not to buy. Product innovations have gone a long way toward meeting consumer expectations. The proportion of non-buyers citing the presence of government programs as a reason for not buying continues to decrease.

Given the continued shift over the years in the average age of non-buyers and the rapid growth and change in the service delivery landscape, we were interested in knowing if the types of service covered by the policies were an important issue to non-buyers in 2005. We posited the statement "I was concerned that a policy that I bought today would not cover the types of services that I might need in the future" and asked if that influenced their decision not to buy a policy. About one-quarter said that this was a very important reason for them not to buy a policy.

Figure 21 highlights just how responsive insurers have been to consumer concerns raised over the 10 years between 1995 and 2005. The proportion of people who said they were not buying because they were waiting for better policies or don't believe insurers had been cut in half to less than 20 percent. Also, the vast majority of non-buyers (86 percent) did not find choosing a policy that is right for them confusing.

10. Factors That Would Make Non-Buyers More Likely to Purchase Individual Long-Term Care Insurance Policies

Given recent federal activities to support the growth in the LTC insurance market, it is clear that policymakers are looking toward the private market to play a growing role in financing LTC. How to encourage such growth is a concern for policymakers and the industry alike. While this 15-year period has witnessed rapid growth in the market, fewer than 10 percent of all Americans have coverage. Finding ways to make the product more attractive to consumers is clearly a challenge.

To begin to understand how the product might be configured or marketed more successfully, or what role the government might play in support of the product, we asked non-buyers what might make them more interested in purchasing a policy (see Table 13). Respondents were asked to indicate whether a factor would make them "much more interested," "more interested," "not more interested," or "not at all interested."

More than three in four 2005 non-buyers would have been more interested in buying a policy if they could deduct all of their premiums regardless of income, if they thought the

Reasons for Non-Purchase of Insurance	2005	2000	1995	1990
1. Policy Cost				
TC insurance costs too much.				
Very Important Reason	53%	54%	57%	58%
Important Reason	30	30	32	33
Not Very Important Reason	9	10	6	6
Not at all Important Reason	8	6	5	3
2. Policy Design /Attitude about Insurer				
t's too confusing to know which policy is right for me.				
Very Important Reason	14%	18%	28%	54%
Important Reason	26	28	37	33
Not Very Important Reason	24	25	16	6
Not at all Important Reason	36	29	19	7
felt that there were too many conditions that had to be met pefore someone could receive benefits.				
Very Important Reason	22%	25%	30%	
Important Reason	33	34	34	
Not Very Important Reason	22	21	17	
Not at all Important Reason	23	20	19	Did Not Asl
am waiting for better policies.				
Very Important Reason	19%	28%	32%	41%
Important Reason	32	30	32	34
Not Very Important Reason	20	16	16	15
Not at all Important Reason	29	26	20	10
don't believe that insurance companies will pay benefits as stated in the policy.				
Very Important Reason	17%	15%	21%	36%
Important Reason	25	29	25	35
Not Very Important Reason	30	27	24	14
Not at all Important Reason	29	29	30	15
was concerned that a policy bought today would not cover the ypes of services that I might need in the future.				
Very Important Reason	23%			
Important Reason	32			
Not Very Important Reason	24			
Not at all Important Reason	21	N.A.	N.A.	N.A.
Financial Exposure I need LTC services, I believe that Medicare will pay. ²⁰				
Very Important Reason	4%	6%	15%	20%
Important Reason	16	18	27	38
Not Very Important Reason	42	37	28	24
Not at all Important Reason	38	39	30	17

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Reasons for Non-Purchase of Insurance	2005	2000	1995	1990
If I need LTC services, I believe that Medicaid will pay. 21				
Very Important Reason	5%	9%	12%	20%
Important Reason	14	13	24	38
Not Very Important Reason	32	29	24	24
Not at all Important Reason	49	49	40	17
If I need LTC services, my family will take care of me.				
Very Important Reason	5%	6%	8%	9%
Important Reason	15	17	22	26
Not Very Important Reason	33	30	28	31
Not at all Important Reason	47	47	42	34
I don't mind using my own income and assets to pay for whatever				
care I may need.				
Very Important Reason	13%	11%	15%	22%
Important Reason	36	32	41	50
Not Very Important Reason	27	30	22	17
Not at all Important Reason	24	27	22	11
4. Other				
I don't think I will ever need services.				
Very Important Reason	5%	10%	9%	15%
Important Reason	21	24	25	41
Not Very Important Reason	38	39	36	29
Not at all Important Reason	36	27	30	14
My spouse could not get coverage so I did not want to buy a				
policy.				
Very Important Reason	22%	17%	11%	20%
Important Reason	9	17	12	21
Not Very Important Reason	14	19	17	16
Not at all Important Reason	55	47	60	43
I had concerns that the insurance company would raise premiums				
after I bought a policy.				
Very Important Reason	24%			
Important Reason	31			
Not Very Important Reason	25			
Not at all Important Reason	20	N.A.	N.A	N.A

Source: LifePlans, Inc. analysis of 214 non-buyers in 2005; 638 non-buyers in 2000; 1,245 non-buyers in 1995; and 1,750 non-buyers in 1990.

government would provide stop-loss coverage once their private insurance benefits ran out, if they could get discounts on the cost of services, or if they felt premiums would remain stable over time. Fewer non-buyers would be influenced by an option to use funds from an individual retirement account (IRA) or a 401(k) plan to pay premiums. Opinions have remained somewhat stable over this 10- year period. However, there was a

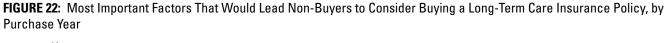
slight increase in the proportion of non-buyers that would have been more interested if they could use non-taxable funds to pay for their premiums.

We then asked non-buyers to identify the single most important factor that would make them much more interested in buying a policy (see Figure 22). A government stop-loss program

75% 57% 58% <u>53</u>% <u>54</u>% 54% 50% 41% 36% 29% 28% 25% 20% <u>16%</u> 1<u>5%</u> 19% 18% 14% 0% Don't believe Hard to Too costly Waiting for insurers choose policy better policy 2000 1990 2005 1995

FIGURE 21: Most Frequently Cited as Very Important Reason for Non-Purchase of Individual Long-Term Care Insurance, by Year

Source: LifePlans, Inc., analysis of 214 non-buyers in 2005; 638 non-buyers in 2000; 1,245 non-buyers in 1995; and 1,750 non-buyers in 1990.



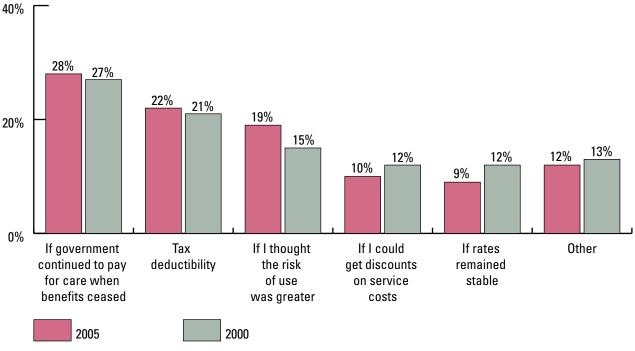


TABLE 13: Factors That Would Make Non-Buyers More Interested in Purchasing Long-Term Care Insurance Policies by Purchase Year

Factors Influencing Potential Purchase for Non-Buyers	2005	2000	1995
If I could deduct premiums from my income tax, I would be			
Much more interested	41%	37%	45%
More interested	42	44	36
Not more interested	11	10	10
Not at all interested	6	9	8
If I were certain that the government would continue to pay for my care, even after I	used		
up my private insurance benefits, I would be			
Much more interested	33%	33%	
More interested	44	45	
Not more interested	17	15	
Not at all interested	6	7	N.A.
If I were certain that the premiums that I paid would not increase over time, I would	be		
Much more interested	30%	29%	36%
More interested	49	50	51
Not more interested	16	14	8
Not at all interested	5	7	5
If I thought there was a good chance that my spouse or I would need LTC services in	the		
future, I would be			
Much more interested	25%	20%	27%
More interested	47	48	52
Not more interested	23	24	16
Not at all interested	5	8	5
If I could use non-taxable funds such as IRAs or 401Ks to pay premiums, I would be			
Much more interested	20%	11%	
More interested	34	32	
Not more interested	31	33	N.A.
Not at all interested	15	23	
If I could get discounts on the costs of services covered by the policy, I would be			
Much more interested	27%	21%	
More interested	50	52	N.A.
Not more interested	17	20	
Not at all interested	6	7	

Source: LifePlans, Inc. analysis of 214 non-buyers in 2005; 638 non-buyers in 2000; and 1,245 non-buyers in 1995.

(perhaps similar in structure to the Partnership Programs), as well as tax deductibility, are the two most important factors that non-buyers say would make them more interested in buying a policy. Given the fact that non-buyers appeared to understand and evaluate LTC products better, offering some form of rate guarantees and service discounts may become an important base on which to compete by further enhancing confidence in the market and leading to greater marketing success.

11. Willingness to Pay for Individual Long-Term Care Insurance Policies

How much would non-buyers be willing to pay for a policy that met their needs? On average, 2005 non-buyers were willing to pay about \$112 per month, or \$1,344 per year, for a LTC insurance policy (see Figure 23). This is roughly two-thirds of the average premiums paid by buyers of the same age. This

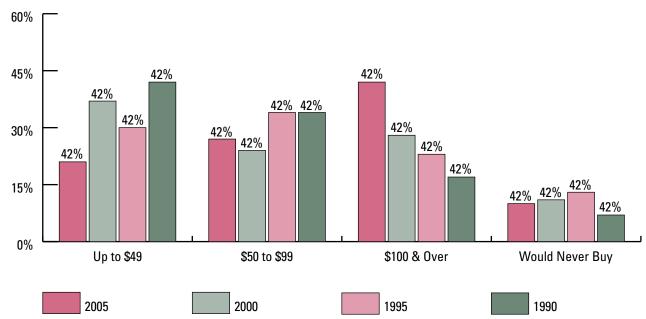


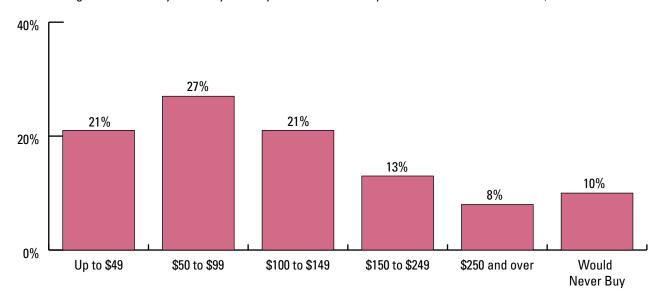
FIGURE 23: Willingness of Non-Buyers to Pay Monthly Premiums for Policy That Would Meet Their Needs, by Purchase Year

Source: Based on analysis of 214 non-buyers in 2005; 638 non-buyers in 2000; 1,245 non-buyers in 1995; and 1,750 non-buyers in 1990.

figure represents an increase from 2000, where the average premium non-buyers were willing to pay was \$77 per month. In fact, the proportion of non-buyers willing to pay over \$100 per month in premiums has increased significantly. Figure 24 shows a further breakdown, indicating that 21 percent would be

willing to pay between \$100 and \$149 and another 13 percent between \$150 and \$250. Given the decrease in age and the increase in wealth for these non-buyers, this is not surprising. The percentage of non-buyers who indicated that they would

FIGURE 24: Willingness of Non-Buyers to Pay Monthly Premiums for Policy That Would Meet Their Needs, 2005



Source: Based on analysis of 214 non-buyers in 2005.

TABLE 14: Percentage of Non-Buyers Willing to Pay Average Monthly Premiums Paid by Buyers in 2005, 2000, 1995, and 1990, by Age

Age Group	A	verage Monthl	ge Monthly Premiums Paid Percent of Non-Buyers Willing to Pay Average Monthly Premium			•			
	2005	2000	1995	1990	2005	2000	1995	1990	
All Ages	\$168	\$140	\$121	\$90	24%	15%	16%	28%	
55 to 64	\$154	\$104	\$77	\$60	25%	17%	25%	38%	
65-74	\$172	\$145	\$120	\$89	21%	15%	15%	26%	
75+	\$237	\$218	\$179	\$145	14%	14%	11%	8%	

Source: Based on analysis of 1,274 buyers and 214 non-buyers in 2005; 2,728 buyers and 638 non-buyers in 2000; 1,245 non-buyers and 2,601 buyers in 1995; and 1,750 non-buyers and 8,363 buyers in 1990.

never buy a policy has remained relatively low and stable over this 15-year period.

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

Between 14 percent and 25 percent of non-buyers would, under the right circumstances, be willing to pay the premium level for policies being sold to their age group (see Table 14). This represents an increase from 2000 across all ages except the oldest. Although there has been an increase, still only about one-quarter of non-buyers are willing to pay what it would cost them for a policy—a relatively low number. This would suggest that most non-buyers still may not see the value of the policy relative to its cost.

12. Attitudes Toward Government and Private Sector Roles in Financing Long-Term Care

Confusion about the current or potential role of the government in financing LTC can have a major impact on the growth of the LTC insurance market. If individuals believe they are covered for LTC or believe that the government is likely to provide coverage in the future, they have little incentive to take personal responsibility and acquire a policy today. However, the government does not appear likely to provide coverage for LTC as a universal entitlement. Congressional actions such as the passage of HIPAA, the implementation of a federal employee LTC insurance program, the expansion of LTC partnership programs under the Deficit Reduction Act of 2005 (DRA) and the bipartisan effort to pass an above-the-line tax deduction for LTC insurance all point toward a policy in support of personal responsibility for financing one's LTC needs.

Given this public policy environment, it is important to gauge how buyers, non-buyers, and individuals age 50 and over in the general population view the role of government and the private sector in LTC financing (see Table 15). Across all groups, the majority does not believe that the government will pay for all LTC services within the next 10 years. It is interesting to note that there has been a general decrease in those agreeing with this statement—perhaps indicating less optimism about any government programs covering LTC.

There is also a consensus that individuals will have to assume greater responsibility for financing their LTC needs. This attitude has remained fairly stable between 2000 and 2005, with a slight increase in the already high proportion of buyers who agree with this statement. Similarly, most people do not believe it is the responsibility of the federal government to pay for everyone's LTC needs without regard to personal resources. Finally, those who have purchased insurance are more than twice as likely to agree that insurers provide products that

TABLE 15: Attitudes About Government and Private Sector Roles in Financing Long-Term Care, 2005 and 2000

Opinions About LTC Financing		2005		2000			
_	Buyers	Non-Buyers	Surveyed individuals 50+	Buyers	Non-Buyers	Surveyed individuals 55+	
It is the federal government's responsibility to pay for LTC needs of all people							
Agree	25%	32%	34%	26%	35%	42%	
Disagree	75	68	61	74	65	52	
Don't know	_	_	5	_	_	6	
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 LTC							
Agree	96%	85%	79%	91%	85%	77%	
Disagree	4	15	16	9	15	17	
Don't know	_	_	5	_	_	6	
Within the next 10 years, my state or the federal government will have a new LTC program to pay for all individuals							
Agree	12%	22%	26%	24%	35%	38%	
Disagree	86	73	63	76	65	49	
Don't know	1	5	11	-	_	13	
Private insurance companies provide good LTC products that are a good value for the money							
Agree	77%	33%	32%	78%	30%	34%	
Disagree	17	61	42	22	70	40	
Don't know	6	6	25	_	_	26	
It is the federal government's responsibility to encourage people to buy LTC insurance by allowing premiums to be fully tax deductible whether or not one itemizes							
Agree	90%	84%	73%				
Disagree	10	16	21	N.A.	N.A.	N.A.	
Don't know	_	_	6				
Private insurance companies should help policyholders find LTC providers when they need them							
Agree	84%	71%					
Disagree	15	28	N.A.	N.A.	N.A.	N.A.	
Don't know	1	1					

Source: Based on analysis of 1,274 buyers and 214 non-buyers in 2005; 2,728 buyers and 638 non-buyers in 2000; 503 general elders age 50 and over in 2005; and 500 general elders age 55 and over in 2000.

30% 26% 26% 22% 20% 16% 10% 10% 0% Offer more tax Ensure provider Provide Provide A governmentincentives for sponsored LTC quality information information on purchase of insurance standards on LTC risk how to choose private insurance program and payment a policy

FIGURE 25: Single Most Important Action Government Should Take, Responses from Surveyed Individuals Age 50 and Over, 2005

Source: Based on analysis of 500 individuals age 50 and over in 2005.

are a good value for the money than non-buyers and general respondents. Again, this pattern has remained fairly stable over this 5-year period.

For 2005, we added two new statements—one regarding tax deductibility and another about whether insurers should assist individuals who become disabled to find service providers. The overwhelming majority of all three groups agreed that the government should allow premiums to be tax deductible regardless of whether one itemizes and that insurers should provide assistance to policyholders who need services. It is noteworthy that more than three-quarters of non-buyers and individuals surveyed from the general population believe it is the federal government's responsibility to encourage people to buy insurance through the provision of a tax deduction.

In Figure 25, we present information about the single most important specific actions that individuals age 50 and over believe the government should take in the area of LTC.

Roughly one in four Americans believe that the single most important government action is to offer more tax incentives for the purchase of private insurance policies.

The same number believe that offering individuals the option

of buying a government-sponsored long-term insurance plan is the most important governmental action. This is a particularly interesting finding because it suggests equal support for private insurance contracts and a government-sponsored plan. This is a change from 2000, when there was greater support among surveyed individuals for tax incentives (32 percent) than for a government sponsored plan (24 percent).

13. Knowledge of Surveyed Individuals Age 50 and Over Regarding Long-Term Care Insurance

We asked individuals age 50 and over a series of questions about LTC insurance. Respondents were asked whether or not they knew of companies that offered LTC insurance that covered extended nursing home or assisted living stays or home health care services, whether they had ever been approached to buy such a policy, and whether they knew anyone who had a policy.

Since 1995, there has been a major shift in knowledge about LTC insurance (see Figure 26). Two-thirds of individuals age 50 and over are aware of companies that offer this insurance.

In 1995, that proportion was closer to two in five. Although there has been a marginal decrease in the proportion of those who have been approached to buy insurance or have considered buying it (perhaps due to the fact that the individuals surveyed were 50 and over in 2005, but 55 and over in 2000), a significant number still reported they have been approached

or considered buying the insurance. Not shown in the figure is that roughly 43 percent of individuals with incomes greater than \$25,000 have considered buying a policy, compared with only 29 percent of those with lower incomes. As was true in 2000, the data suggest a great deal of opportunity for continued market expansion and consumer education.

75% 66% 63% 50% 46% 45% 43% 38% 38% 28% 25% 21% 0% Aware of insurance Been approached Considered covering LTC to buy LTC buying LTC 2005 2000 1995

FIGURE 26: Awareness Among Individuals Age 50 and Over of Long-Term Care Insurance

Source: Based on analysis of 500 individuals age 50 and over surveyed in 2005; 500 individuals age 55 and over surveyed in 2000; and 1,000 individuals age 55 and over surveyed in 1995.

CONCLUSIONS

Results from this study show that LTC insurance products appeal to a very different market than in 2000. Buyers are much younger, have higher incomes and asset levels, and more likely to be college educated. They are purchasing very comprehensive products with higher daily benefit amounts whose value is protected by the decision to purchase inflation protection.

Although attitudes have remained fairly constant in some areas over the years, especially in terms of barriers to purchase, there has been a shift toward a more positive view of the private insurance industry and the products it sells. Responses clearly show the potential for an increase in market penetration. Over half of non-buyers stated they believed they faced a greater than 50 percent chance of needing care at home, in a nursing home, or assisted living facility, and even individuals surveyed in the general population were more inclined than before to say the same. Also, 70 percent of non-buyers seem to be considering the purchase of LTC insurance at some point in the future.

Our survey documents a continuing shift in the economic profile of buyers, driven in large part by the fact that the majority of current buyers are in the labor force. The average income and asset level of buyers has increased substantially during the 15-year period between 1990 and 2005. While a substantial proportion of buyers could still be considered middle class, a growing number of individuals with significant levels of income and liquid assets are purchasing the policies. They are doing so primarily to protect their assets, to preserve their financial independence, to avoid having to depend on others for care, and to guarantee the affordability of services. They also appear to be conscious of the increasing costs of the insurance as an overwhelming majority (70 percent) stated they bought in 2005 because they knew the cost of the insurance would increase as they age.

The decision to purchase LTC insurance is not made alone, and the role of the agent in the process is critical. Most buyers cited spouses and agents as having the most influence on their decision to buy a policy. The agent's recommendation and the insurer's reputation are the most important factors behind a specific choice

of company. Whether or not someone ultimately chose to buy a policy, there was a consensus that agents were knowledgeable, good communicators, and good listeners.

Questions about LTC market fluctuations and rate stability were asked of buyers and non-buyers in this survey to see whether and how these issues have affected the purchase decision. Thirty-two percent of buyers and 28 percent of non-buyers had heard of LTC insurance companies that had gone out of business or were no longer selling LTC insurance. A substantial proportion of buyers (61 percent) indicated that they had heard of companies who had raised their premiums for existing policyholders, while 39 percent of non-buyers indicated the same. This reflects the implementation of the new disclosure requirements adopted by the National Association of Insurance Commissioners and adopted by many states that require informing consumers of prior rate increases by companies selling LTC insurance. Therefore, it would seem that there is awareness, particularly among buyers, of the rate stability issues in the industry.

Cost continues to be the most significant barrier to purchase. While there are other factors behind the decision not to buy, they are less important now than they were a few years ago. For example, in 1990, almost all non-buyers indicated that it was too confusing to know which policy to buy; in 2005, 40 percent felt that way. Also, even among non-buyers, a majority believed that insurers will pay benefits as stated in the policy; in 1990, about three in four did not believe this. Thus, there has been an enormous positive shift in attitudes about the product and the insurer.

A government stop loss program in which the government continues to pay for LTC when private benefits run out (much like the Partnership programs of today and those that will be enabled by the DRA) was ranked as the most important factor that would make non-buyers more interested in buying. This was followed closely by premium deductibility. Also, one in four Americans age 50 and over think that the single most important thing government can do is to offer tax incentives for the purchase of private insurance policies.

The shift in attitudes observed over time, with respect to the role of the public and private sectors in LTC financing, has continued and is important to note. A majority of individuals believe that they will have to rely on themselves to pay for LTC, in part because they do not believe that the government—either federal or state—will implement new programs. Moreover, most do not believe that it is the government's responsibility to pay for LTC.

There is much greater knowledge of LTC insurance among the general population age 50 and over. Most have heard of LTC

insurance and many have actually considered its purchase. This represents a dramatic change from 1995. Still, the data suggest that there is a great deal of untapped market potential. Given the favorable public policy environment, the improvements in product design, and the growing interest among Americans age 50 and over in acquiring this insurance, the market for LTC insurance is ripe with potential. Over time, this insurance will play a more meaningful role in meeting the needs of disabled elders and financing their LTC needs.

NOTES

- 1 Previous studies were sponsored by the Health Insurance Association of America (HIAA). In 2004, HIAA merged with the American Association of Health Plans. This merged organization is now America's Health Insurance Plans (AHIP).
- 2 LTC Financing Strategy Group, 2005. (Washington, D.C.) http://www. ltcg.com/INDEX%20of%20Long%20Term%20Care.pdf
- 3 One company does not use agents in its sales process; instead, it uses a direct mail marketing technique and holds sales seminars. For that company, a non-buyer is someone who requested and received enrollment materials, including applications, rate sheets, and an outline of coverage, but who did not buy. It may also include individuals who attended a seminar on the company's LTC plan.
- 4 The California Public Employees Program is one of the largest self-insured programs in the United States.
- In previous years, weights were calculated for non-buyers; however, due to the fact that the current sample contains not-takens as well, there was no available information with which to calculate weights. Therefore, the non-buyer data for this report is unweighted. Also, an analysis of results shows no significant differences in key socio-demographic or attitudinal variables by company. Therefore, there is no need for weighting this sample.
- 6 See Who Buys Long-Term Care Insurance in 2000? A Decade of Study of Buyers and Non-Buyers. Health Insurance Association of America (Washington, D.C., 2000).
- 7 See Health Insurance Association of America, Policy and Research Findings, Who Buys Long-Term Care Insurance? (Washington, D.C. 1992).
- 8 See Health Insurance Association of America, Managed Care and Insurance Operations Report, *Who Buys Long-Term Care Insurance? Profiles and Innovations in a Dynamic Market 1994-1995* (Washington, D.C.1995).
- 9 This was done by using the data from the MetLife Mature Market Survey of Nursing Home and Home Care Costs for 2005. Data in this survey was broken down by zip code; therefore, we were able to match each respondent in our survey to the appropriate region in the MetLife survey

- by zip code. The MetLife Survey reported the private room rate and the semi-private room rate for each region. For the purposes of this analysis, we used private room rates.
- 10 This refers to average nursing home duration. Lifetime coverage is evaluated at 10 years.
- 11 This figure also accounts for the value of home care benefits in integrated "pot of money" products.
- 12 Estimates only. Typically the home care benefit was 50% of the nursing home benefit.
- 13 Note that 6% of new policyholders had a guaranteed purchase option for benefit upgrades. This 6% is not included in the total percentage of individuals who purchased inflation protection.
- 14 This refers to average nursing home duration. Lifetime coverage is evaluated at 10 years.
- 15 This refers to average nursing home duration. Lifetime coverage is evaluated at 10 years.
- 16 The 1990 study gives the reason as "protecting my family's standard of living".
- 17 This distribution of responses applies to the 21% who knew that the Federal Government was sponsoring a program.
- 18 A Demographic and Attitudinal Profile of Non-Buyers of the Federal Long-Term Care Insurance Program Data Brief prepared for the U.S. Department of Health and Human Services, August 2004.
- 19 A counter-offer occurs when an individual wants to purchase a particular policy design configuration, but because of that person's health situation, the company offers a policy that typically is less comprehensive in its coverage. This is done in lieu of an outright rejection.
- 20 In 1990, only a single question was asked: "I believe government will pay."
- 21 In 1990, only a single question was asked: "I believe government will pay."





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