TESTIMONY
LONG TERM CARE PARTNERSHIPS

House Aging & Older Adult Services Committee
January 27, 2016

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Thank you for giving myself and the Pennsylvania Association of Health Underwriters (PAHU) an opportunity to testify today. For the record, my name is Vince Phillips. I serve as Lobbyist for the Pennsylvania Association of Health Underwriters, an association whose members are specialists in health insurance and employee benefits. One of my passions is long-term care insurance. Today I will present a view of the marketplace with a particular eye on the Long-Term Care Partnership.

First, why this passion? There are several reasons. First, it is important for people to take care of themselves if at all possible. Insurance protects individuals from catastrophic expenses from unforeseen situations. Even though this makes sense and statistics suggest that more and more of our rapidly aging population will need some sort of long-term care services, the real world suggests that:

- A person is in the market for long-term care insurance when he or she has a pretty good idea they will need it. This is called adverse selection and is a big reason why long-term care insurance is so expensive. You have too few policyholders paying premiums and too many expensive claims. It is like wanting Flood Insurance because the water is creeping up the driveway. OR…
- A person sees the value of long-term care insurance as a way to secure health care and preserve what a lifetime has built but it is unaffordable. Sadly, I am a case study. I had long-term care insurance until the Great Recession. In those hard times as a sole proprietor I had to cut discretionary expenses. Now, my premium would be sky-high because of major surgery in 2014. Thankfully, my recovery did not require long-term care services and my medical insurance was able to help whereby I only ended up paying $3,300.00 out of an almost $90,000 hospitalization/surgery bill. OR…
- A person counts on Medicaid to pay for long-term care and citizens are entitled to Medicaid.

And that's a nice transition to Long-Term Care Partnerships.

As you may know, the Long-Term Care Partnership existed in four states (California, Indiana, New York, and Connecticut) until the Omnibus Budget Reconciliation Act of 1993 when concerns about Medicaid estate recovery prompted Congress to not allow any more. Thanks to the national leadership of two former Pennsylvania State Senators Democrat Allyson Schwartz and Republican John Peterson, the U.S. Congress passed the Deficit Reduction Act which allowed additional states like Pennsylvania to petition the Centers for a Medicaid waiver.

This waiver was granted so that Pennsylvanians may shelter some of their assets from Medicaid spend-down so as to be able to purchase a private sector long-term care insurance policy which pays for their long-term care needs. PA enacted Act 40 of 2007 (Senate Bill 548) on July 17, 2007.

The Partnership goal is to reduce growth in Medicaid spending and to encourage personal responsibility for people with the means to decide for themselves what care they want rather than become wards of the state. More Partnership policies mean less pressure on added Medicaid expenditures – something not to be taken lightly with Medicaid's expansion under the3 Affordable Care Act and the eventual financial contribution PA will be required to make.

The Partnership Market Now

The outlook is not good.

The NAIC's Long-Term Care Insurance Experience Reports for 2014 ranked the top ten long-term care companies by market share in Pennsylvania. Whether they can sell long-term care Partnership policies or not was taken from the PA Insurance Department's Approved Long-Term Carriers in Pennsylvania which identifies which companies offer Partnership products. (Status as of 6/5/2015)

Rank	Company	Percent of Market	Partnership Policy Available
1	Genworth	23.98	yes
2	John Hancock	14.11	no (1)
3	Met Life	8.14	yes
4	Continental	7.05	no
5	Unum	4.95	no
6	Prudential	3.07	no
7	Bankers Life	2.77	yes
8	Senior Health	2.74	not on PID list
9	Northwestern	2.74	no
10	RiverSource Life	2.504	not on PID list

What that means is that three of the top ten carriers in the long-term care market are approved to offer Partnership policies. That is 34.89 percent (84,719 policies out of 277,532 in the top ten).

The picture is even bleaker. Consider this Met Life statement:

`Long Term Care Insurance helps protect your hard-earned assets, and provide more control over how and where you receive care should you need it. While we have decided to stop selling new long-term care insurance (LTCI) coverage, this decision will have` **`no impact`** `to the coverage of our existing LTCI customers.`

(1) *There is one statistical discrepancy in that John Hancock Life Co. USA (NAIC #65838) is the number two company in market share but PID shows that it is not approved to offer Partnership policies. The PID document shows John Hancock with a different NAIC number – 65099 – but it is also not showing an approved Partnership product.*

Why is there such a limited presence of Partnership policies?

The message I receive from insurance brokers is that the mandatory inflation protection for policyholders under age 76 increases the cost of a Partnership policy by as much as 50% over a non-Partnership long-term care insurance policy. An inflation protection provision may not be for a limited time (such as ten or 20 years). Since long-term care insurance is already expensive, adding 50% makes a Partnership unattractive.

Why would companies push a product which is non-competitive? Why would brokers spend time on a product that may be desirable but not affordable?

Another obstacle is ineffective consumer education on Partnerships possibly because the message is unclear or simply lack of a consistent outreach budget to promote the purchase of Long-Term Care Partnership policies. An important part of this campaign should be to encourage citizens to sit down with someone knowledgeable—a licensed insurance expert who can help a person compare options and reach his or her own decision. The message should be that the time to meet is now when the person is younger and healthier, not when the person is older and frail.

The message should also be about more than the financial consideration even those are critical. It is a decision involving what is going on in society where kids move on and simple aren't there to take care of mom or dad. Long-term care insurance and the Partnership represent a way for the kids to have some peace of mind and perhaps some security from parents not being forced to liquidate assets on their path to welfare.

Persuading someone to make a decision as important as long-term care insurance does just not happen with a billboard or a glossy mail campaign, no matter how catchy the slogan. It is a retail person to person connection that makes the sale. What the outreach does is to establish a concept and a perception of need or want. The broker is the one to make the system work by convincing someone to make the decision to be insured.

Other Obstacles to Selling Long-Term Care Insurance, not Just Partnerships

- Adverse selection – already discussed
- This is not an easy product to sell because it is complex and requires repeated visits and a lot of time. It's not like selling someone a term life policy. This is involved with activities of daily living triggers, Medicaid issues, etc.
- Federal marketing rules make it difficult for insurance brokers to try to address a consumer's total financial needs since if a consumer asks about an annuity while in a conversation on long-term care insurance, the broker has to say that he or she cannot but will make an another appointment to do so at least 24 hours hence.
- A younger healthier person may simply not have the cash flow to purchase a discretionary product like this.

- In 2012, 55 percent of long-term care insurance policies in force were administered by companies no longer in the market and it is worse now with Met Life's decision.
- There is a perception that Medicaid will be there so why purchase a private sector policy. Some have called long-term care insurance the Middle Class Entitlement Program because some anticipate Medicaid meeting that need. They may not realize that there is a shortage of facility beds and that Medicaid long-term care may mean going to a location not of one's choosing. They may not appreciate the rigors of the Medicaid 'spend-down' process.

Some Potential Plusses

Thus far, I have been discussing individual long-term care insurance policies. Group long-term care insurance sales are sluggish with only 11,000 employers in the US sponsoring coverage in 2012 per the 2014 Annual Intercompany Long-Term Care insurance Conference.

There are some notes of encouragement for individual sales.

Number of lives covered has remained constant with 7.4 million people having long-term care insurance (2012) despite the decline in the number of new policies sold.

LIMRA, a life insurance research organization, said that acceleration life insurance policies which provide long-term care benefits up to the amount of the life death benefit and are commonly riders on many life insurance products, grew 18 percent in 2013. The American Association for Long-Term Care Insurance said that there were 85,000 combination (life plus long-term care insurance) policies purchased in 2012.

That is 85,000 out of 322,000 who purchased long-term care insurance in 2012, a drop in the bucket considering the need but encouraging nonetheless.

In addition, long-term care insurance premiums are an allowable expense for someone having a Health Savings Account, part of the market which is increasing.

Another positive is that Federal law permits a partial exemption for long-term care insurance premiums in the Schedule A tax form. Each year, the amount is adjusted upwards. For 2016, $390 can be deducted for persons aged 40 or under. It goes up to $4,870.00 for policyholders over 70 years old. This positive is undercut by a provision in the Affordable Care Act which increased the threshold for claiming a medical expenses deduction from 7.5% of adjustable gross income to 10 percent. That means that fewer taxpayers can use this deduction.

The last positive is you. Convening this hearing on Long-Term Care Partnerships, the House Aging & Older Adult Services Committee has given long-term care insurance visibility. Hopefully, it will stimulate thinking among legislators as to what can be done to encourage growth in this market. Ideas such as tax credits for purchasers of long-term care insurance or premium tax offsets for insurance companies that start selling long-term care insurance policies in PA should be thought out and I hope additional hearings will take place.

By enacting Act 64 of 2015 (House Bill 753 sponsored by Rep. Lynda Schlegel Culver) and supported by the Wolf Administration, PA will have a Long-Term Care Council to look at many issues surrounding long-term care including how the private sector insurance market can play a role in meeting those needs.

Conclusion

Partnerships are a positive approach to solving two problems. First is the fiscal problem that comes with an exploding Medicaid long-term care budget. A Partnership policy is a hedge against expenditure of tax dollars for those who can choose to take care of themselves by purchasing this insurance product. Second is an emphasis on a person taking responsibility for the future instead of waiting on someone else to do it.

I believe that the Partnership is a noble idea which could hopefully take root with proper education and outreach by both the insurance industry and the government, it will certainly grow. Please let know how we can be a resource to help.

Thank you again for giving me the chance to testify.