

FINANCIAL RISKS DUE TO LONG-TERM CARE

August 15, 2016

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SUMMARY

This report characterizes the current landscape and outlook of long-term care utilization, its costs, and its financing through out-of-pocket payments, private insurance, and public insurance. We draw on academic and trade literature and present new statistics based on primary research. In particular, we analyze cost reports of skilled nursing facilities (SNFs), *Form 5500 Annual Return/Report of Employee Benefit Plan* (“Form 5500”) filings, and the Health and Retirement Study (HRS).

Approximately one-half of Baby Boomers are projected to require paid, formal long-term care in the home, an adult day care center, an assisted living facility, or a nursing home. Paying for care out of pocket will rapidly exhaust retirement savings of many Americans, forcing them to eventually rely on Medicaid. Indeed, more than one-half of nursing home patients who have been resident for five years or longer are Medicaid beneficiaries. The size of the Baby Boom generation is expected to drive up demand for and prices of long-term care, creating a troublesome outlook for the elderly’s personal finances and the Medicaid program.

In light of the strained finances of Medicaid and other public payors, potential solutions will likely involve expanded private insurance. At present, only about 7 million Americans are covered by long-term care insurance. We discuss several options for reducing risks for insurers and consumers alike, public-private partnerships which incentivize private insurance, and policy options to promote long-term care insurance benefits in the workplace. However, fundamental economic interactions between private insurance and the Medicaid program pose a challenge to simultaneously preserving a safety net for low-income Americans and ensuring fiscal sustainability of the Medicaid program.

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ABBREVIATIONS

AALTCI	American Association for Long-Term Care Insurance
ADL	Activity of Daily Living
BLS	Bureau of Labor Statistics
CBO	Congressional Budget Office
CMS	Centers for Medicare and Medicaid Services
HIPAA	Health Insurance Portability and Accountability Act of 1996
HCRIS	Healthcare Cost Report Information System
HRS	Health and Retirement Study
IADL	Instrumental Activity of Daily Living
LTC	Long-term care
LTCI	Long-term care insurance
LTSS	Long-term services and support
NAIC	National Association of Insurance Commissioners
NCHS	National Center for Health Statistics
SNF	Skilled Nursing Facility

1. INTRODUCTION

Caring for the elderly and the disabled in the United States is posing increasingly large financial risks for patients, their family, and the Medicaid and Medicare programs. Medical costs have outpaced general inflation over the past four decades (BLS 2016) and retiring Baby Boomers are expected to increase demand for long-term care (LTC) services.

This report documents long-term care utilization, costs, and financing mechanisms, and reviews policy options for addressing long-term care's financial risks. We draw on a variety of sources including external literature and primary analyses of the cost reports of skilled nursing facilities (SNFs), Form 5500 Annual Return/Report of Employee Benefit Plan ("Form 5500") filings, and the Health and Retirement Study (HRS).

Mirroring the gradual increase in need for assistance as the body ages, long-term care encompasses a range of services. Much of it is non-medical in nature, such as assistance with cleaning, shopping, bathing, dressing, or eating. Services may be provided in the home by relatives or friends, homemakers, or home health aides; at adult day care centers; at assisted living facilities; at hospices, or at nursing homes.¹ Given the wide range of services, some authors refer to long-term care as long-term services and support (LTSS). This document uses the two terms interchangeably.

The remainder of this report is organized as follows. Section 2 summarizes academic and trade literature and provides external national statistics on long-term care utilization and costs. Section 3 adds to these statistics from our own analysis of annual cost reports that skilled nursing facilities (SNFs) submit to the Medicare program of the Centers for Medicare and Medicaid Services (CMS). Section 4 discusses trends in long-term care insurance (LTCI) and its typical features. It also includes our analysis of Form 5500 filings to shed a light on employer-sponsored long-term care insurance. Section 5 presents our analysis of HRS data with respect to long-term care utilization and its financial consequences. Section 6 concludes with a discussion of policy implications.

2. LITERATURE AND EXTERNAL STATISTICS ON UTILIZATION AND COSTS

In the United States, long-term care services are provided informally, by family and friends, and formally, by about 12,200 home health agencies, 4,800 adult day services centers, 22,200 assisted living and similar residential care communities, 15,700 nursing homes, and 3,700 hospices (NCHS 2013). On a typical day in 2011 or 2012 (NCHS 2013), approximately:

¹ This document uses the terms Skilled Nursing Facility and nursing home interchangeably. Some authors make a distinction, where SNFs are certified and covered by Medicare and offer skilled medical and rehabilitative services, whereas nursing homes offer custodial care. Typically, facilities offer both types of services.

- 4.7 million patients received services from home health agencies,
- 273,000 participants were enrolled in adult day services centers,
- 713,000 residents were living in residential care communities,
- 1.4 million residents were living in nursing homes, and
- 1.2 million patients received services from hospices.

Demand for LTC services in the United States is expected to grow substantially in the coming decades, largely due to the aging of the population and increased prevalence of disability among middle-aged populations. These factors increase the share of the population that has functional limitations and may require assistance performing everyday activities. The baby-boom generation, a cohort of 75 million individuals, was born between 1946 and 1964. In 2016 the oldest baby-boomers are turning 70 years old, and by 2031, they will turn 85 years old. The aging of this generation is causing significant shifts in the age distribution of the population (CBO 2013). In 2000, the share of the U.S. population that was 65 or older was 12%, but by 2050 that share is expected to exceed 20%. Over the same time period, the share of the population age 85 or older is expected to grow from 1.5% to 4.1%. Functional limitations and disability tend to increase with age. For example, from 2000 to 2010, 18% of 65-74 year olds living in the community reported difficulty performing Activities of Daily Living (ADLs) or Instrumental Activities of Daily Living (IADLs), while 54% of those aged 85 or older reported difficulties performing at least one of these (CBO 2013).² Similarly, the Census Bureau (2012) found that, excluding those in nursing homes, the fraction of people reporting needing assistance with activities of daily living increased with age from 7% among 65-69 year-olds to 30% among people age 80 or older (Table 1). As noted in their report, the magnitude of disability estimates would likely be higher if the nursing home population were included.

Table 1. Disability Prevalence and the Need for Assistance among the Non-Institutionalized Population by Age, 2010

Age	Any disability	Severe disability	Needs assistance
Under 15	8.4%	4.2%	0.5%
15 to 24	10.2%	5.3%	1.4%
25 to 44	11.0%	7.3%	2.0%
45 to 54	19.7%	13.8%	3.6%
55 to 64	28.7%	20.4%	6.0%
65 to 69	35.0%	24.7%	6.9%
70 to 74	42.6%	29.6%	10.8%
75 to 79	53.6%	37.5%	15.4%
80 and over	70.5%	55.8%	30.2%

Source: Census Bureau (2012). "Any disability" indicates difficulty to perform ADLs/IADLs or similar activities, and "severe disability" indicates inability to perform such activities. For details see Figure 1 in Census Bureau (2012).

² ADLs include bathing, dressing, eating, walking, transferring out of a bed or a chair, and using the toilet; IADLs include preparing meals, shopping, using the telephone, managing money, and taking medications.

While a general consensus has formed that the health of the elderly improved on several measures throughout the 1980s and 1990s, there has been a surge in disability among younger generations, in particular those under 50 years old (Lakdawalla et al., 2003). While the root causes have not been fully investigated, there is some evidence that obesity and such chronic illnesses as asthma and diabetes may be part of the problem.³ This will likely contribute to an even greater increase in disability rates and institutionalization in a SNF in the coming decades than as suggested by projected aging of the population. When analyzing cohorts aged 65 and older in the late 1990s, Lakdawalla et al. (2004) forecast that the younger cohorts will likely have a higher rate of disability at older ages than the older cohorts did. This evidence aligns with increasing levels of disability among 50- to 59-year olds between 1984 and 1996.⁴

The aging of the population and the growth in disability among the middle-aged is likely to lead to increased future demand for both informal and formal LTC services. The Congressional Budget Office (CBO 2013) estimated that in 2011 the economic value of informal and formal LTC services for elderly people in the United States was \$426 billion, of which \$234 billion (55%) was in the form of informal care.⁵ The remaining \$192 billion was spent on institutional care (31% of total) and community-based care (14% of total).⁶ While 31% of the total economic value was in institutional care, it related to only 18% of elderly people who were receiving LTC services in 2010. This reflects the high cost of institutional nursing care relative to community-based care; see Table 4 below. Four-out-of-five (80%) of elderly people who received LTC services lived in private homes, receiving informal care or community-based care in the form of home health aides, visits to adult day care facilities, and other non-institutional care.

Based on a microsimulation of people from around age 65 in 2015 to the end of their lives, Favreault and Dey (2016) forecast the ADL limitations of future elderly and their need for long-term care services. The goal of this exercise was to better understand the near-term future trends in this area and to forecast the average level of spending required. Specifically, the authors focused on the need for long-term services and support because of a disability that meets the criteria set in the 1996

³ Other explanations include changes in disability insurance laws (greater incentives to report disabilities that otherwise went unreported) and technological advances in medicine (new treatments can delay death for those who are chronically frail and otherwise would have died at a younger age).

⁴ The forecasts of Lakdawalla et al. (2003) are not without some controversy. Manton (2003) argued that the use of certain data and assumptions in Lakdawalla et al. (2003) resulted in an incorrect conclusion. He expected nursing home use will continue to decline.

⁵ The CBO calculated this figure by multiplying the average wage earned by a home health aide (\$21 per hour) by the 11.2 billion hours of donated care extrapolated from responses to the HRS. It did not account for forgone earnings of the caregiver in excess of \$21 per hour.

⁶ The CBO defines the economic value of institutional care as the cost of stays, including room and board as well as assistive services, in skilled nursing facilities, nursing homes, and nursing facilities housed inside continuing care retirement communities. It defines the economic value of community-based care as the cost of assistive services provided in all other settings, including private homes, adult day care facilities, and facilities that are not nursing homes.

Health Insurance Portability and Accountability Act (HIPAA), namely a need for assistance with at least two ADLs that is expected to last at least 90 days or a need for substantial supervision for health and safety threats due to severe cognitive impairment. The study found that 52% of people who turn 65 years old in 2015-2019 will at some time in their lives need (informal or formal) long-term services and support because of such a disability. Excluding informal care by relatives or friends, 47% will need formal long-term services and support, including 23% who will need it for less than one year and 6% who will need it for five years or more (see Table 2). Including elderly who will not need any formal care, this cohort will need formal assistance for one year on average. Women are more likely to need assistance than men (52% versus 42%), people with lower incomes are somewhat more likely to need assistance than those with higher incomes, and the need for assistance is, as expected, greater for those in poor health than those in good health at age 65.

Table 2. Projected Use of Paid LTSS for Persons Turning 65 in 2015-2019, by Gender, Income Quintile and Self-Reported Health Status at Age 65

	Average years of formal LTSS use	Percent with any formal LTSS use	Distribution for all				
			None	<1 year	1.00-1.99 years	2.00-4.99 years	>5 years
Gender							
Men	0.7	42.0	58.0	22.2	8.5	8.0	3.4
Women	1.3	52.1	47.9	23.1	9.5	11.2	8.3
Income Quintile at Age 65							
Lowest	1.2	49.0	51.0	20.7	9.1	11.2	8.1
Second	1.2	48.1	52.0	21.1	8.7	11.0	7.3
Middle	1.1	48.7	51.3	22.5	9.7	9.6	6.8
Fourth	0.9	45.2	54.8	22.7	8.4	8.7	5.4
Highest	0.8	46.3	53.7	24.9	9.2	8.8	3.5
Health Status at Age 65							
Excellent	1.0	46.8	53.2	24.0	7.6	9.9	5.4
Very good	0.9	46.1	53.9	23.1	8.7	9.5	4.8
Good	1.1	47.1	52.9	22.1	8.4	10.0	6.6
Fair/poor	1.1	49.0	51.0	22.0	10.8	9.4	6.7
Marital Status at Age 65							
Married	0.9	45.8	54.2	23.2	8.6	8.9	5.1
Unmarried	1.2	50.0	50.0	21.5	9.9	11.2	7.5
Total	1.0	47.2	52.8	22.7	9.0	9.7	5.9

Source: Favreault and Dey (2016).

Favreault and Dey (2016) further projected that formal long-term services and support will cost an average of \$138,100 per person turning 65 in 2015-2019, expressed in 2015 dollars. This average translates into \$266,000 per user of formal care. Of this amount, community-based care will cost 53% and care at nursing facilities 47%. Assuming current finance mechanisms, the majority (52%) of formal long-term services and support is expected to be paid out of pocket. The authors expect Medicare to pay 10%, Medicaid 34%, and private insurance 3%.

While different sources suggest different payor mixes, financing long-term care at nursing homes is largely through government-funded Medicaid and Medicare programs.⁷ According to a study by The Kaiser Family Foundation, Medicaid was the primary payor for 63% of nursing facility residents in 2011, 14% were primarily covered by Medicare, and 22% were private payors (Kaiser Family Foundation 2013). The Kaiser study was based on the Online Survey, Certification, and Reporting (OSCAR) system, a database that contains detailed information on Medicaid and Medicare certified nursing facilities. Our own analysis of a different but related data source, SNF cost reports, suggests that Medicaid was the primary payor for 53% of resident-days in 2014, Medicare for 13%, and private payors for 34% (see Section 3), with only minor changes in this distribution since 2011.

The daily reimbursement of SNFs by Medicare tends to be higher than that by Medicaid. Mostly depending on a patient's care needs, Medicare payments range from approximately \$195 to \$803 per day in 2016 (CMS 2015). Medicaid payments vary by state and are typically a flat rate per day, irrespective of care needs, with limited adjustments for cost differences across geographies. For example, in Florida in 2015, the 10th and 90th percentiles of daily reimbursements were approximately \$203 and \$257, respectively (authors' calculations based on Florida AHCA 2015).

For formal care as a whole, CBO (2013) found that out of the \$192 billion in payments for formal care in 2011, \$68 billion was paid through Medicare, \$60 billion through Medicaid, \$39 billion was paid out of pocket (including beneficiaries' cost sharing for Medicare and Medicaid), and \$12 billion was covered through private insurance. The remaining \$12 billion were from such other sources as the Department of Defense, the Department of Veterans Affairs, and charitable donations. See Table 3, which also shows the expenditures for community-based and institutional settings (defined in footnote 6).

Table 3. Expenditures for Long-Term Care Services for Elderly People (2011)

Source of payment	Community-Based (\$ bn)	Institutional (\$ bn)	Total Care (\$bn)
Medicare	31	37	68
Medicaid	20	40	60
Out of Pocket	3	36	39
Private Insurance	2	10	12
Other	1	11	12
Total	58	134	192

Source: CBO (2013).

Payors differ in their length of coverage. For example, Medicare and private health insurance offer short-term coverage for post-acute care rehabilitative services in the form of nursing home stays and home health visits (about three months coverage or less). Medicaid and private LTC insurance offer much longer coverage periods (three-

⁷ Medicare offers limited coverage for skilled nursing care in a SNF. Among other restrictions, the stay must be preceded by an acute-care hospital stay. If eligibility conditions are met, Medicare generally pays the full cost for up to 20 days and requires co-insurance payments of \$161 per day (in 2016) for days 21-100. It does not cover stays beyond 100 days.

to five-year terms) and will cover without a previous acute health episode. According to the CBO (2013), the distribution of LTC insurance and Medicaid coverage for the elderly population living in the community varies by level of disability. Those with three or more functional limitations are five times more likely to be covered by Medicaid (24%, on average, from 2000 to 2010) than those with no functional limitations (5%). While only 5% of those with no functional limitations were Medicaid beneficiaries, 15% were covered by LTC insurance.

As shown in Table 4, the costs of long-term care can be substantial. The nationwide median cost of in-home assistance by a homemaker or home health aide was \$20 per hour in 2015 (Genworth 2015). Assuming four hours of assistance per day, five days a week, this amounts to \$20,800 annually.⁸ The median rate for adult day care was \$69 per day (\$17,940 per year at five days per week). An intermediate level of personal care and health services, less extensive than in a nursing home, is offered by assisted living facilities, which charge a median of \$3,600 per month (\$43,200 per year). Finally, the median cost of nursing homes was \$220 per day (\$80,300 per year) for a semi-private room and \$250 per day (\$91,250 per year) for a private room. These rates reflect prices that are payable out of pocket or with private insurance and may differ from those reimbursed by public programs.

Table 4. Nationwide Median Prices of Long-Term Care Services (2015)

	Rate	Annual
Nursing home, private room	\$250 per day	\$91,250
Nursing home, semi-private room	\$220 per day	\$80,300
Assisted living facility	\$3,600 per month	\$43,200
Adult day care	\$69 per day	\$17,940
Home health aid care	\$20 per hour	\$20,800

Source: Genworth (2015).

Annual rates for home care are based on 4 hours per day, 5 days per week; annual rates for adult day services are based on 5 days per week.

According to Genworth (2015), the costs for institutionalized long-term care have outpaced those for in-home care. From 2010 to 2015, nursing home costs increased by 3.5%-4.0% annually, compared with 1.0%-1.6% annually for homemakers and home health aides. Similarly, CBO (2013) reported annual nursing home cost increases of 4.0%-4.5% between 2002 and 2012, compared with 1.6% annually for home health aides.

Table 4 displays national median costs, but LTC costs vary widely across states. Alaska tends to have the highest costs, with the statewide median cost of a private room in a nursing home exceeding the national median by 208%. Other states with very high costs include Connecticut (+74%), Massachusetts (+53%), New York (+50%), and Hawaii (+48%), while relatively low-cost states include Oklahoma (-34%), Missouri (-33%), Louisiana (-32%), Kansas (-28%), and Arkansas (-28%). See Appendix A for a list of median LTC prices by state.

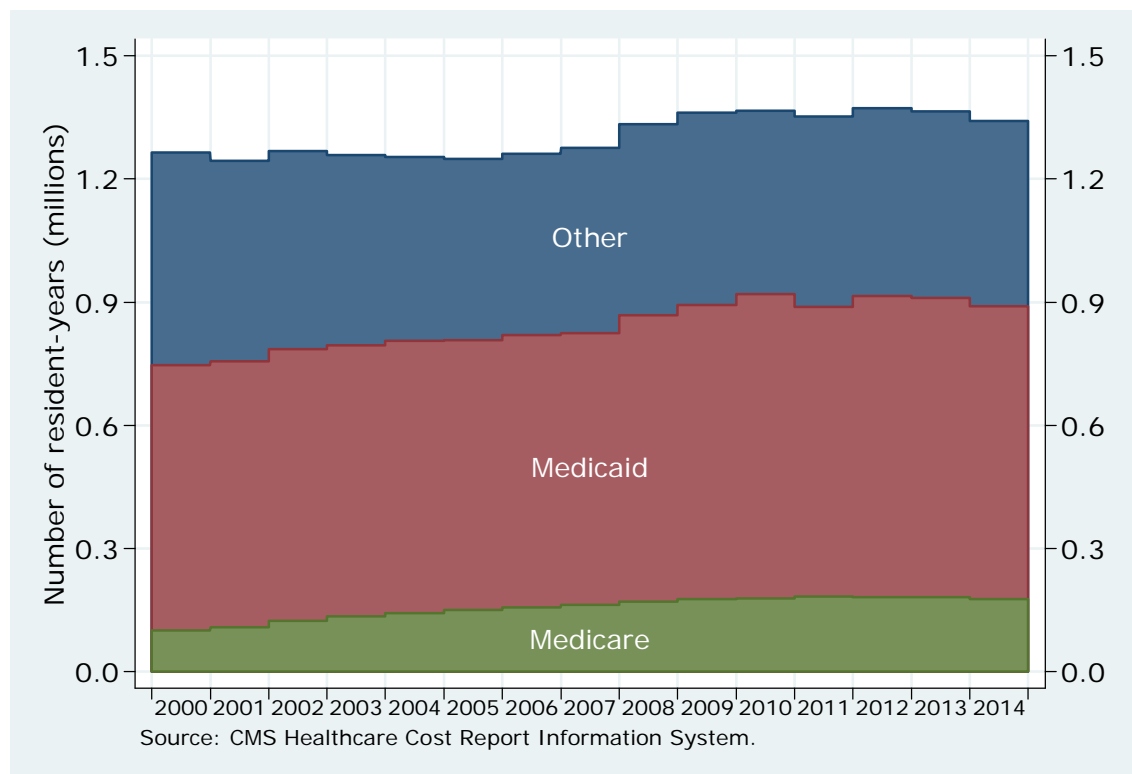
⁸ Home health care is typically provided on a part-time basis. MetLife (2012), which compiled similar price data as Genworth (2015), assumed four hours per day, five days per week, 52 weeks per year to annualize its figures.

3. COST REPORTS OF SKILLED NURSING FACILITIES

SNFs that participate in the Medicare program are required to annually submit a cost report to CMS. Among many other items, these cost reports list the number of resident-days primarily paid for by Medicare, Medicaid, and all other payors combined (mostly LTC insurance and self-payments). Hospital-based SNFs report on the cost report of the hospital; freestanding SNFs report on a separate report.⁹

Figure 1 shows the number of resident-days reported by all freestanding SNFs in the United States that participate in the Medicare program. The number of resident-days is converted into resident-years to show the average number of people who are resident at SNFs during the year. The number has been fairly stable at approximately 1.35 million from 2008 through 2014.

Figure 1. Number of Resident-Years Reported by Freestanding SNFs, by Primary Payor and Year



The payor mix has also been fairly stable over this period. Approximately 13% of resident-days are primarily paid by Medicare, 53% by Medicaid, and 34% by other payors (Figure 2). These figures relate to resident-days. In terms of dollar expenditures, CBO (2013) found Medicare paid for 28% of institutional care services,

⁹ Medicare cost reports are stored in the Healthcare Cost Report Information System (HCRIS), available at <https://www.cms.gov/Research-Statistics-Data-and-Systems/Downloadable-Public-Use-Files/Cost-Reports>.

Medicaid for 30%, and other sources for 43% (see the second column of Table 3 above).

Figure 2. Distribution of Primary Payor of Resident-Years Reported by Freestanding SNFs, by Year

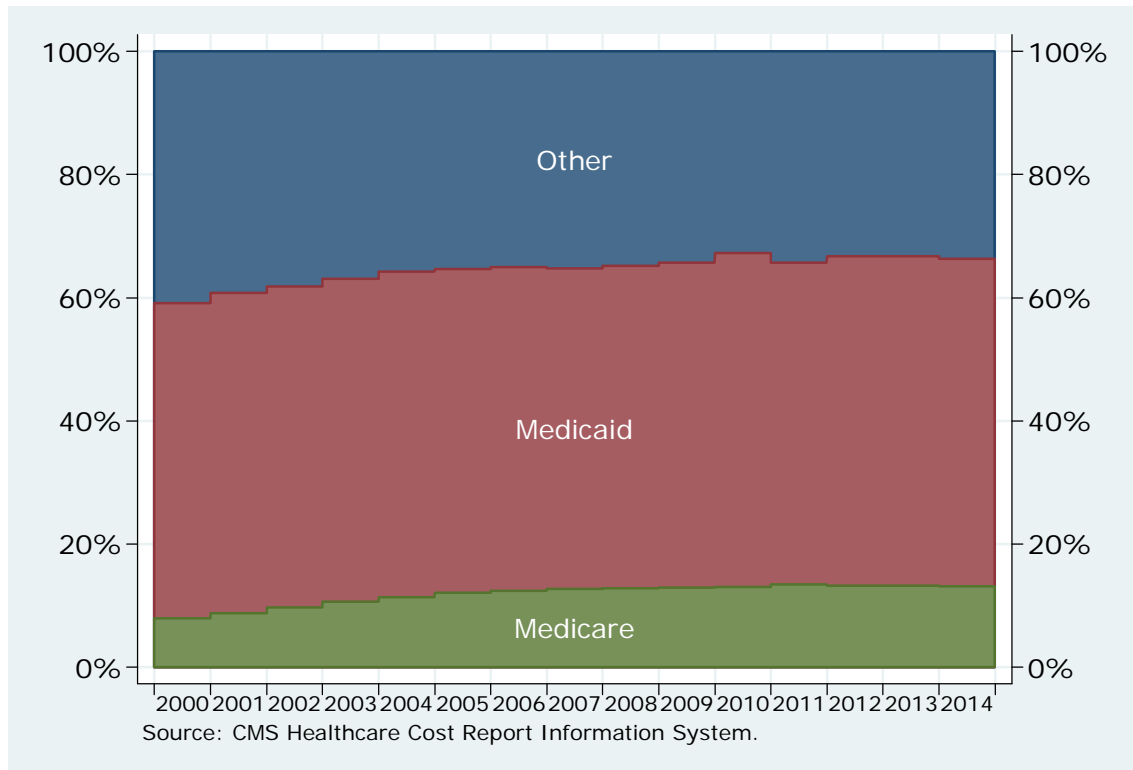
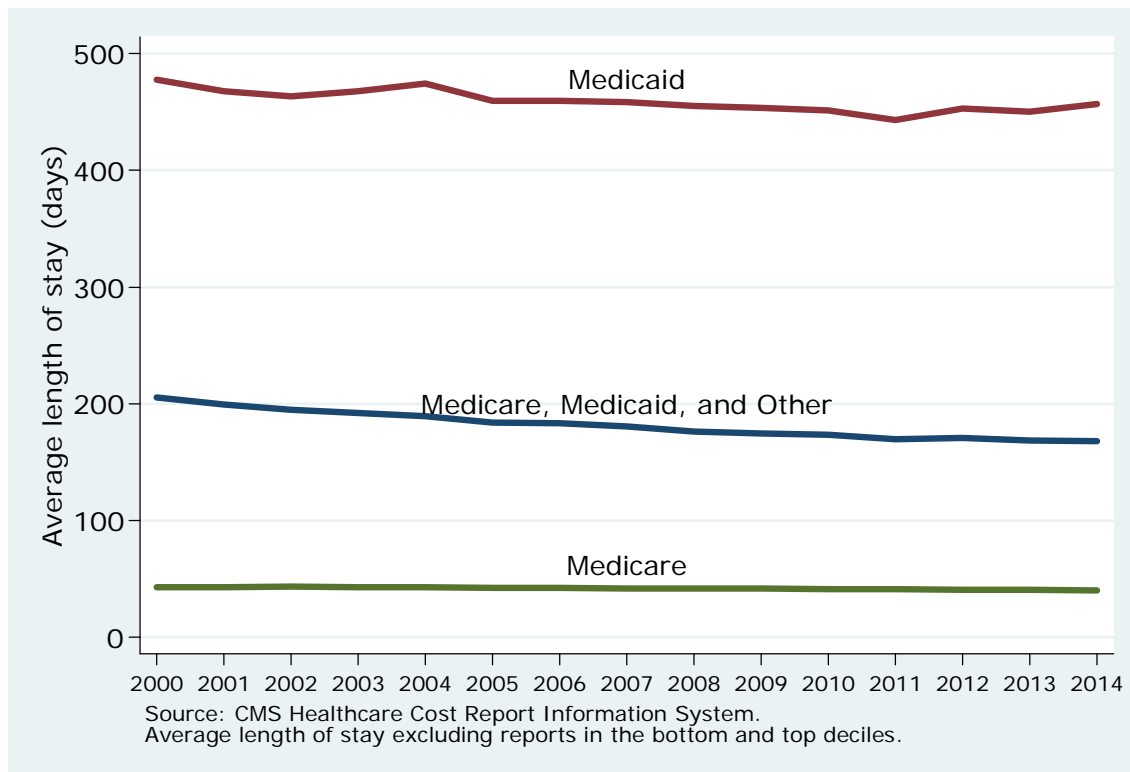


Figure 3 shows the average length of stay as reported by freestanding SNFs on their Medicare cost reports.¹⁰ As expected given Medicare's coverage of at most 100 days, the average length of resident stays that were primarily paid by Medicare was shorter (39 days in 2014) than that of stays primarily paid by Medicaid (460 days in 2014). SNFs are not required to report the average length of stays that were primarily paid for by private payors. Instead, only the average length of stay across all primary payors is reported (165 days in 2014). Figure 3 also shows that average lengths of stay have generally decreased somewhat since 2000.

¹⁰ Some SNFs reported implausibly short or long average lengths of stay. We excluded the bottom and top deciles of average lengths of stay in our calculations. The averages are weighted by reported number of resident-days.

Figure 3. Average Length of Stay Reported by Freestanding SNFs, by Payor and Year



4. LONG-TERM CARE INSURANCE

As documented above, the cost of long-term care can be substantial. The average cost for those who are projected to use formal care, \$266,000 (Favreault and Dey, 2016), can exhaust the lifetime savings of many retirees. People at the high end of the income or wealth distributions may be able to self-insure against the financial risks of long-term care, whereas those at the low end may expect Medicaid to cover the costs. For Americans in between, private long-term care insurance may provide a solution.

Currently sold LTCI policies typically offer both home care and nursing home benefits, but that was not the case for older policies. For example, 63% of policies sold in 1990 offered nursing home benefits only and 37% offered both home care and nursing home benefits (Cohen 2016). In 2015, 99% of policies sold offered both types of benefits. Coverage limits are often anchored on a daily or monthly maximum for nursing home stays and a lifetime maximum benefit, with maximums for care outside nursing homes expressed as a percentage of the nursing home benefit. Appendix B shows key pages from a sample policy published by Genworth. In that example, the nursing home maximum is \$4,000 per month, the residential care facility benefit maximum is 75% or 100% of \$4,000 per month,¹¹ and the home

¹¹ The policy defines a residential care facility as a state-licensed Residential Care Facility for the Elderly or similar. Such facilities provide 24-hour care to support

and community care benefit maximum is 50% or 100% of \$4,000 per month,¹² depending on the generosity of the policy purchased. The total benefit payments are subject to a lifetime cap of \$240,000. Benefit maximums may or may not be increased over time to protect against inflation. The sample policy shows benefit increases of 5% per year. Policies are also often subject to an elimination period, also known as a deductible period. For example, an elimination period of 90 days can imply that benefits are paid only after 90 days following a first covered expense while chronically ill.

LTCI policies can be in force for decades. Most policyholders (54%) applied when they were 55-64 years old, well before they expected to need benefits (AALTCI 2015). Policies are typically guaranteed renewable at an annual premium that is designed to be constant for the duration of the policy contract, even with annual benefit increases and even if a claim was made. However, while designed to be constant for the duration of the contract, the premium may be changed for a variety of reasons, including actual or estimated experiences of all holders of a particular policy form. It is our understanding that premium changes require the approval of state insurance regulators.

Premiums on individual policies may change and indeed they have changed. Most insurers' LTCI policies issued before the mid-2000s have seen adverse experience when compared to their original pricing assumptions. Rising claims, low mortality and lower than expected lapses have led to higher prices often unaffordable to a large segment of the affected population (Karapiperis and Nordman, 2016). According to the chief executive of Genworth Financial, which has a long-term care insurance market share of roughly 35%, average premium increases of 50% were needed to break even on policies issued before 2002 (Carrns 2014). State regulators appear to have been generally receptive to proposed rate increases.

The Federal Long Term Care Insurance Program (FLTCIP) offers voluntary private LTCI to Federal employees, who are responsible for the full premiums. It, too, appears to have underestimated the costs of providing benefits. In November 2016, FLTCIP premiums are scheduled to increase by an average of 83% (Davidson 2016).

Cohen (2016) documented that policies sold in 2015 offered an average daily benefit amount for nursing homes of \$159 and for home care of \$152. The lifetime cap supported, on average 3.8 years of nursing home care. Three-out-of-four policies featured annual benefit increases to protect against inflation. The average deductible period was 93 days. The average annual premium was \$2,772. The policies generally appear less generous than those sold during the 1990s. For example, the lifetime cap in 1990 supported on average 5.6 years of nursing home care, the average deductible period was 20 days, and the average premium \$1,071 (about \$1,942 in 2015 dollars).

needs resulting from impairment in ADLs or in cognitive ability, provide three meals per day, have agreements to ensure that residents receive the medical care services of a physician or nurse in case of emergency, and meet certain other criteria.

¹² Under the sample policy, home and community benefit care benefits include adult day care, nurse and therapist services, home health care, personal care services, and homemaker services.

Table 5 shows average annual premiums for basic LTC insurance, by age of the insured at the time the policy was purchased (NAIC 2013). Premiums increase with age, roughly tripling from \$4,349 for people age 50 to \$13,500 for those buying at age 75 for inflation-protected policies with a 4-year maximum benefit period.

Table 5. Average Annual Premium for Basic Long-Term Insurance, \$200 Daily Benefit (2013)

Age When Buy	With Inflation Protection 5% Compounded Per Year		
	4 Years of Benefits	6 Years of Benefits	Lifetime Benefits
50	\$4,349	\$5,083	\$7,347
60	\$5,331	\$6,269	\$8,927
70	\$9,206	\$10,549	\$15,070
75	\$13,500	\$15,157	\$20,930
With No Inflation Protection—Benefit Stays at \$200 per Day			
	4 Years of Benefits	6 Years of Benefits	Lifetime Benefits
50	\$1,294	\$1,514	\$1,997
60	\$2,057	\$2,426	\$3,307
70	\$4,914	\$5,834	\$7,777
75	\$8,146	\$8,291	\$12,337

Source: NAIC (2013).

Most claimants of LTC benefits are at least in their 80s when they start using covered services. About 2% are under age 60, 9% are in their 60s, 25% in their 70s, and 64% age 80 or older (AALTCI 2015; see Table 6).

Table 6. Age of Claimant for New Claims Opened (2012)

Age	Percent
Under 50	0.3%
50 to 59	1.9%
60 to 69	8.7%
70 to 79	25.4%
80 and over	63.7%

Source: AALTCI (2015).

About one-half of new claimants receive in-home care, one-in-five receive benefits for assisted living, and about 31% moved into a nursing home (AALTCI 2015; see Table 7).

Table 7. Newly Opened Long-Term Care Insurance Claims Paid For

Service	Percent
Home Care	51.0%
Assisted Living	18.5%
Nursing Home	30.5%

Source: AALTCI (2015).

According to the National Association of Insurance Commissioners (NAIC 2015), 7.2 million people were covered by LTC insurance in 2014, and the American Association for Long-Term Care Insurance (AALTCI 2015) estimated that 8.1 million Americans

were insured for long-term care in 2014. About 255,000 policyholders were receiving benefits in 2014 (NAIC 2015).

Perhaps in response to unexpected losses to insurance companies and unexpected rate increases to consumers, the market landscape for long-term care insurance has shifted dramatically over the past decade. There is a trend toward smaller daily benefits, shorter benefit periods (i.e., lower lifetime benefit caps), and less inflation protection. Many smaller carriers have exited the market (Gleckman 2013, 2015) and sales of individual LTCI policies plummeted from a high of 754,000 in 2002 to just 129,000 in 2014 (Cohen 2016). That said, so-called combination or hybrid products have gained popularity. These products combine LTC benefits with either life insurance or an annuity. In combination with life insurance, if LTC is needed, the death benefit is accelerated. In combination with an annuity, if LTC is not needed, there is an annuity payout. Sales of combination products rose from 273,000 in 2009 to 535,000 in 2013 (Cohen 2016).

In a series of essays, Brown and Finkelstein (2007, 2008, 2009, 2011) addressed the relatively small size of the market for private LTCI. They pointed out that 35%-50% of 65 year-olds will use a nursing home at some point in their remaining lives and that, of those who use a nursing home, 10%-20% will live there more than five years. At current median prices, five years of nursing home residency cost in excess of \$400,000 (see Table 4 above). Despite a sizable risk of large future expenditures, private LTCI pays for only 6% of LTC expenses, whereas out-of-pocket payments account for 20% (see Table 3 above). Brown and Finkelstein evaluated supply and demand side factors to explain the small role of private LTCI.

Supply side issues are reflected in premiums that far exceed expected benefits and typical benefits that only partially cover costs. On average, the present value of benefits is only one-half of the present value of lifetime premiums (Brown and Finkelstein 2011). Further, while pricing is unisex, men are less likely to incur LTC expenses than women—men receive benefits of only about 34 cents per premium dollar, compared with 64 cents received by women. The authors suggest several supply-side factors that may be responsible for the high premiums and less-than-full coverage. Among these are transaction and administration costs, lack of a competitive market, adverse selection and moral hazard, and contracting issues. Finkelstein and McGarry (2006) found that adverse selection (disproportionate enrollment by high-risk individuals) and moral hazard (disproportionate utilization by insured individuals) are offset by a strong taste for insurance among low-risk individuals. (Our Table 17 below is consistent with that conclusion.) Because of the very long-term nature of LTCI policies, contracting issues may be particularly troublesome. While contractually adjustable, premiums are intended to be fixed in nominal terms for the duration of the policy—typically several decades—even when benefits are inflated annually. The insurance company may go bankrupt, creating a risk for the policyholder that benefits may never materialize. Also, the insurance company may not be able to pool certain risks, such as the risk that prices for long-term care rise faster than expected or that returns on invested premiums are below expectations.

However, even if supply side issues could be resolved and premiums would be actuarially fair, demand side issues likely stand in the way of widespread LTC insurance. Brown and Finkelstein (2009) cite several demand side issues. First, consumers may underestimate the risks and costs of long-term care. Second, they may value consumption when institutionalized less highly than when not, thus

reducing the incentive to smooth out consumption through insurance. Third, they may take into account imperfect but less expensive alternatives to private insurance, such as care provided by a spouse or other family members, financial transfers from adult children, or Medicaid. In particular, two aspects of the structure of Medicaid reduce demand for private LTCI: means-testing and Medicaid being the secondary payer. Means testing implies that every dollar in private benefits postpones Medicaid eligibility, and Medicaid being the secondary payer implies that it is not available to top up private LTCI benefits, which typically cover only part of the costs. Brown and Finkelstein (2008) calculated the “implicit tax” of Medicaid—the part of the LTCI premium that goes to pay for benefits that end up duplicating benefits that Medicaid would have paid for in the absence of a private policy—at 60% for a man at the median of the wealth distribution. In other words, 60 cents out of every dollar of private benefits simply serve to replace benefits that Medicaid would have provided. For women, they estimated the implicit tax rate at 75%.

In short, Brown and Finkelstein argue that supply side issues lift premiums to levels far above expected benefits and that demand side issues sharply reduce the net benefits that private insurance will provide.

State Medicaid Partnership Programs

In recent years many states have implemented so-called Partnership Programs between Medicaid and private insurance companies. These programs are designed to encourage middle-income Americans to purchase long-term care insurance. To qualify for basic Medicaid, one generally needs to spend down assets. However, holders of LTCI policies that meet Partnership criteria may qualify for Medicaid after their long-term care benefits run out while preserving assets. For example, if a policyholder needs long-term care after exhausting his lifetime maximum benefit of, say, \$300,000, he may qualify for Medicaid while retaining \$300,000 in assets beyond the usual Medicaid criteria. The California Partnership Program describes the asset protection aspect as follows (California DHCS 2010; emphasis in original):

Medi-Cal [California’s Medicaid program] Asset Protection is available in Partnership policies through an alliance between the State of California and select private insurers who agree to market **high-quality** long-term care insurance policies. Asset Protection guarantees you get to keep a dollar’s worth of assets for each dollar your Partnership insurance policy pays out for long-term care services. If you use up your long-term care insurance coverage and still need long-term care, you may apply for Medi-Cal. When qualifying for Medi-Cal, you are entitled to keep assets Medi-Cal normally allows, plus assets equal to the amount the Partnership policy has paid out in benefits. This means you can purchase a Partnership policy equal to the amount of assets you wish to protect. The State of California will also disregard these protected assets when making a claim through Medi-Cal Estate Recovery.

As of March 2014, 44 states and the District of Columbia had implemented a Partnership Program. State requirements for policies to meet Partnership standards vary, but most require inflation protection through benefits that increase automatically over time. With the exception of California, Partnership states allow reciprocity, i.e., they grant asset exemptions based on Partnership policies that were

purchased under another state's Partnership Program (New York SPLTC 2016, AALTCI 2016a).

By 2015, Partnership policies accounted for slightly more than two-in-five new policies sold (Cohen 2016).

Employer-Provided Long-Term Care Benefits

Long-term care insurance coverage may be obtained through individual policies or through employer-sponsored group policies. NAIC (2015) documented that by the end of 2014, 7.2 million lives were covered by LTCI. Of these, 5.0 million (69%) were individual policies and 2.2 million (31%) were certificates under group plans.¹³

The National Compensation Survey indicates that 18% of civilian workers had access to long-term care insurance through their employer (NCS 2014). In other words, the employers of 18% of civilian workers sponsored a long-term care insurance benefit. Although sponsored by the employer, benefits are typically fully paid for by the employee. From the employee's point of view, the main advantages of an employer-sponsored plan are potential group discounts and, for larger groups, often simplified medical underwriting (such as without a medical examination). After separating from their employer, the policy certificate stays with the employee.

Take-up rates are very low, with different sources reporting estimates from 5%-7% of eligible employees taking up long-term care insurance (CIPR 2016; Pincus et al., 2013).

We conducted an analysis of Form 5500 filings to gain insights into the prevalence of employer-sponsored long-term care coverage. The Employee Retirement Income Security Act (ERISA) requires any administrator or sponsor of an employee benefit plan subject to ERISA to annually report details on such plans unless exempt from filing pursuant to regulations issued by the DOL. Welfare plans with fewer than 100 participants are generally exempt, except if they operate a trust. For the purpose of this report, only plans with 100 or more participants are included. Non-ERISA plans, such as governmental plans and church plans, do not need to file a Form 5500 and are not covered by the analysis in this section.

The Form 5500 does not ask specifically about long-term care benefits. Line 8b on the main Form asks for the plan's benefit types, but there is no code for long-term care benefits. Details about underlying insurance contracts, if any, are reported on Schedules A. Line 8 of the Schedule A asks for the benefit type of the insurance contract, but, again, there is no checkbox for long-term care benefits. However, plans may check "Other" and write in the appropriate benefit type. We searched these free-form text boxes for such phrases as "long-term care" and "LTC". In recent years roughly 2,000 plans annually indicated offering LTC benefits; see Table 8.¹⁴

¹³ Technically, most employer-sponsored plans are not group plans but multi-life policies, i.e., individual long-term care insurance policies bundled together with a group discount (AALTCI 2016b).

¹⁴ Since these figures originate from Schedules A, they exclude long-term care benefits offered by employers that self-insure those benefits. We are unaware of the prevalence of self-insured long-term care benefits.

Table 8. Employer-Provided Long-Term Care Coverage and Annual Premiums

Year	Number of plans	Number of covered plan participants	Percent of all welfare plan participants	Average annual premium per person covered	Median annual premium per person covered
2000	315	419,843	0.90%	\$575	\$401
2001	523	466,378	0.72%	\$572	\$399
2002	634	516,516	0.78%	\$726	\$405
2003	735	618,056	0.95%	\$788	\$430
2004	957	692,110	1.02%	\$631	\$461
2005	1,112	735,044	1.06%	\$690	\$497
2006	1,286	859,595	1.20%	\$769	\$521
2007	1,409	863,228	1.18%	\$662	\$553
2008	1,568	924,364	1.25%	\$665	\$541
2009	1,693	829,086	1.19%	\$838	\$597
2010	1,826	922,303	1.30%	\$787	\$626
2011	1,918	949,141	1.33%	\$802	\$603
2012	2,019	975,785	1.35%	\$858	\$632
2013	2,029	982,826	1.36%	\$851	\$638
2014	2,037	954,836	1.30%	\$883	\$661

Source: Form 5500 filings for welfare plans with 100 or more participants.

Table 8 suggests that the number of plans that offer LTC benefits has increased over time, but it is unclear to what extent the increase is due to more-complete reporting. The number of “covered persons” under the reported insurance contracts has been between approximately 950,000 and 980,000 in 2011-2014, which corresponds to 1.3%-1.4% of all welfare plan participants.¹⁵ As noted earlier in this section, the number of group LTCI certificates is about 2.2 million (NAIC 2015), suggesting that employer-sponsored long-term care insurance benefits are underreported on Form 5500 filings.

Table 8 also shows the average and median annual premium that the employer reported paying for LTC benefits. The average annual premium in 2014 was \$883 and the median was \$661. These figures are well below average premiums in the individual market (see Table 5), possibly in part because of the age composition of plan participants, because of coverage limits, or because of discontinuation rates upon job separation.

¹⁵ The number of covered persons is taken from Line 1e of Schedule A and the number of welfare plan participants from Line 6d on the main Form. Some companies file a single Form 5500 for all their welfare benefits, whereas others file multiple Forms 5500. To prevent double counting of welfare plan participants, we included only a single welfare plan filing per employer (as identified by Employer Identification Number, EIN), namely the plan with the greatest number of participants.

5. ANALYSIS OF HEALTH AND RETIREMENT STUDY DATA

For an analysis of the financial consequences of long-term care, we turn to the HRS. The HRS is a longitudinal survey of Americans over the age of 50, and their spouses. It collects information about health, certain types of health care utilization (including home health care and nursing home stays), informal care by relatives, insurance coverage, out-of-pocket medical expenses, assets, and income. The HRS sample is drawn from the non-institutionalized population, but respondents are followed even if they move into a nursing home or other health care facility.¹⁶ Since most respondents enter the survey when they are 51 to 61 years old, the exclusion of institutionalized individuals from its sampling frame is presumably not a major limitation.

The HRS started in 1992 with a sample of individuals aged 51-61, and their spouses. Insofar possible, they have been re-interviewed every other year. In 1993, a cohort of individuals age 70 and older, and their spouses, was added to the HRS. Insofar possible, they were re-interviewed in 1995, 1998, and every other year thereafter. In 1998, 2004, and 2010 new cohorts of individuals aged 51-61, and their spouses, were added. Therefore, the age distribution was unusual in the early years of the HRS, but the sample became more representative of the older population in later years. To mitigate effects of an incomplete age distribution, we present results based on the 1998 and later waves only. Our analysis incorporates HRS waves through 2012. The sample size is approximately 17,000-22,000 respondents (12,000-15,000 households) per wave.

Table 9 shows the distribution of HRS respondents by age and sex, for the eight waves from 1998 to 2012. Approximately 59% of respondents are women. Most respondents are in their 50s or 60s, but 20% are in their 70s, 11% in their 80s, and 2% are age 90 or older.

Table 9. Distribution of Respondents by Age and Sex

Age	Female		Male		Total	
	Freq.	Percent	Freq.	Percent	Freq.	Percent
<50	4,128	0.1%	1,060	0.0%	5,188	0.1%
50-59	23,302	33.8%	16,304	36.8%	39,606	35.1%
60-69	27,409	29.6%	21,353	32.4%	48,762	30.9%
70-79	22,107	21.3%	17,616	20.4%	39,723	20.9%
80-89	12,371	12.6%	7,744	9.1%	20,115	11.0%
90+	2,963	2.7%	1,174	1.3%	4,137	2.1%
Total	92,280	100.0%	65,251	100.0%	157,531	100.0%

Source: 1998-2012 HRS.

Note: Percentages are weighted.

¹⁶ The HRS uses the following definition: "A nursing home or other health facility provides all of the following services for its residents: dispensing of medication, 24-hour nursing assistance and supervision, personal assistance, and room & meals" (see Section A of HRS questionnaires, such as the 2012 version at <http://hrsonline.isr.umich.edu/modules/meta/2012/core/qnaire/online/01hr12A.pdf>).

Table 10 tabulates utilization of home health care and nursing homes during the two years between survey interviews, by year. In this table and subsequent HRS-based tables, frequency counts reflect the raw number of respondents (possibly in multiple interview waves) and percentages are weighted by respondent weights.¹⁷ Roughly 7%-8% of respondents had utilized home health care and 4% had stayed at least one night in a nursing home. In addition, the last two columns show that roughly 2% of respondents were resident at a nursing home at the time of the survey.

Table 10. Utilization of Home Health Care and Nursing Homes in the Past 2 Years, Nursing Home Residency at the Time of the HRS Interview, by Year

Year	Utilized Home Health Care	Stayed in Nursing Home	Institutionalized at Interview
1998	7.1%	3.0%	1.8%
2000	6.5%	3.7%	2.5%
2002	6.8%	4.4%	2.4%
2004	5.9%	3.4%	1.9%
2006	7.1%	4.0%	1.9%
2008	7.5%	4.0%	1.9%
2010	7.9%	3.7%	1.4%
2012	7.9%	4.2%	1.8%
Total	7.1%	3.8%	1.9%

Source: 1998-2012 HRS.

Similar to Table 10, Table 11 tabulates utilization of home health care and nursing homes during the two years between survey interviews, but by age of the respondent rather than by year. As expected, use of LTC services increased with age.

Table 11. Utilization of Home Health Care and Nursing Homes in the Past 2 Years, Nursing Home Residency at the Time of the HRS Interview, by Age

Age	Utilized Home Health Care	Stayed in Nursing Home	Institutionalized at Interview
<50	1.0%	1.1%	0.0%
50-59	3.2%	0.6%	0.1%
60-69	5.4%	1.6%	0.6%
70-79	9.6%	4.6%	1.9%
80-89	16.6%	13.5%	7.5%
90+	29.3%	31.3%	22.5%
Total	7.1%	3.8%	1.9%

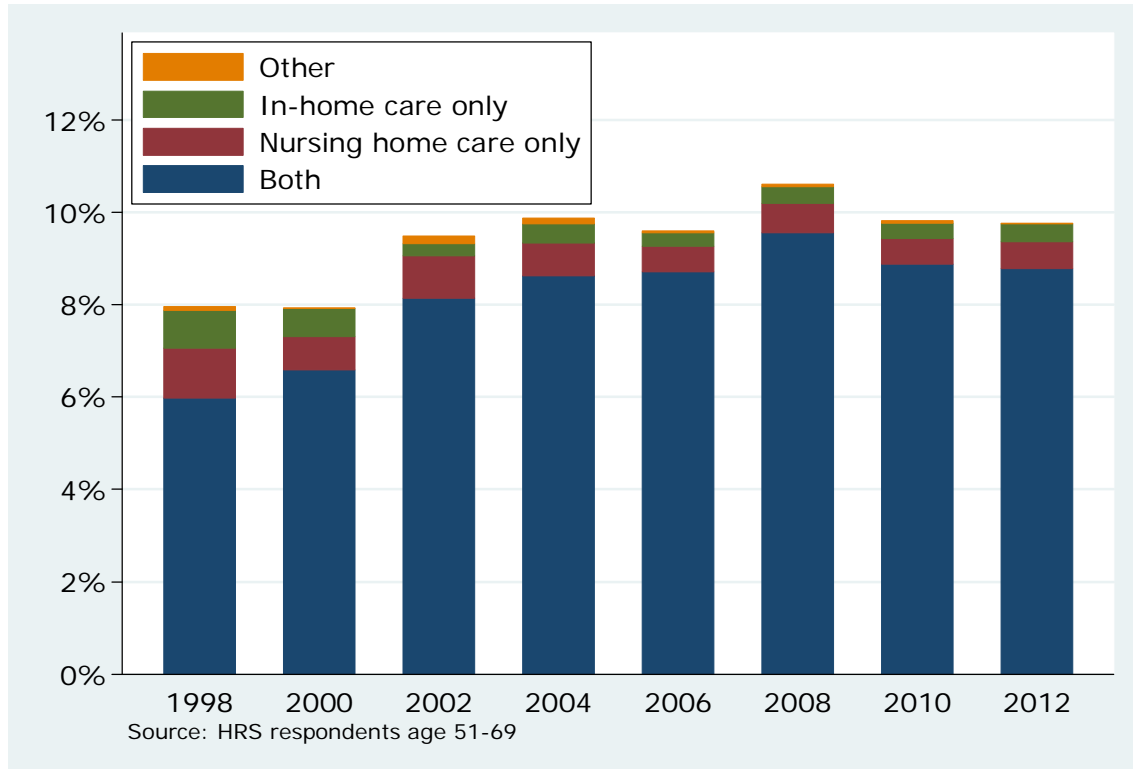
Source: 1998-2012 HRS.

Figure 4 and Table 12 show the prevalence of LTC insurance among HRS respondents aged 51-69. LTC insurance coverage has remained approximately unchanged at about 9%-10% since 2002. A small fraction of policies cover in-home

¹⁷ Regular respondent weights are zero for institutionalized respondents. From 2000-2010, the HRS provided respondent weights for institutionalized respondents. Where available, we used such institutional weights. Where unavailable, we imputed weights based on respondent weights in prior or subsequent interview waves.

care or nursing home care only, but most cover both. This is consistent with Cohen (2016).

**Figure 4. Prevalence and Type of Long-Term Care Insurance
(Respondents Aged 51-69 in 1998-2012)**



**Table 12. Prevalence and Type of Long-Term Care Insurance
(Respondents Aged 51-69 in 1998-2012)**

Year	Nursing Home and Home Care	Nursing Home Care Only	Home Care Only	Other	Total
1998	6.0%	1.1%	0.8%	0.1%	8.0%
2000	6.6%	0.7%	0.6%	0.0%	7.9%
2002	8.1%	0.9%	0.3%	0.2%	9.5%
2004	8.6%	0.7%	0.4%	0.1%	9.9%
2006	8.7%	0.6%	0.3%	0.0%	9.6%
2008	9.5%	0.7%	0.3%	0.1%	10.6%
2010	8.9%	0.6%	0.3%	0.1%	9.8%
2012	8.8%	0.6%	0.4%	0.0%	9.8%

Source: HRS Respondents aged 51-69.

As documented by Cohen (2016) and discussed on page 11 above, currently sold policies tend to cover both in-home and nursing home care, but older policies were more restrictive. Recognizing that older policies tend to be held by older birth cohorts, Table 13 shows benefit types by age of the HRS respondent. About 87% (9.8%/11.2%) of policies held by 60-69 year-olds covered both in-home and nursing

home care. That fraction decreases with age to 81% among 70-79 year-olds, 69% among 80-89 year-olds, and 57% among respondents age 90 or older.

Table 13. Prevalence and Type of Long-Term Care Insurance, by Age (1998-2012)

Age	Nursing Home and Home Care	Nursing Home Care Only	Home Care Only	Other	Total
<50	2.5%	0.0%	1.0%	0.0%	3.5%
50-59	6.9%	0.5%	0.4%	0.1%	7.9%
60-69	9.8%	1.0%	0.4%	0.0%	11.2%
70-79	10.9%	1.9%	0.5%	0.1%	13.4%
80-89	7.8%	2.6%	0.8%	0.1%	11.3%
90+	4.1%	2.4%	0.5%	0.1%	7.1%

Source: 1998-2012 HRS.

Table 14 and Table 15 show the distribution of cumulative number of days spent in a nursing home, by age of the respondent.¹⁸ The days may have been spent consecutively or over multiple nursing home stays. Table 14 shows the distribution for the individual respondent. Most people never stayed in a nursing home, but the fraction who did increases, as expected, with age. Among respondents who are age 90 or older, 11% had stayed 1-30 days, 6% 31-100 days, 6% 101 days to one year, 5% more than one year but less than two years, 10% two to four years, and 2% five years or longer. Table 15 is similar to Table 14 but accounts for nursing home stays of both the respondent and his or her partner.

Table 14. Cumulative Duration Spent in a Nursing Home, by Age

Duration	Age						All
	<50	50-59	60-69	70-79	80-89	90+	
Zero days	98.9%	99.2%	97.3%	92.8%	80.5%	60.3%	94.4%
1-30 days	0.0%	0.5%	1.5%	3.9%	8.4%	11.0%	2.6%
31-100 days	1.1%	0.1%	0.4%	1.3%	3.4%	5.6%	0.9%
101-364 days	0.0%	0.1%	0.3%	0.7%	2.4%	5.9%	0.7%
1 year	0.0%	0.0%	0.1%	0.5%	2.0%	4.8%	0.5%
2-4 years	0.0%	0.0%	0.2%	0.7%	2.8%	10.2%	0.8%
5+ years	0.0%	0.0%	0.1%	0.1%	0.5%	2.3%	0.2%

Source: 1998-2012 HRS.

¹⁸ Cumulative number of days insofar reported in the HRS. Any stays prior to entering the HRS sample are excluded. However, since most HRS respondents are in their 50s when they enter the HRS, we believe this limitation to be mild. The tables uses eight HRS waves (1998-2012), i.e., individual respondents can contribute multiple times to the tables.

Table 15. Cumulative Duration Spent in a Nursing Home by Self or Partner, by Respondent Age

Duration	Age						All
	<50	50-59	60-69	70-79	80-89	90+	
Zero days	98.3%	98.6%	95.7%	89.0%	74.3%	54.8%	92.1%
1-30 days	0.0%	0.9%	2.4%	5.9%	11.0%	12.6%	3.8%
31-100 days	1.3%	0.2%	0.7%	2.0%	4.7%	6.7%	1.4%
101-364 days	0.4%	0.2%	0.5%	1.2%	3.3%	6.8%	1.0%
1 year	0.0%	0.0%	0.2%	0.6%	2.4%	5.2%	0.6%
2-4 years	0.0%	0.1%	0.4%	1.1%	3.7%	11.3%	1.0%
5+ years	0.0%	0.0%	0.1%	0.2%	0.6%	2.7%	0.2%

Source: 1998-2012 HRS.

Table 16 shows the fraction of individuals who reported Medicaid enrollment, by duration spent in a nursing home. As expected, the longer someone was a resident at a nursing home, the more likely he or she was receiving Medicaid benefits. More than one-half (56%) of respondents who had spent five years or longer in a nursing home reported Medicaid enrollment, compared with only 8% among those who had never stayed in a nursing home. A likely explanation is that private assets and other sources of payment become sufficiently depleted for a respondent to become eligible for Medicaid.

Table 16. Medicaid Enrollment by Cumulative Duration Spent in Nursing Home

Duration	Medicaid Enrollment
Zero days	7.6%
1-30 days	11.7%
31-100 days	14.8%
101-364 days	26.1%
1 year	30.9%
2-4 years	37.4%
5+ years	55.9%
Total	8.7%

Source: 1998-2012 HRS.

Table 17 shows utilization of long-term care by age and by long-term care insurance status. Table 11 above already showed that use of services increases with age; Table 17 documents that utilization among people with insurance is generally lower than among their uninsured counterparts. Theoretically, adverse selection and moral hazard could lead to the opposite pattern: people who expect to need long-term care are more likely to purchase insurance protection, and people with insurance coverage are more likely to use services because the net cost is lower for them. However, for long-term care utilization those forces are outweighed by such other factors as better health among LTCI policyholders. This finding is consistent with Finkelstein and McGarry (2006), who concluded that in the market for long-term care insurance individuals with a strong taste for purchasing insurance tend to be low-risk and outnumber individuals with private information that they are high-risk.

Table 17. Utilization of Long-Term Care, by Age and LTC Insurance Status

Age	Used Home Health Care in the Past 2 Years		Stayed in Nursing Home in the Past 2 Years		In nursing home at time of interview	
	LTC insurance at interview?		LTC insurance at interview?		LTC insurance at interview?	
	No	Yes	No	Yes	No	Yes
<50	1.1%	0.0%	1.1%	0.0%	0.0%	0.0%
50-59	3.1%	4.0%	0.5%	0.6%	0.1%	0.1%
60-69	5.4%	4.8%	1.7%	1.3%	0.6%	0.4%
70-79	10.0%	7.2%	4.8%	3.1%	2.0%	0.9%
80-89	16.8%	14.5%	13.8%	10.1%	7.7%	4.8%
90+	28.9%	31.9%	30.9%	30.7%	22.4%	17.8%
Total	7.1%	6.7%	3.8%	3.1%	2.0%	1.2%

Source: 1998-2012 HRS.

The HRS does not ask about out-of-pocket expenses related to nursing home stays. In an attempt to gauge the financial consequences of nursing home stays, Table 18 captures asset depletion between HRS interviews for households with and without nursing home stays. The unit of analysis is a household interview that was preceded by another interview. The analysis excludes households with any wage earnings. It shows the distribution of financial assets (top panel) and net worth (bottom panel) for households whose members never stayed in a nursing home throughout the time that they were in the HRS and for households who reported at least one overnight stay by either partner.¹⁹ The latter group is further distinguished between households who did or did not report a stay during the past two years. The hypothesis is that the assets of households who reported a stay in the past two years are more likely to deplete than those of other groups. Indeed the mean change in assets is negative, but the magnitude of the average change would typically pay for only a short nursing home stay.

¹⁹ Financial assets include checking accounts, savings accounts, stock holdings, bonds, mutual funds, investment trusts, certificates of deposit, other savings (money owed by others, a valuable collection for investment purposes, an annuity, or rights in a trust or estate), and IRA holdings. Net worth further includes housing and other real estate equity (net of mortgages) and the value of vehicles. Neither metric includes defined contribution pension balances.

Table 18. Distribution of Change in Financial Assets, Total Assets in Past Two Years

Subsample	Change in Financial Assets (Incl. IRAs)			Mean (excl. top and bottom deciles)
	25th Percentile	Median	75th Percentile	
Never in Nursing Home	-26,000	0	41,000	7,045
Ever in Nursing Home	-28,000	0	37,000	5,159
Not in Past Two Years	-21,326	500	45,000	11,302
During Past Two Years	-36,000	-50	29,500	-1,113

Subsample	Change in Net Worth			Mean (excl. top and bottom deciles)
	25th Percentile	Median	75th Percentile	
Never in Nursing Home	-52,400	4,682	91,000	18,505
Ever in Nursing Home	-51,100	1,000	68,000	8,421
Not in Past Two Years	-35,800	5,500	84,700	23,265
During Past Two Years	-71,000	-1,000	56,500	-7,186

Source: 1998-2012 HRS.

We turn to a multivariate analysis of wealth changes between HRS interviews to measure the financial impact of nursing home stays net of public or private insurance coverage. As in the previous table, the analysis excludes households with any wage earnings. It also excludes households with Medicaid beneficiaries, since their out-of-pocket expenses are likely low. We distinguish between short stays (up to 30 days) and long stays (more than 30 days), because short stays are often associated with hospital stays and likely covered by Medicare or private health insurance. Our hypothesis is that long stays pose the greatest financial risks, and that those risks are mitigated if (either partner in) a household has private long-term care insurance. See Table 19.

We are interested in wealth changes. However, wealth levels and their changes vary widely across households, and outliers may drive results. We therefore measure wealth through an inverse hyperbolic sine transformation. The inverse hyperbolic sine is similar to a logarithmic transformation, but allows negative values.²⁰ Table 19 presents two specifications, for financial assets and net worth.

²⁰ Formally, $\sinh^{-1} w = \log(w + \sqrt{w^2 + 1})$. The inverse hyperbolic sine is point-symmetric around the origin: $\sinh^{-1}(-w) = -\sinh^{-1} w$. For positive wealth values w that are not close to zero, $\sinh^{-1} w \approx \log(2w)$, and for negative values not close to zero, $\sinh^{-1} w \approx -\log(-2w)$. For wealth levels that are both positive or both negative in the current and prior interview, changes in the inverse hyperbolic sine may be interpreted similar to changes in logarithms, i.e., as relative changes.

Table 19. Wealth Change between HRS Surveys as a Function of Nursing Home Stays and Insurance Coverage
(Outcome variable: Difference between waves of inverse hyperbolic sine of wealth)

	Change in inverse hyperbolic sine of:	
	Financial Assets	Net Worth
Short stay (≤ 30 days)	-0.085 (0.231)	-0.085 (0.142)
Long stay (> 30 days)	-0.674 ** (0.293)	-0.491 *** (0.180)
LTC insurance coverage	-0.028 (0.103)	-0.048 (0.064)
Long stay * LTC insurance	1.198 * (0.675)	0.955 ** (0.415)
Constant	0.054 (0.045)	0.053 * (0.027)
Number of observations	16,485	16,485

Standard errors in parentheses.

Significance: *** =1%, ** =5%, * =10%.

Analysis sample excludes households with Medicaid beneficiaries.

Consistent with our hypothesis, short nursing home stays did not have a statistically significant effect on changes in wealth before and after the stay. However, stays in excess of 30 days had a negative effect, except if the household had long-term care insurance coverage. Not shown in the table is that the parameter estimates were sensitive to the model specification, sample selection, and treatment of negative wealth values. In other words, while the results are consistent with expectations, direct measurement of out-of-pocket expenses may be preferable to measurement of wealth changes. Unfortunately, the HRS currently does not offer such direct measurement.

Finally, Table 20 shows probit regression results of the likelihood of Medicaid enrollment. The unit of observation is a household interview and the outcome is an indicator for whether (either partner in) a household reported being covered by Medicaid. As expected, net worth is strongly negatively related to Medicaid enrollment. In contrast to Table 19, nursing home stays are measured cumulatively, with indicators for whether all nursing home stays by either partner prior to the interview summed to 1-30 days or longer. Both short and long stays increased the likelihood of Medicaid enrollment, but the effect of long stays was much greater. Being covered by long-term care insurance reduced the chances of Medicaid enrollment, presumably because of its association with sufficient means to pay for such insurance. Contrary to our expectations, the effect of long stays was not mitigated by long-term care insurance coverage.

Table 20. Household Medicaid Coverage as a Function of Cumulative Nursing Home Stays

	Probit
Net worth (inverse hyperbolic sine)	-0.078 *** (0.003)
Short stay(s) (0<cumulative SNF nights<=30)	0.164 ** (0.066)
Long stay(s) (Cumulative SNF nights>30)	0.757 *** (0.057)
LTC insurance coverage	-0.502 *** (0.049)
Long stay(s) * LTC insurance	0.027 (0.147)
Constant	-0.489 *** (0.036)
Number of observations	26,797

Standard errors in parentheses.

Significance: ***=1%, **=5%, *=10%.

6. POLICY IMPLICATIONS

Approximately one-half of Baby Boomers are projected to require paid, formal long-term care in the home, an adult day care center, an assisted living facility, or a nursing home (Favreault and Dey, 2016). Paying for care out of pocket could rapidly exhaust retirement savings of many Americans, prompting them to eventually rely on Medicaid. Indeed, Medicaid enrollment is about 8% among HRS respondents who have never stayed in a nursing home and rises to 26% after 101-364 days in a nursing home and 56% after five years in a nursing home (see Table 16 above). The size of the Baby Boom generation is expected to drive up demand for and prices of long-term care, creating a troublesome outlook for the elderly's personal finances and the Medicaid program.

Given the high cost of long-term care, workable solutions could involve risk pooling through public or private insurance. Only about 7 million people are currently covered by private long-term care insurance, which suggests room for growth. However, as argued by Brown and Finkelstein (2007, 2008, 2009, 2011) and summarized above, both insurance companies and consumers face impediments to more widespread adoption of private LTCI. Among these are uncertainty over the adequacy of coverage and uncertainty over future premiums. Indeed, the insurance is designed to be in force for several decades, and past experience shows costs that outpaced general inflation and substantial premium increases on policies that were issued prior to the mid-2000s. The uncertainties affect consumers and insurance companies alike. Some options that may alleviate the uncertainties of both consumers and the industry are:

- Insurance products in which benefits and premiums adjust in tandem with inflation. Inflation tends to affect the cost of care, wages, and nominal investment returns in the same direction, so incorporating a link between benefit levels and premiums should greatly reduce inflation uncertainty. Many current products offer automatic benefit increases of 3% or 5% annually, but

- those increases may be too low or too high. Most products are designed to charge the same annual premium for the life of the policy, which makes them relatively expensive early on. Expecting income to keep pace with inflation, prospective policyholders may be receptive to lower initial premiums that escalate over time.
- Products that combine long-term-care insurance with life insurance and/or annuities. Longevity risks affect individual products differently, but a combination product may be easier to price, require less complex underwriting standards, and offer more comprehensive protection against financial risks in old age.
 - State-based reinsurance pools designed to alleviate individual insurers' risks and boost consumer confidence that their policies will eventually pay out, if needed.

Consumers may hesitate to purchase private insurance because some of the premiums pay for benefits that Medicaid would provide in the absence of private insurance. Two Medicaid features, in particular, create an implicit tax on private insurance: (1) private benefits postpone the time at which the asset test for Medicaid eligibility is met, and (2) Medicaid is secondary payor, i.e., pays only for services that other insurance do not cover. Public-private partnerships may offer solutions, such as expansion of state Medicaid Partnership Programs (see Section 4 above).

- State Medicaid Partnership Programs make it easier to qualify for Medicaid for people with high-quality long-term care insurance. Should all benefits under private long-term care insurance become exhausted, the policyholder may retain assets equal to benefits paid and still qualify for Medicaid. This modified asset test addresses the first Medicaid feature responsible for an implicit tax on private insurance. Under State Medicaid Partnership Programs, the Medicaid program faces reduced expenditures on long-term care and consumers can maintain a higher consumption level or leave a bequest.
- Similarly, a solution may lie in high-deductible, catastrophic LTCI with private front-end expense coverage for a set period (1-2 years), and public back-end coverage paid for the remainder of the LTC need. This would address the second Medicaid feature responsible for an implicit tax.

While State Medicaid Partnership Programs and high-deductible LTCI policies each address Medicaid features responsible for an implicit tax on private insurance, few if any options appear available that fully eliminate the tax while simultaneously preserving a safety net for low-income Americans and ensuring fiscal sustainability of the Medicaid program.

Finally, incentives to expand private insurance could be introduced in the workplace.

- Allow withdrawals from employer-sponsored retirement plans for LTC expenses or the purchase of LTCI without early-distribution penalties.
- Promote employer-sponsored long-term insurance by allowing plans to be tax-qualified, so that premiums can be paid through pre-tax payroll deductions.
- To alleviate fiduciary liability and other employer concerns, an alternative may be to create a publicly run marketplace in which private insurers offer long-term care insurance that workers may purchase through payroll deductions. Such an initiative could be modeled on recent state initiatives with respect to auto-enrollment IRAs.

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APPENDIX A. MEDIAN PRICES OF LONG-TERM CARE SERVICES, BY STATE (2015)

	Nursing home room		Assisted living facility (\$/month)	Adult day care (\$/day)	Home health aid care (\$/hour)
	private (\$/day)	semi-private (\$/day)			
Alabama	209	191	3,075	36	17
Alaska	771	771	5,703	122	26
Arizona	233	192	3,418	80	20
Arkansas	180	155	3,063	80	17
California	285	245	3,750	77	23
Colorado	256	230	3,750	65	22
Connecticut	435	400	5,575	78	22
Delaware	323	300	5,745	69	22
District of Columbia	270	270	7,838	99	22
Florida	265	240	3,150	65	19
Georgia	195	183	2,880	60	18
Hawaii	370	342	4,000	66	25
Idaho	243	228	3,240	116	20
Illinois	204	178	4,050	68	22
Indiana	250	215	3,693	80	20
Iowa	187	175	3,500	60	23
Kansas	180	165	4,188	80	20
Kentucky	239	208	3,350	67	19
Louisiana	170	155	3,010	63	16
Maine	295	275	4,800	108	22
Maryland	302	278	3,900	79	20
Massachusetts	382	353	5,300	65	25
Michigan	272	249	3,250	80	21
Minnesota	263	231	3,468	78	25
Mississippi	220	205	3,150	35	17
Missouri	167	153	2,525	80	19
Montana	220	210	3,560	95	23
Nebraska	218	197	3,628	56	23
Nevada	270	236	3,238	70	22
New Hampshire	335	316	5,103	65	24
New Jersey	350	320	5,725	85	21
New Mexico	234	205	3,500	99	20
New York	374	361	4,100	85	23
North Carolina	225	206	3,000	51	18
North Dakota	288	275	3,239	75	27
Ohio	235	210	3,890	55	20
Oklahoma	165	146	3,345	60	20
Oregon	280	263	3,880	89	23

	Nursing home room		Assisted living facility (\$/month)	Adult day care (\$/day)	Home health aid care (\$/hour)
	private (\$/day)	semi- private (\$/day)			
Pennsylvania	310	289	3,555	60	21
Rhode Island	283	255	5,325	67	25
South Carolina	206	190	3,125	55	19
South Dakota	212	199	3,023	72	23
Tennessee	207	192	3,395	62	18
Texas	188	140	3,545	35	19
Utah	210	175	3,000	89	21
Vermont	288	280	4,020	124	22
Virginia	254	221	3,933	65	19
Washington	289	266	4,625	68	24
West Virginia	295	282	3,500	72	16
Wisconsin	273	247	3,980	65	22
Wyoming	245	220	3,900	50	22
USA	250	220	3,600	69	20

Source: Genworth (2015).

APPENDIX B. SAMPLE LONG-TERM CARE INSURANCE POLICY

This appendix reproduces three key pages of a sample long-term care insurance policy that Genworth publishes for California. The full sample policy document may be found at https://www.genworth.com/dam/Americas/US/PDFs/Consumer/Product/LTC/7052CA_061713_gnw.pdf.

SCHEDULE

Insured

[John Q. Doe]
[Apt #1234]
[1234 Main Street]
[Anytown, CA 99999]

Policy Number

[XXXXXXXX]

Policy Effective Date

[7/01/2013]

Issue State

California

COVERAGE FEATURES AND LIMITS

Coverage is provided for Covered Expenses that are incurred after the Elimination Period has been satisfied. Payment is subject to the limits determined below and all other provisions of the Policy. Changes in Your Schedule may be made by Rider.

Elimination Period: [[30][90] days of Covered Care]

[The Elimination Period is satisfied by days You incur a Covered Expense while You are Chronically Ill.]

OR [[30][90] calendar days]

[The Elimination Period is satisfied by days You are Chronically Ill beginning with the first day You incur a Covered Expense.]

[There is no Elimination Period for the Home and Community Care Benefit. In addition, days for which payment is made under that Benefit will count toward satisfying the Elimination Period.]

Coverage Maximum

[\$240,000]

Nursing Facility Maximum

[\$4,000 per calendar month]

Benefit Increases

[5% Compound]

[See below]

[The Coverage Maximum and amounts based on the Nursing Facility Maximum are: (a) increased when Benefit Increases apply; and (b) exhausted only when the total of all Benefits paid equals the then applicable maximum amount. Benefit Increases that apply are not affected by any Benefits paid for Covered Expenses incurred prior to the date the applicable maximum is exhausted.]

[5%, 3%] Compound Benefit Increases: On each anniversary of the Policy Effective Date Your then current Nursing Facility Maximum and the current amounts of other dollar maximums will each increase by the selected percentage.

These Benefit Increases will be automatic; will not require proof of good health; and will be made without a corresponding increase in Premium. They will continue without regard to Your age, Claim status or Claim history, or length of time You have been insured under the Policy.

Benefit Increases cease when: (a) the applicable maximum has been exhausted; (b) they are terminated by You; or (c) the Policy ends.]

[5% Simple Benefit Increases: On each anniversary of the Policy Effective Date Your then current Nursing Facility Maximum and the current amounts of other dollar maximums will each increase by 5% of their respective amounts in effect on the Policy Effective Date. Calculation of the increased amounts is not affected by Benefit payments.

These Benefit Increases will be automatic; will not require proof of good health; and will be made without a corresponding increase in Premium. They will continue without regard to Your age, Claim status or Claim history, or length of time You have been insured under the Policy.

Benefit Increases cease when: (a) the applicable maximum has been exhausted; (b) they are terminated by You; or (c) the Policy ends.]

[5% Future Purchase Options: These provide a way to increase Your Benefit maximums on every 3rd anniversary of the Policy Effective Date. Increases will not be available or effective, and may be revoked or rescinded, if You are Chronically Ill or otherwise eligible for Benefits on the date the offer is accepted. You will be given the option to purchase additional coverage equal to 5% compounded annually for the 3 year period (an approximate increase of 15.8%). The increases will apply to Your then current Nursing Facility Maximum and the current amounts of other dollar maximums. The additional Premium for an increase will be based on: (1) the amount of the increase; and (2) Your age and the Premium in effect for the Policy on the date the increase takes effect.

Offers and Benefit Increases cease when: (a) You have refused/declined three consecutive options to increase Benefit maximums; (b) the applicable maximum has been exhausted; (c) they are terminated by You; or (d) the Policy ends.]

SCHEDULE
(Continued)

Benefits and Services Provided	We Pay [the Covered Percentage of] Covered Expenses Up to these Limits (except where otherwise noted)
Privileged Care Coordination Services	Not subject to coverage limits
Nursing Facility Benefit	Nursing Facility Maximum per [day][calendar month]
Residential Care Facility Benefit	[[75%][100%] of the] Nursing Facility Maximum per [day][calendar month]
Bed Reservation Benefit	60 days per calendar year
Home and Community Care Benefit	[[50%][100%] of the] Nursing Facility Maximum per [day] [calendar month]]
Home Assistance Benefit	A Policy total payment maximum equal to
(Equipment, modifications & training)	[[3 times Monthly][90 times Daily] the Nursing Facility Maximum]
Hospice Care Benefit	Included
Respite Care Benefit	30 days per calendar year
International Coverage Benefit	As stated in the Benefit
Waiver of Premium Benefit	Included
The Waiver of Premium applies only during periods for which Benefits are payable under the: Nursing Facility Benefit; Residential Care Facility Benefit; Bed Reservation Benefit; Home and Community Care Benefit; or Hospice Care Benefit.	
[This also applies when Your Spouse or Partner for Shared Coverage qualifies for Waiver of Premium under this Policy or his or her Policy.]	
Your Right To Request Payment	
For Alternative Care	Payment subject to mutual agreement
Contingent Nonforfeiture Benefit.....	Included

The following Riders are attached to, and included in, the Policy.

[Nonforfeiture Benefit	Included]
[Shared Coverage Benefit.....	Included with Joint Waiver]
[Restoration Benefit.....	Included]
[Transition Benefit	A Policy total payment maximum equal to
	[5 times][20% of] the Nursing Facility Maximum]

The maximum total amount payable for all Covered Expenses incurred [on a day] [in a calendar month] is limited to the Nursing Facility Maximum. This does not apply to the Home Assistance Benefit and Benefits paid for requested alternative care.

SCHEDULE
(Continued)

PREMIUM DATA

	Annual Premium
Basic Policy Coverage.....	\$XXX.XX
[Nonforfeiture Benefit Rider	\$XX.XX]
[Shared Coverage Rider.....	\$XX.XX
Spouse or Partner for Shared Coverage Mary Jane Doe]	
[Restoration Benefit Rider	\$XX.XX]
[Transition Benefit Rider	\$XX.XX]
[Premium Credit for Replacement of Prior Coverage With Us	\$XX.XX]
 Total Annual Premium	 \$XXX.XX]

First Premium
[\$aaa.aa]

Premium Payment Mode
[Quarterly]

Modal Premium
[\$bbb.bb]

Premium for Premium Payment Modes other than annual are the following percentage of the Annual Premium:

Semi-Annual = 51%; Quarterly = 26%; Monthly = 9%

The following table shows the Modal Premium and total yearly cost for the available Premium Payment Modes for the Annual Premium that applies on the Policy Effective Date. These costs will change when there is a change in Your Premium. See the Modal Premium Disclosure for additional information.

Total First Year Premium Payment Options (including all optional Coverage)

	<u>Annual</u>	<u>Semi-Annual</u>	<u>Quarterly</u>	<u>Monthly</u>
Modal Premium	[\$XXX.XX]	[\$XXX.XX]	[\$XXX.XX]	[\$XXX.XX]
Total Yearly Cost for First Year Premium	[\$XXX.XX]	[\$XXX.XX]	[\$XXX.XX]	[\$XXX.XX]

Premium Payment Period: Lifetime

Rating: [Standard] [with [Insured] Couples Discount]

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