

## Who Buys Long-Term Care Insurance in 2010–2011?

*Who Buys Long-Term Care Insurance in 2010-2011?* is a twenty year study of the long-term care insurance marketplace that AHIP has undertaken with LifePlans, Inc. This study builds on work completed in 1990, 1995, 2000, and 2005 identifies who buys long-term care insurance and explores what motivates them to do so. The study compares these findings with those who made the active decision to not buy long-term care insurance and to other Americans age 50 and older. The major findings from the study follow.

### LONG-TERM CARE INSURANCE POLICIES PURCHASED BY CONSUMERS TODAY PROVIDE SOLID AND COMPREHENSIVE PROTECTION.

- ▶ The proportion of comprehensive policies (products that provide coverage for the full continuum of long-term care services) continues to grow, increasing from 90 percent in 2005 to 95 percent in 2010. Virtually all policies, 99 percent, cover home care. Coverage limited to nursing homes or institutional alternatives only has virtually disappeared from the market.
- ▶ Over the past five years, the average daily nursing home benefit purchased by long-term care insurance buyers has increased by 8 percent. The average home care daily benefit amount has increased by 13 percent. Over the years, the average benefit amounts for nursing home and home care have become virtually identical. This reflects the popularity in the marketplace of integrated policies, which allow individuals to use benefits across multiple settings.
- ▶ Three in four buyers of long-term care insurance have inflation protection, and roughly half of all buyers have compound inflation protection.

### LONG-TERM CARE INSURANCE BUYERS UNDERSTAND THE NEED TO PLAN FOR THEIR LONG-TERM CARE NEEDS EARLIER IN LIFE—LONG-TERM CARE INSURANCE BUYERS ARE YOUNGER.

- ▶ The average age of individual buyers of long-term care insurance has declined in the last decade from 68 years in 1990 to 59 years in 2010.

- ▶ Non-buyers – individuals who made the active choice to not purchase long-term care insurance – tend to be older, less educated, less likely to live in a household where someone is employed, and to have lower income and asset levels than buyers.
- ▶ Being a “planner” – one who believes that it is important to plan for the possibility of needing services – is positively associated with the purchase of long-term care insurance. Consistently, buyers have been much more likely than non-buyers to strongly agree with the statement, “It is important to plan now for the possibility of needing long-term care services.”

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**AMERICANS BELIEVE THAT IT IS NOT THE GOVERNMENT'S ROLE TO PAY FOR THE LONG-TERM CARE NEEDS OF ALL PEOPLE. THEY DO BELIEVE, HOWEVER, THAT IT IS THE GOVERNMENT'S RESPONSIBILITY TO ENCOURAGE PEOPLE TO BUY LONG-TERM CARE INSURANCE.**

- ▶ Three in four individuals, age 50 and older, do not agree that it is the government's responsibility to pay for the long-term care needs of everyone.
- ▶ The vast majority of individuals age 50 and older believe that it is the federal government's responsibility to encourage people to buy long-term care insurance, by allowing premiums to be fully tax-deductible or allowing employed individuals to use pretax dollars to pay for the insurance.
- ▶ When Americans over age 50 were asked what the single most important action government could take in the area of long-term care, the most cited response was to offer more tax incentives for the purchase of private insurance policies.

**THERE IS A TREMENDOUS NEED AND OPPORTUNITY FOR CONSUMER EDUCATION RELATED TO LONG-TERM CARE.**

- ▶ Non-buyers, those who choose not to buy a long-term care policy, are more likely to underestimate the costs of care than buyers of long-term care insurance.
- ▶ Non-buyers also perceive the risk of needing long-term care services to be lower than buyers.
- ▶ While buyers are more aware of that they would need to pay for their own long-term care needs, both non-buyers and individuals from the general population age 50 and older are more likely to believe that public programs will pay for care or simply do not know who would pay for care if they needed it.
- ▶ There is an opportunity for educational efforts with respect to states' Long-Term Care Partnership Programs, with about half of consumers in the general population age 50 and older saying they would be likely to purchase a long-term care insurance policy if their state participated in a Partnership program. Partnership programs are designed to help consumers who purchase long-term care insurance to preserve assets if they subsequently become eligible for Medicaid assistance for long-term care services. Most states have a Partnership program in place, but a majority of consumers are unaware if their state has this program.



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A Twenty Year Study of Buyers and  
Non-Buyers (In the Individual Market)







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

> RcTY 2012



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## EXECUTIVE SUMMARY

The purpose of this study, which builds on work completed in 1990, 1995, 2000, and 2005, is to identify who buys long-term care insurance and to understand what motivates them to do so. The study also compares these findings with those of a sample of non-buyers and also of other Americans (age 50 and older). These three separate survey populations are briefly described in Table 1 below.

We track how product purchase decisions have changed over the past 20 years. An examination of such changes can help policymakers and the insurance industry better understand marketplace opportunities and barriers. Such an

inquiry can also contribute to the debate about the consumer protection provisions, tax deductibility, and regulation of long-term care policies, as well as about whether (and how) this insurance can help solve the increasingly complex puzzle of long-term care financing. Nine companies, representing the vast majority of total individual long-term care insurance sales in 2010, contributed samples to the study. These companies contributed a sample of 1,493 buyers and 408 non-buyers, as well as design information on 8,099 policies. In addition, 500 individuals age 50 and older from the general population were surveyed.

**Table 1: Description of Populations Surveyed in AHIP LTC Buyer Studies**

Survey Population	Description	Survey Instrument Utilized	Sample Number
Buyers	Individuals who purchased a long-term care insurance policy in 2010	Mail Survey	1,493
Non-Buyers	Individuals who have been approached by an agent or who attended a sales seminar and have been presented with the details of a long-term care insurance policy but ultimately chose not to buy a policy	Mail Survey	408
General Population Over 50	Stratified random sample of individuals over age 50 from the general population who do not own a long-term care insurance policy	Phone Survey	500

## KEY FINDINGS

### Socio-Demographic Characteristics

- The average age of individual buyers of long-term care insurance has declined in the last five years from 61 years to 59 years.
- There are major demographic differences between buyers and non-buyers. Non-buyers tend to be somewhat older, less educated, and less likely to live in a household where someone is employed, and to have lower income and asset levels than buyers.
- Non-buyers and individuals age 50 and older in the general population are similar in terms of assets and marital status. However, non-buyers tend to be somewhat older, more educated, less likely to live in a household where someone is employed, and to have lower income levels than their counterparts in the general population.



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- ▶ While asset levels of buyers have not exhibited significant change in the last 10 years, their average income has increased. The change in the income profile of buyers is attributable to the increasing proportion of employed purchasers over the past decade, a higher proportion of buyers with college education, and adherence to the NAIC suitability standards (adopted by all states in some form), which govern sales to individuals with less than \$20,000 annual income.

### Opinions and Attitudes Toward Long-Term Care and Insurance

- ▶ Being a “planner” (one who believes that it is important to plan for the possibility of needing services) is positively associated with the purchase of long-term care insurance. Consistently, buyers have been much more likely than non-buyers to strongly agree with the statement, “It is important to plan now for the possibility of needing long-term care services.”
- ▶ Those who purchase long-term care insurance tend to worry less about paying for long-term care services and are much more likely than non-buyers to view long-term care insurance products as adequate. Over the past five years, buyers’ opinions about the adequacy of insurance products have remained positive, with close to 80 percent believing that the insurance industry provides adequate coverage for long-term care services.
- ▶ Non-buyers are twice as likely as buyers to agree with the statement, “The government will pay for most of the costs of long-term care if services are ever needed.” It is therefore not surprising that these individuals do not buy policies, since they believe the government will pay for any care they may need in the future.
- ▶ The finding that slightly fewer non-buyers than buyers believe they would need nursing home care persisted in 2010. Over the past 10 years, individuals age 50 and older from the general

population consistently evaluate their risk of potentially needing nursing home care to be lower than do either buyers or non-buyers.

- ▶ Both non-buyers and individuals from the general population age 50 and older are more likely than buyers to believe that public programs will pay for long-term care services or to simply not know who would pay for care if they needed it for more than six months.
- ▶ Non-buyers are more likely than buyers to underestimate the cost of a nursing home in their area. Slightly less than two-thirds (64 percent) of buyers underestimate the cost, while 72 percent of non-buyers do so. Moreover, buyers are twice as likely as non-buyers to correctly estimate the current cost of care (within an appropriate cost range).

### Trends in Product Purchase

- ▶ The proportion of comprehensive policies (products that provide coverage for the continuum of long-term care services) continues to grow, increasing from 90 percent in 2005 to 95 percent in 2010. Coverage limited to nursing homes or institutional alternatives only has virtually disappeared from the market.
- ▶ Over the past five years, the average daily nursing home benefit purchased by long-term care insurance buyers has increased by 8 percent. The average home care daily benefit amount has increased by 13 percent. Over the years, the average benefit amounts for nursing home and home care have become virtually identical. This reflects the popularity in the marketplace of integrated policies, which allow individuals to use benefits across multiple settings.
- ▶ The average policy duration has declined slightly over the past five years. There has been a significant decline in sales of policies with unlimited (that is, lifetime) durations.



- ▶ Over the past five years, the proportion of individuals purchasing inflation protection has stayed relatively constant at about three in four. Roughly half of all buyers have compound inflation protection.

### Understanding the Buy/Non-Buy Decision

- ▶ Individuals are buying long-term care insurance to meet multiple objectives. About a third of buyers indicated that protecting their assets and estates was the single most important reason for purchase.
- ▶ Fifty-five percent of buyers cited “cost of insurance would increase in future” as the most important reason for purchasing their policies now.
- ▶ Most buyers (89 percent) are first-time purchasers of long-term care insurance. Only 11 percent were either replacing a previous policy (7 percent) or adding to an existing policy (4 percent).
- ▶ The majority (74 percent) of purchasers who are married buy a policy for each spouse.
- ▶ For the most part, people do not decide to purchase long-term care insurance on their own. In addition to the insurance agent, others contribute to the discussion. Spouses, agents, and financial planners were also cited as having significant influence; only rarely do 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. This pattern of responses has stayed fairly constant over the past 10 years.
- ▶ The overwhelming majority of buyers and non-buyers alike felt that their agent was knowledgeable, adept at explaining the available coverage options, and a good listener. They also believed that the agent recommended the policy best suited to their needs.
- ▶ Most non-buyers said that cost was the most significant barrier to purchase, and this trend has persisted over the past 20 years.
- ▶ Only a third of non-buyers stated that they do not plan to buy long-term care insurance at all. Thus, the majority of non-buyers remain potential prospects for the future, and this has not changed over the last five years.
- ▶ Almost 90 percent of current non-buyers would be more interested in buying a policy if they could deduct premiums from their taxes, or if they felt premiums would remain stable over time.
- ▶ Four in five non-buyers said that they would be more interested in buying a policy if they thought the government would continue to pay for care after they have used up their long-term care insurance benefits or if they could get discounts on the cost of services covered by their long-term care policy.

### Attitudes Toward the Role of Government

- ▶ Three in four surveyed individuals from the general population age 50 and older do not agree that it is the government’s responsibility to pay for the long-term care needs of everyone without regard to personal resources.
- ▶ People’s view of private insurance has improved over the last decade. In 2010, 46 percent of individuals in the general population age 50 and older agreed with the statement, “Private insurance companies provide good long-term care products that are a good value for the money.” In 2000 this figure was 34 percent.
- ▶ A majority of respondents (among the age 50 and older population) believe that it is the federal government’s responsibility to encourage people to buy long-term care insurance by allowing premiums to be fully tax-deductible or allowing employed individuals to use pretax dollars to pay for the insurance.

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- ▶ Roughly two in five Americans over age 50 believe that the single most important action government could take in this area is to offer more tax incentives for the purchase of private insurance policies.
- ▶ Fifty-seven percent of surveyed individuals from the general population age 50 and older are aware of companies that offer long-term care insurance. Forty-three percent have been approached to buy insurance, and 41 percent had considered buying long-term care insurance.
- ▶ Less than 25 percent of individuals in the general population actually know whether or not their state has a Long-Term Care Partnership Program. However, about 45 percent of respondents indicated that they would be likely to purchase a private long-term care insurance policy if their state participated in a Partnership Program.

# INTRODUCTION

Over the past two decades, as the landscape for long-term care financing and service delivery has undergone significant change, so too has the market for long-term care insurance. Spending on long-term care represents a significant and growing portion of personal health care spending. Between 2000 and 2009, total long-term care expenditures grew by about 92 percent, roughly 7.5 percent per year.<sup>1</sup> Based on the National Health Accounts Data of the Centers for Medicare & Medicaid Services (CMS), roughly \$240 billion was spent on long-term care services and supports in 2009, of which Medicaid paid 43 percent, Medicare 24 percent, and elders and their families another 19 percent. Private insurance payments totaled less than 10 percent of the nation's financing for services.<sup>2</sup>

The growth in expenditures is driven not only by an expanding elderly population, but also by increases in the costs of providing long-term care services. The cost of care in a nursing home now approaches \$80,000 annually, and home care costs now total upwards of \$30,000 per year.<sup>3</sup> A year in an assisted living facility costs roughly \$40,000. Because there is a 67 percent chance that an individual will need long-term care for some period in his or her life, and 20 percent of such individuals may need care for more than two years, it is not surprising that long-term care represents the single largest financial risk faced by the elderly and their families.<sup>4</sup>

For much of the last 20 years, public policy efforts have turned to supporting growth in the private insurance sector and encouraging individuals to seriously consider long-term care insurance as a way to prepare for their needs during retirement. HIPAA legislation, state public-private partnership initiatives, and state-based education campaigns have all been used as policy levers to encourage greater personal

responsibility for planning and paying for long-term care costs. During the 1990s annual growth rates in sales of long-term care insurance were in the double digits. New companies were entering the market, and the number of agents was also growing. Policies were comprehensive, and price relative to value was declining.

These trends changed in the early 2000s, when the industry underwent several significant changes. A number of companies have exited the market, products have been re-priced to account for lower investment earnings and lower voluntary lapse rates, and the decline in the stock market has made more consumers wary of purchasing insurance protection for an event that may only occur well into the future. As a result, current growth rates have been less than anticipated. Even so, currently, between 7 and 9 million Americans have private long-term care insurance, and total premiums are roughly \$10 billion.

In terms of the current profile of the industry, a few trends stand out. First, whereas the individual market used to comprise roughly 90 percent of all sales, the group market represents a growing share. Today 42 percent of sales are in the group market, and roughly 11,000 employers sponsor this coverage. Second, long-term care insurance market penetration is becoming more pronounced and growing, with more than 15 percent of individuals older than 65 with incomes over \$20,000 now having long-term care coverage, and between 400,000 and 500,000 individuals per year purchasing private long-term care insurance policies. Third, for most of the last decade the vast majority of policies have covered care in all service modalities. The confluence of demographic trends, the unlikelihood of an expansion in direct government financing of long-term care, and the increasing exposure to catastrophic risk all portend growth in demand for the product.

Since 1990 America's Health Insurance Plans (AHIP)<sup>5</sup> has sponsored a series of studies of this market, focused on individuals who have chosen to purchase policies, those who have been informed about a policy but declined to purchase, and those who have not actively engaged with the topic of long-term care insurance. It has done so in order to learn

1 National Health Policy Forum (2011). "National Spending for Long-Term Services and Supports (LTSS)." Washington, D.C.

2 Kaiser Commission on Medicaid Facts (March 2011). "Medicaid and Long-Term Care Services and Supports." Washington, D.C.

3 Mature Market Institute (October 2010). "Market Survey of Long-Term Care Costs: The 2010 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs."

4 "Long Term Care Over an Uncertain Future: What Can Current Retirees Expect?" Presentation at the annual research meeting of Academy Health, June 2005.

5 The Health Insurance Association of America, which later merged into AHIP, conducted the first three studies.

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about the consumers of the product and their attitudes and opinions, to characterize policies sold in the marketplace, and to explore knowledge and attitudes among the general population. As has been documented in previous reports, there have been very dramatic changes in purchase patterns among consumers, and the profile of a “typical” buyer looks very different today than it did in 1990. Moreover, the types of policies being purchased by individuals in 2010 vary significantly from those purchased in 1990.

We focus on 1990 as a starting point, because it was then that the first of these comprehensive studies of buyers and non-buyers of long-term care insurance was conducted. In that year about 380,000 policies had been sold, and in-force policy counts were roughly 1.2 million. The group market barely existed at the time, and total long-term care costs were estimated to be about \$70 billion. Again, these facts highlight just what a different “state of the world” exists today.

The current study of buyers and non-buyers is designed to understand these changes, to identify where there has been relative stability, and to continue to provide an empirical basis for projecting where the industry will be moving in the years ahead. In the following pages, we focus on purchase trends over the past 20 years and the reasons why individuals choose to buy or not to buy policies. These choices reflect attitudes about insurance, the role of government, the availability of complementary and substitute service and financing options, knowledge about long-term care, views about family responsibility, and more. This study focuses on where the industry has been in order to provide a basis on which to make assessments of future marketplace needs, obstacles, and challenges, and of potential opportunities for market growth.

## PURPOSE

As stated earlier, the purpose of this study, which builds on work completed in 1990, 1995, 2000, and 2005, is to identify who buys long-term care insurance and to understand what motivates them to do so. We also compare these findings with those of a sample of non-buyers and of other Americans (age 50 and older). In addition, we track how product purchase decisions have changed over the past 20 years.

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 the past 20 years;
- ▶ to compare the attitudes of buyers, non-buyers, and a sample of individuals age 50 and older in the general population regarding long-term care risk and financing and the role of the government and private sector in financing long-term care;
- ▶ to understand why some individuals purchase policies and others do not, and to determine how the reasons may have changed over time;
- ▶ to identify the policy design features that people prefer and compare them with features in policies bought five, 10, 15, and 20 years ago;
- ▶ to identify the factors that would make non-buyers more interested in purchasing policies;
- ▶ to gain insight into the decision-making process of purchasing long-term care insurance and the role of the agent in selling it;
- ▶ to assess knowledge of the public-private Long-Term Care Partnership Programs;
- ▶ to understand the extent of knowledge about government and private long-term care financing issues among the general population age 50 and older; and
- ▶ to assess market opportunities for and barriers to the purchase of long-term care 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 a random sample of Americans from the general population age 50 and older. A “buyer” is defined as an individual who purchased a policy in 2010, paid premiums, and did not return the policy within 30 days. A “non-buyer” is 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 ultimately chosen not to buy a policy.<sup>6</sup>

This study also included a phone survey of a stratified random sample of 500 individuals from the general population, age 50 and older. These interviews provided a baseline for attitudinal and demographic comparisons among buyers, non-buyers, and the general population of Americans.

Nine companies, representing the vast majority of total individual long-term care insurance sales in 2010, contributed buyers, non-buyers, and sample policies to the study. These companies sold more than 200,000 individual policies in 2010, and they have been selling policies for more than a decade. The companies are Bankers Life and Casualty, Genworth Financial, John Hancock, Long-Term Care Partners, MedAmerica, Metropolitan Life, Mutual of Omaha, Northwestern Mutual, and Prudential.

Results of this study provide a snapshot of recent market activity and attitudes about the private and public sector roles in long-term care financing, and they 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, 2000, and 2005, we are able to present a longitudinal view of market trends over the past 20 years.

In total, the sample size for the study includes:

- ▶ 1,493 buyers,
- ▶ 408 non-buyers,
- ▶ 500 individuals age 50 and older from the general population<sup>7</sup>, and
- ▶ 8,099 individual long-term care insurance policies.

### Policy Design Information

So that we could 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 8,099 recently purchased policies: 1,493 of them were linked to surveyed buyers, and all 8,099 policies were used for policy design analysis.

The policy design information provided by companies included the following elements: policy type (facility only, home care only, or facility and home care); whether the policy was a Partnership Program policy; payment method; 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 non-forfeiture protection; the type of non-forfeiture protection; the premium; the premium mode (annual, semiannual, monthly); total claim dollars paid to date; current policy effective date; the gender and age of the policyholder; and the state where the policyholder resides.

### Survey Data Elements

Each survey collected detailed socio-demographic information and also asked questions to probe knowledge of long-term care financing and risk, attitudes toward long-term care insurance, the desired and potential roles of the private and public sectors in paying for long-term care, and recent market trends. The buyer survey also asked questions about why the individual chose to buy a policy and his or her knowledge of state Long-Term Care Partnership Programs. The non-buyer survey explored the reasons why a potential policyholder chose not to buy a policy and examined the factors that would make him or her more interested in buying a policy. Finally, a sample of persons age 50 and older was asked questions to gauge their knowledge of long-term care services, insurance, and payment sources.

For most questions, non-response rates were very low (less than 4 percent). For the more sensitive questions relating to income and assets, item non-response was higher, but still relatively low at less than 20 percent for each category. (Thus, more than 80 percent of respondents provided information on their income and assets.)

<sup>6</sup> Part of the sample is composed of individuals who initially applied for and received a policy, paid the initial premium, but then decided not to take the policy during the 30-day free-look period.

<sup>7</sup> Note that in total we surveyed 1,000 individuals from the general population, of whom 500 were over age 50. Of these 500, 219 were employed.

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### Weights

In order to generalize aggregate results, we weighted company-specific data in all subsequent analyses. For buyers, as well as for the policies on file, individuals were weighted to reflect each company's market share of new sales in 2010. No weights were used for the non-buyer sample.<sup>8</sup> The sample of the general population age 50 and older was randomly drawn and is reflective of the age and gender breakdown in the general population according to recent census data, and therefore no weight was applied.

## 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 2005, 2000, 1995, and 1990.<sup>9,10,11,12</sup>

### 1. 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 older. 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 buyers and non-buyers of long-term care insurance differ from the general population age 50 and older (see Table 2). Both buyers and non-buyers have more assets than their counterparts in the general population and are far more likely to be college educated. Buyers tend to be somewhat younger and non-buyers somewhat older than their counterparts in the general population. This may also explain why non-buyers are also more likely to be single and much less likely to be employed. The major differences between buyers and non-buyers of long-term care insurance are that non-buyers tend to be somewhat older and less likely to live in a household where someone is employed, and to have lower income and asset levels than buyers. This continues a trend we began to see in 2000.

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8 In previous years weights were calculated for non-buyers; however, due to the fact that the current sample contains not-takers, individuals who chose a policy, paid the initial premium, but decided not to take the policy during the 30 day free look period, 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, so there is no need for weighting this sample.

9 See America's Health Insurance Plans (April 2006). "Who Buys Long-Term Care Insurance in 2005? A 15-year Study of Buyers and Non-Buyers." Washington, D.C.

10 See Health Insurance Association of America (2000). "Who Buys Long-Term Care Insurance in 2000? A Decade of Study of Buyers and Non-Buyers." Washington, D.C.

11 See Health Insurance Association of America (1995). Managed Care and Insurance Operations Report, "Who Buys Long-Term Care Insurance? Profiles and Innovations in a Dynamic Market 1994-1995." Washington, D.C.

12 See Health Insurance Association of America (1992). Policy and Research Findings, "Who Buys Long-Term Care Insurance?" Washington, D.C.

## Who Buys Long-Term Care Insurance in 2010 – 2011?

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**Table 2: Socio-Demographic Characteristics of Individual Long-Term Care Insurance Buyers, Non-Buyers, and the General Population Age 50 and Older, 2010**

Socio-Demographic Characteristics	Buyers	Non-Buyers	General Population Age 50 and older
<b>Average Age</b>	59	67	64
Under 50	13%	2%	—
50-54	15	6	23%
55-64	47	38	36
65-69	17	14	12
70-74	5	15	9
75 and Older	3	25	20
<b>Gender</b>			
Male	46%	44%	46%
Female	54	56	54
<b>Marital Status</b>			
Never Married	8%	8%	8%
Married	69	57	61
Divorced/Separated	11	16	17
Widowed	9	18	15
Domestic Partner	3	1	—
<b>Income Status</b>			
Less than \$20,000	2%	13%	12%
\$20,000-\$24,999	3	11	5
\$25,000-\$34,999	7	15	10
\$35,000-\$49,999	11	15	14
\$50,000-\$74,999	20	22	19
\$75,000 and Over	57	24	40
<b>Total Liquid Assets</b>			
Less than \$20,000	5%	28%	37%
\$20,000-\$29,999	3	7	7
\$30,000-\$49,999	4	9	—
\$50,000-\$74,999	6	7	7
\$75,000-\$99,999	3	5	5
\$100,000 and Over	79	44	44
<b>Education Level</b>			
Less than High School	1%	4%	16%
High School Graduate	7	21	31
Post High School	21	32	27
College Graduate	71	43	26
<b>Someone in Household Employed</b>	69%	37%	51%

Sources: LifePlans, Inc. analysis of AHIP 2010 buyer and non-buyer surveys (based on sample size of 1,493 buyers and 408 non-buyers) and the following U.S. Census Bureau documents: "Annual Estimates of the Resident Population by Sex and Five-Year Age Groups for the United States: April 1, 2000 to July 1, 2009"; "2009 American Community Survey, Sex by Marital Status by Age for the Population 15 Years and Older"; "Current Population Survey, 2010 Annual Social and Economic Supplement"; "2009 American Community Survey, Sex by Age by Educational Attainment for the Population 18 Years and Older"; "2009 American Community Survey, Sex by Age by Employment Status for the Population 16 Years and Older." Notes: Data for income, education, and employment are based on people age 45 and older. Data for liquid assets are based on 500 surveyed individuals from the general population age 50 and older. Average age for 2010 buyers was based on analysis of 8,099 individual long-term care insurance policies.

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Table 3 focuses on the change in socio-demographic characteristics of buyers that has occurred over the 20-year period of AHIP surveys. The average age of buyers continues to decline and is now 59, but the rate of decline is much

smaller than in the previous study. In 2005, 16 percent of the market was age 70 or older, but by 2010 that number had declined to 8 percent.

**Table 3: Socio-Demographic Characteristics of Individual Long-Term Care Insurance Buyers, by Purchase Year**

Socio-Demographic Characteristics	2010	2005	2000	1995	1990
<b>Average Age</b>	59	61	67	69	68
Under 55	28%	22%	N.A.	N.A.	N.A.
55-64	47	45	33%	19%	25%
65-69	17	17	27	32	33
70-74	5	9	19	23	25
75 and Older	3	7	21	26	17
<b>Gender</b>					
Male	46%	43%	45%	39%	37%
Female	54	57	55	61	63
<b>Marital Status</b>					
Never Married	8%	6%	4%	6%	5%
Married	69	73	70	62	68
Divorced/Separated	11	10	6	6	4
Widowed	9	9	20	27	23
Domestic Partner	3	2	—	—	—
<b>Income Status</b>					
Less than \$20,000	2%	3%	9%	21%	29%
\$20,000-\$24,999	3	4	8	16	13
\$25,000-\$34,999	7	9	19	24	20
\$35,000-\$49,999	11	13	22	18	17
\$50,000 and Over	77	71	42	20	21
<b>Total Liquid Assets</b>					
Less than \$20,000	5%	4%	6%	18%	16%
\$20,000-\$29,999	3	3	5	10	8
\$30,000-\$49,999	4	6	7	13	11
\$50,000-\$74,999	6	6	5	10	12
\$75,000-\$99,999	3	5	6	8	11
\$100,000 and Over	79	76	71	41	42
<b>Education Level</b>					
Less than High School	1%	2%	5%	7%	8%
High School Graduate	7	13	21	28	30
Post High School	21	24	27	29	29
College Graduate	71	61	47	36	33
<b>Someone in Household Employed</b>	69%	71%	35%	23%	N.A.

Source: Based on analysis of results from the 2010 and earlier surveys; sample of 1,493 buyers (2010), 1,274 (2005), 2,728 (2000), 2,601 (1995), and 8,363 (1990). Age distribution based on policyholder data. Prior to 2005 age categories started at "Less than 65."



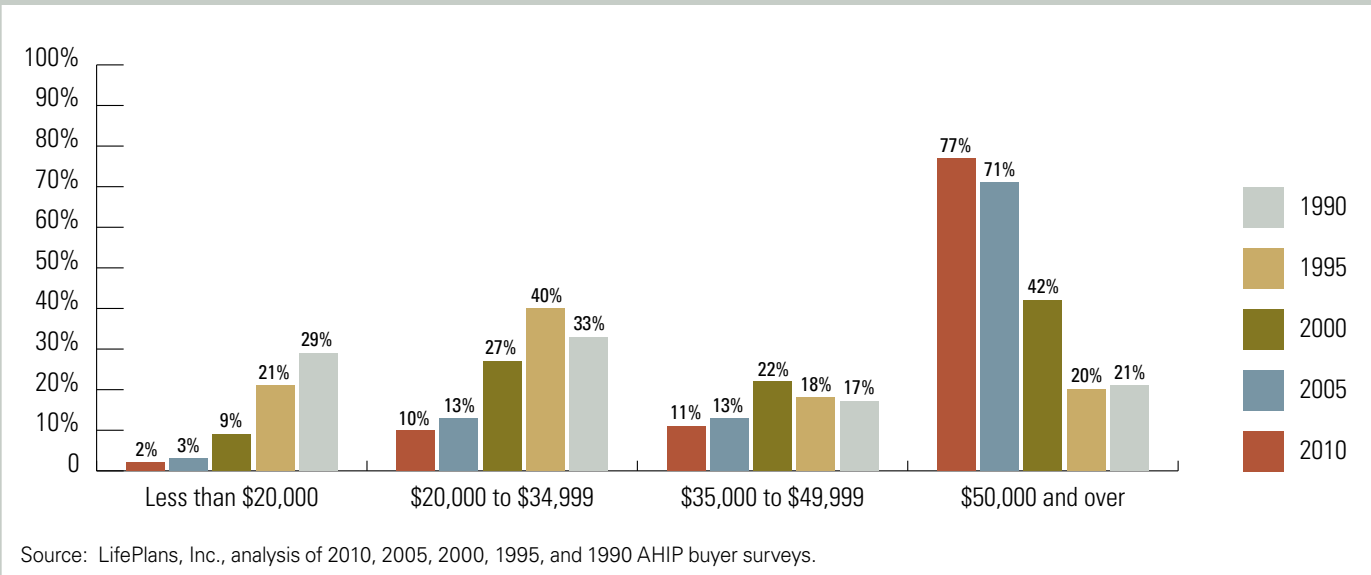
## Who Buys Long-Term Care Insurance in 2010 – 2011?

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The median income of current buyers is \$87,500, compared to \$62,500 in 2005, \$42,500 in 2000, \$30,000 in 1995, and \$27,000 in 1990. Whereas in 2000 less than half of new buyers reported incomes over \$50,000, by 2010 this figure had risen to 77 percent. This reflects the fact buyers are younger and more likely to be actively employed and therefore would have higher incomes than older buyers, who are more likely to be on fixed incomes. The asset level of new buyers is also increasing. Roughly four in five new buyers have assets in excess of \$100,000.

The higher levels of income and assets among current buyers may be explained in several ways. First, the proportion of employed purchasers has doubled over the past decade. Second, a higher proportion of buyers are college educated, which is positively related to higher earnings levels. Finally, as noted earlier, states have adopted NAIC suitability guidelines that regulate sales to individuals with incomes of less than \$20,000. As shown in Figure 1, the proportion of buyers with incomes less than \$20,000 continues to decline over time.

**Figure 1: Income Status of Individual Long-Term Care Insurance Buyers, by Purchase Year**



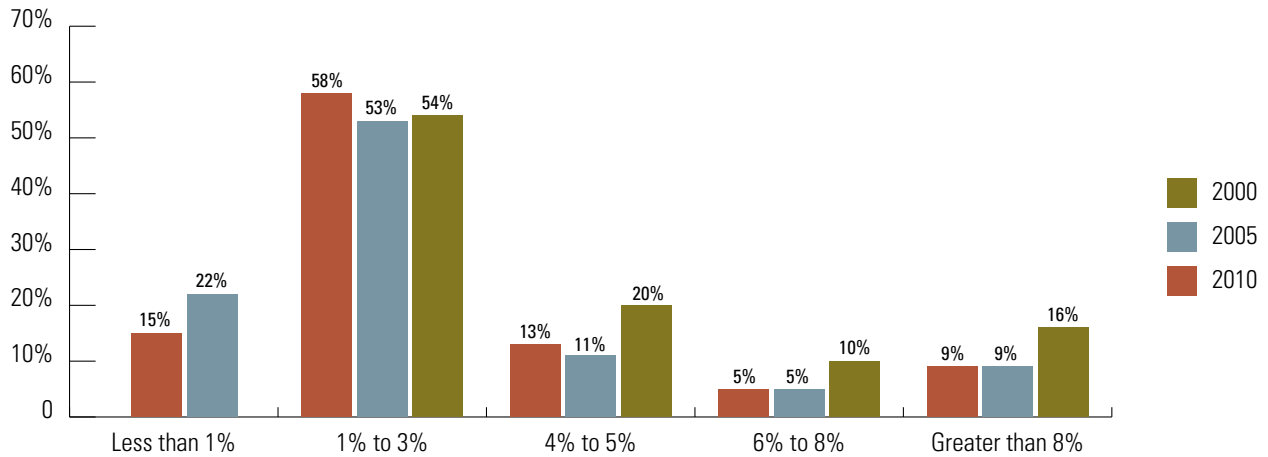
Over the past ten years, we have tracked the percentage of income that buyers spend on their long-term care insurance premiums. This percentage has continued to drop in spite of the steady increase in the average premium. This is because the decline in age and the resulting increase in the average income of purchasers result in the cost of the policy

representing a smaller portion of higher income. Figure 2 shows that the average portion of income spent on long-term care insurance premiums in 2010 is 3.6 percent—down from 4.8 percent in 2000. However, between 2005 and 2010, there has been little change in the percentage of income spent on premiums, even as incomes have increased slightly.

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



Source: LifePlans, Inc., analysis of 1,493 buyers in 2010, 1,274 in 2005, and 2,728 in 2000.

### 2. 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 the past 20 years, and this raises a question about whether differences in attitudes and opinions about long-term care have also changed. More specifically, we are interested in knowing whether attitudes about risk, payment source, and other issues relevant to the insurance purchase decision have changed.

Most, if not all, of the attitudinal trends present in past surveys persist in 2010 (see Table 4). For example, being a “planner” (one who believes that it is important to plan ahead for the possibility of needing services) is positively associated with the purchase of long-term care insurance. Consistently, buyers have been much more likely than non-buyers to

strongly agree with the statement, “It is important to plan now for the possibility of needing long-term care services.” However, between 2005 and 2010 the proportion of non-buyers strongly agreeing with this statement has grown significantly—from 30 to 41 percent.

Those who have bought long-term care insurance also tend to worry less about paying for long-term care services, are much more likely than non-buyers to view long-term care insurance products as adequate, and are less likely to believe that the government will pay most of the costs of long-term care if it is needed. Over the past five years, buyers’ opinions about the adequacy of insurance products have remained positive, with close to 80 percent believing that the insurance industry does provide adequate coverage for long-term care services. Even among non-buyers, more than two in five view the products as adequate.

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**Table 4: Opinions About Long-Term Care Among Buyers and Non-Buyers, 1990-2010**

Opinions About Long-Term Care	Buyers					Non-Buyers				
	2010	2005	2000	1995	1990	2010	2005	2000	1995	1990
<b>It is important to plan now for the possibility of needing long-term care services.</b>										
Strongly Agree	63%	62%	63%	53%	62%	41%	30%	33%	27%	42%
Agree	36	36	36	46	38	52	59	59	66	53
Disagree	1	1	1	1	—	6	10	7	6	4
Strongly Disagree	—	1	—	—	—	1	1	1	1	1
<b>I worry about how I would pay for care if needed.</b>										
Strongly Agree	20%	22%	22%	22%	46%	40%	28%	32%	28%	44%
Agree	51	48	50	52	42	41	51	49	55	42
Disagree	22	25	24	21	10	17	17	15	14	12
Strongly Disagree	7	5	5	5	2	2	4	3	3	3
<b>The insurance industry sells adequate coverage for services.</b>										
Strongly Agree	9%	11%	10%	9%	9%	6%	5%	4%	5%	7%
Agree	69	68	62	65	58	39	40	45	43	34
Disagree	19	18	23	22	28	39	38	37	42	43
Strongly Disagree	3	3	5	4	5	16	16	14	10	17
<b>If I ever needed care, the government would pay most of the costs.</b>										
Strongly Agree	3%	4%	5%	4%	6%	12%	7%	16%	12%	14%
Agree	8	8	10	13	11	19	15	17	18	19
Disagree	43	41	42	48	52	36	41	34	40	44
Strongly Disagree	46	47	42	35	31	33	37	33	30	23
<b>I am confident that I would be able to find providers in my area if I need them.</b>										
Strongly Agree	28%	29%	N.A.	N.A.	N.A.	21%	20%	N.A.	N.A.	N.A.
Agree	62	60				56	62			
Disagree	9	9				17	15			
Strongly Disagree	1	2				6	3			

Source: LifePlans, Inc., analysis of 1,493 buyers and 408 non-buyers in 2010, 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.

Finally, buyers are more likely to agree with the statement, “I am 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.” On the other hand, non-buyers have grown less confident in their ability to access these services.

### 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 long-term care 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 as 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.

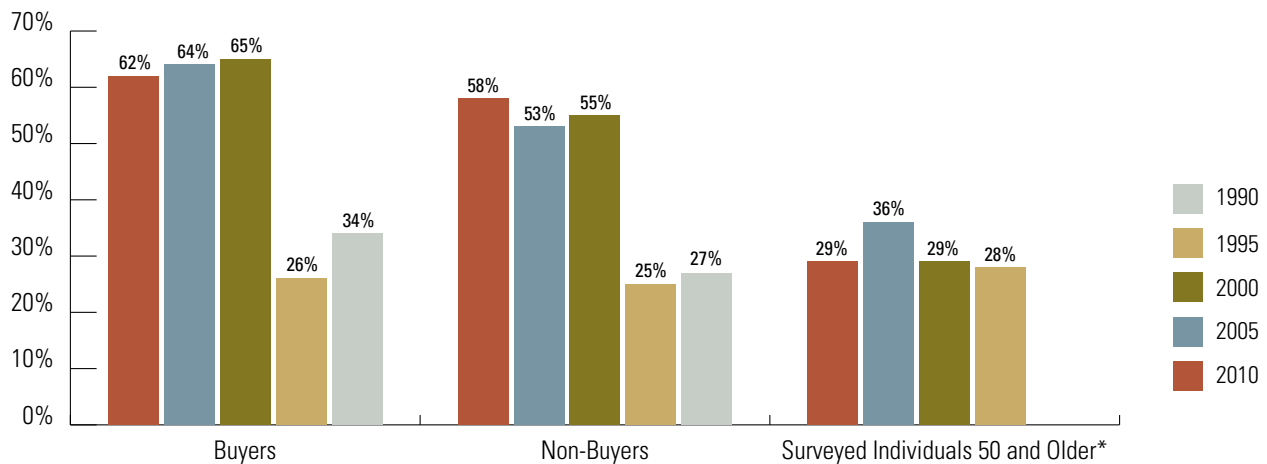
## Who Buys Long-Term Care Insurance in 2010 – 2011?

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Throughout the years, buyers have perceived their risk of needing nursing home services as slightly higher than do non-buyers. In 2000 we saw a significant increase in the proportion of both groups perceiving the risk of needing nursing home services to be greater than 50 percent. This trend remained stable in 2010, with slightly fewer non-buyers

believing they would need nursing home care than buyers. Over the past 15 years, individuals age 50 and older from the general population consistently evaluate their risk of potentially needing nursing home to be lower than do either buyers or non-buyers.

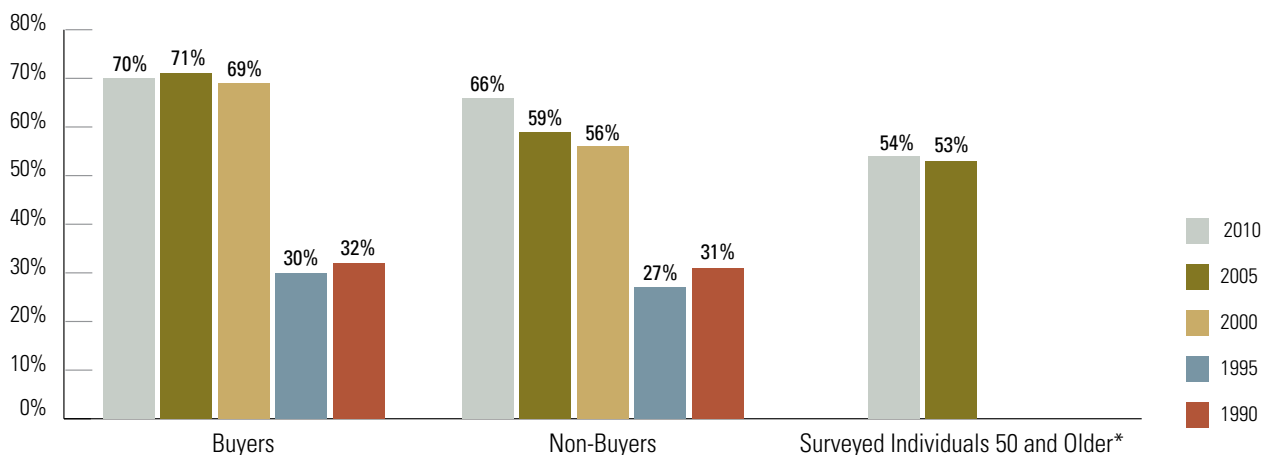
**Figure 3: Self-Assessment of Greater Than 50 Percent Lifetime Chance of Needing Nursing Home Care, by Purchase Year**



Source: LifePlans, Inc., analysis of 1,493 buyers and 408 non-buyers in 2010, 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 older in all survey years.

\*The age of surveyed individuals in 2000 and 1995 was 55 and older. No data 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 1,493 buyers and 408 non-buyers in 2010, 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, and 500 individuals age 50 and older in all survey years. \*The age of surveyed individuals in 2000 and 1995 was 55 and older. No data was available for 1990.

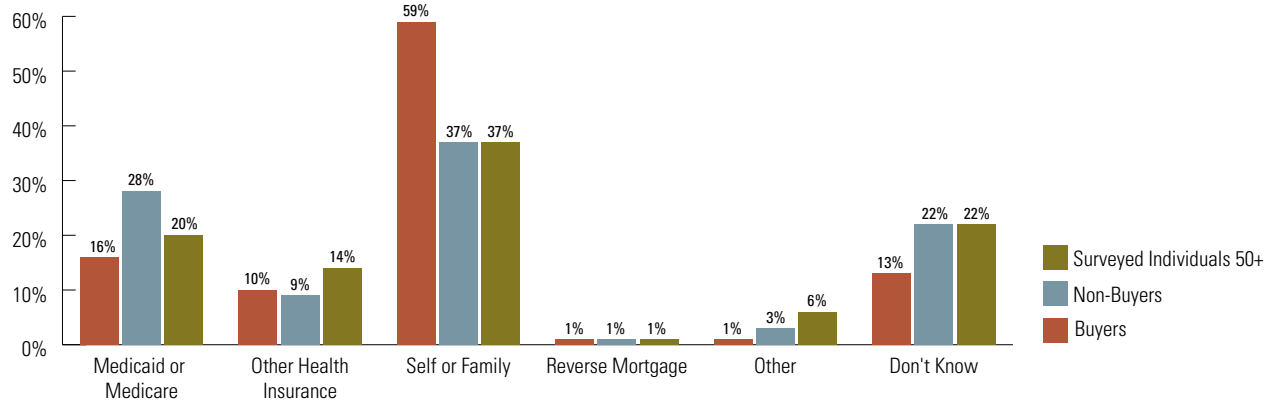
## Who Buys Long-Term Care Insurance in 2010 – 2011?

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Regarding home care, the same patterns persist. Here again, recent buyers continue to assess themselves at slightly higher risk for needing services than do non-buyers (see Figure 4). Finally, although not shown in the graphs, 62

percent of recent buyers and 52 percent of recent non-buyers believe that they stand a good chance (greater than 50 percent) of having to use assisted living services in the future.

**Figure 5: Perceptions About Who Would Pay for Long-Term Care, 2010**



Source: LifePlans, Inc. analysis of 1,493 buyers, 408 non-buyers, and 500 individuals age 50 and older (2010).

To fully understand how one's perception of risk is related to the purchase decision, we asked new buyers how the cost of six months of care would be met if they did not have a long-term care policy. Non-buyers and surveyed individuals from the general population over age 50 were asked, "Who would pay for most of the costs of six months of long-term care services?" Figure 5 displays their responses.

More than half (59 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 37 percent. Both non-buyers and individuals from the general population age 50 and older are more likely to believe that public programs will pay for care or simply do not know who would pay for care if they needed it. Even so, compared to earlier surveys, a growing number of individuals from the general population age 50 and older understand that either they or their families would have to pay for long-term care out of their own income or assets should the need arise. At the beginning of the decade, only one quarter of surveyed individuals said they would have to pay, compared to almost two in five respondents today.

We also asked buyers and non-buyers how much they thought it currently costs per month to stay in a nursing home in their area. Respondents were asked to choose a \$1,000 range (e.g., \$4,001 to \$5,000 or \$5,001 to \$6,000) for their responses. We then compared respondents' answers to the actual cost of a nursing home in their region.<sup>13</sup> We report findings for those individuals who provided an estimate (Figure 6). As shown, 25 percent of buyers guessed the monthly cost of a nursing home in their area within the correct range, 64 percent underestimated the cost, and about 12 percent thought the cost of a nursing home in their area was higher than it actually was. Among non-buyers, only 12 percent guessed the monthly cost of a private room in a nursing home correctly for their area, 16 percent overestimated the costs, and 72 percent thought the monthly cost of a nursing home in their area was less than it actually was. Thus, buyers are less likely to underestimate the costs of care than are non-buyers.

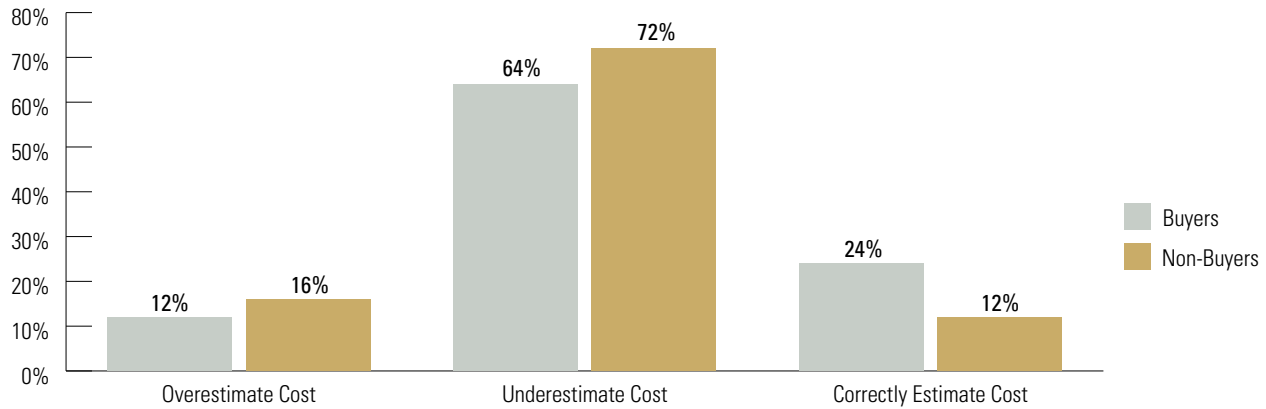
<sup>13</sup> This was done by using the data from the MetLife Market Survey of Nursing Home and Home Care Costs for 2010, which is broken down by zip code, enabling us to match each respondent in our survey to the appropriate region in the MetLife survey. The MetLife survey reports the private room rate and the semi-private room rate for each region; for the purposes of this analysis, we used private room rates.



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**Figure 6: Relationship Between Actual Costs of Nursing Home Care and Estimated Costs of Care Among Buyers and Non-Buyers, 2010**



Source: LifePlans, Inc., analysis of 1,493 buyers and 408 non-buyers.

### 4. Individual Long-Term Care Insurance Policies Bought in 2010

#### Policy Design

Examining the types of products being purchased today yields important information about the market and how it has changed over time. In the analysis that follows, information characterizing the types of products being purchased in the market is based on 8,099 individual policies. The analyses

that rely on linkages between policy information and returned surveys are based on a sample of 1,493 individuals.

Over the last 20 years, there has been tremendous change in the types of products being purchased. Between 1995 and 2000, there was a major shift in insurance policy design, the most pronounced trend being the move toward comprehensive products providing coverage for the continuum of long-term care services (see Table 5 and Table 6).

**Table 5: Characteristics of Individual Long-Term Care Insurance Policies Bought, from 1990 to 2010**

Policy Characteristics	Yearly Average				
	2010	2005	2000	1995	1990
Policy Type					
Nursing Home Only	1%	3%	14%	33%	63%
Nursing Home & Home Care	95%	90%	77%	61%	37%
Home Care Only	4%	7%	9%	6%	---
Daily Benefit Amount for NH Care	\$153	\$142	\$109	\$85	\$72
Daily Benefit Amount for Home Care	\$152	\$135	\$106	\$78	\$36
Nursing Home Only Elimination Period	85 days	80 days	65 days	59 days	20 days
Integrated Policy Elimination Period	90 days	81 days	47 days	46 days	—
Nursing Home Benefit Duration	4.8 years	5.4 years	5.5 years	5.1 years	5.6 years
Inflation Protection	74%	76%	41%	33%	40%
Annual Premium	\$2,283	\$1,918	\$1,677	\$1,505	\$1,071

Source: Based on 8,099 policies sold in 2010, 8,208 in 2005, 5,407 in 2000, 6,446 in 1995, and 14,400 in 1990.

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As shown in Table 5, coverage limited to nursing homes or institutional alternatives only has virtually disappeared from the market. Whereas such coverage represented 63 percent of new sales in 1990, the comparable figure today is 1 percent. Almost all policies selling in the marketplace provide coverage for both institutional and home-based services. Over the past five years, elimination periods have stayed relatively constant at about three months of care, and the percentage of individuals purchasing some level of benefit increase option (that is, inflation protection) has also stayed relatively constant at about three in four. Roughly half of all purchasers have compound inflation protection.

The average daily nursing home benefit has increased by 8 percent over the last five years; in past surveys, daily benefit amounts increased by between 20 and 30 percent over each five-year period. The home care daily benefit amount is now virtually identical to the nursing home amount, reflecting the dominance in the marketplace of integrated policies. While the average policy duration is still roughly five years of care, there has been a slight decrease over the years. What is significant to note is the drop in the proportion of policies sold with unlimited (that is, lifetime) durations (as shown in Table 6).

**Table 6: Individual Long-Term Care Insurance Policy Designs, by Purchase Year**

Attributes of Policies	Percentage of Sales				
	2010	2005	2000	1995	1990
<b>Types of Policies Sold</b>					
Nursing Home Only	1%	3%	14%	33%	63%
Nursing Home and Home Care	95	90	77	61	37
Home Care Only	4	7	9	6	—
<b>Nursing Home Duration</b>					
1-2 years	11%	11%	17%	24%	23%
3 years	30	22	23	20	12
4 years	17	17	14	18	15
5 years	16	16	11	6	12
6 years	9	6	5	2	5
7-8 years	3	5	—	—	—
Lifetime Benefits	15	23	30	30	33
<b>Average Duration</b>	4.8 years	5.4 years	5.5 years	5.1 years	5.6 years
<b>Nursing Home Daily Benefit</b>					
Up to \$30	—	—	1%	1%	2%
\$31 to \$59	8%	2%	5	12	25
\$60 to \$89	4	6	17	40	51
\$90 to \$119	17	25	43	38	18
\$120 and Over	71	67	34	9	4
Average Daily Benefit	\$153	\$142	\$109	\$85	\$72

## Who Buys Long-Term Care Insurance in 2010 – 2011?

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**Table 6: Individual Long-Term Care Insurance Policy Designs, by Purchase Year (continued)**

Attributes of Policies	Percentage of Sales				
	2010	2005	2000	1995	1990
<b>Home Health Care Duration</b>					
1 year	2%	4%	5%	20%	N.A.
2 years	11	10	14	31	
3 years	29	22	22	21	
4 years	16	17	13	5	
5 years	16	16	10	10	
6 years	9	6	7	1	
7-8 years	3	4	—	—	
Lifetime Benefits	14	22	30	12	
Average Duration	4.8 years	5.2 years	5.4 years	3.4 years	
<b>Home Health Care Daily Benefit</b>					
Up to \$30	—	—	1%	3%	25% <sup>[1]</sup>
\$31 to \$59	8%	3%	8	26	60
\$60 to \$89	4	9	17	33	13
\$90 to \$119	18	26	41	31	2
\$120 and Over	70	62	33	8	—
<b>Average Daily Benefit</b>	\$152	\$135	\$106	\$78 <sup>[2]</sup>	\$36
<b>Elimination Period</b>					
0 day	—	1%	23%	28%	25%
15 to 20 day	1%	6	3	17	41
30 to 60 day	7	20	16	16	12
84 day	10	—	—	—	—
90 to 100 day	79	67	55	39	22
> 100 day	3	6	3		
<b>Percent Choosing Inflation Protection<sup>[3]</sup></b>	74%	76%	41%	33%	40%
Simple	12	23	17	14	N.A.
Compound	49	49	22	15	
Indexed to CPI	13	4	2	4	
<b>Total Annual Premium</b>					
Up to \$500	7%	4%	5%	10%	19%
\$500 to \$999	11	18	24	29	40
\$1,000 to \$1,499	17	25	26	23	21
\$1,500 to \$1,999	17	20	18	15	11
\$2,000 to \$2,499	14	12	9	9	5
Greater than \$2,500	34	22	18	14	4
<b>Average Annual Premium</b>	\$2,283	\$1,918	\$1,677	\$1,505	\$1,071

Source: Based on analysis of 8,099 policies sold in 2010, 8,208 in 2005, 5,407 in 2000, 6,446 in 1995, and 14,400 in 1990. Notes: [1] [2] Figures also account for the value of home care benefits in integrated “pool of money” products. [3] Note that the 6% with a guaranteed purchase option for benefit upgrades are not included in the total.

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Annual premiums for newly-issued policies increased between 2005 and 2010—from \$1,918 to \$2,283. Lower voluntary lapse and interest rate assumptions are primarily driving this premium change, although changes over time in the benefit designs chosen by buyers and their average age also affect premiums.

The actual impact of changes in lapse and interest rate assumptions on long-term care insurance premiums is difficult to quantify because every company uses a different ratio for its specific long-term care insurance business. However, the impact caused by slight changes in interest and lapse rate assumptions may be illustrated by the following examples:

- ▶ A 1 percentage point change in the interest rate assumption (e.g. a 5 percent assumption instead of a 4 percent assumption) will cause a premium at age 55 to increase by about 10 to 15 percent.
- ▶ A 1 percentage point reduction in voluntary lapse assumptions across all durations will cause premiums at age 55 to increase by about 10 percent.

It is therefore safe to assume that in 2010 companies were employing lower lapse and interest rate assumptions that

are more reflective of current market trends, and that these assumption changes were the primary reason for premium increases from their 2005 levels.

### Relationship Between Policy Designs and Age and Income

The purchase of specific policy designs is influenced largely by the buyer's age and income. As income increases, individuals are more likely to buy more comprehensive plans that have longer durations, higher daily benefit amounts, and more inflation protection, and they are also somewhat more likely to have Partnership Program policies (see Table 7). Higher-income purchasers also tend to have somewhat longer elimination periods, reflecting the fact that they are able to self-fund more care should the need arise. Excluding the income group below \$25,000, premium levels do not tend to vary greatly with income. One possible reason for this could be the average age of those in each income category—average age declines as income increases. (For instance, those making less than \$25,000 have an average age of 67, while those making \$75,000 or more are eight years younger, with an average age of 59.)

**Table 7: Key Policy Design Parameters Chosen by Individual Long-Term Care Insurance Buyers, by Level of Income, 2010**

Policy Features	Level of Income			
	<\$25,000	\$25,000 - \$49,999	\$50,000 - \$74,999	\$75,000+
<b>Benefit Duration</b>				
Average	4.3 years	4.2 years	4.5 years	5.1 years
1-2 years	6%	17%	7%	8%
3-4 years	54	54	60	43
5-6 years	28	16	20	29
7-9 years	1	2	1	5
Lifetime	11	11	12	15
<b>Nursing Home Benefit Amount</b>				
Average	\$127	\$135	\$143	\$160
Up to \$80	10%	12%	7%	7%
\$81 to \$100	37	22	19	14
\$101 to \$120	8	11	12	3
\$121 to \$150	26	30	33	27
\$151 and Over	19	25	29	49

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**Table 7: Key Policy Design Parameters Chosen by Individual Long-Term Care Insurance Buyers, by Level of Income, 2010 (continued)**

Policy Features	Level of Income			
	<\$25,000	\$25,000 - \$49,999	\$50,000 - \$74,999	\$75,000+
<b>Home Care Benefit Amount</b>				
Average	\$127	\$132	\$142	\$160
Up to \$80	15%	15%	8%	8%
\$81 to \$100	37	23	19	14
\$101 to \$120	3	10	12	3
\$121 to \$150	24	27	31	26
\$151 and Over	21	25	30	49
<b>Percent with Inflation Benefit</b>	38%	70%	74%	79%
<b>Average Elimination Period</b>	89 days	92 days	92 days	93 days
<b>Percent with Home Care</b>	93%	95%	98%	100%
<b>Average Annual Premium</b>	\$1,998	\$2,456	\$2,257	\$2,507
<b>Monthly Premiums</b>				
Up to \$50	6%	5%	3%	5%
\$51 to \$75	6	6	6	4
\$76 to \$100	18	9	9	9
\$101 to \$125	7	7	15	9
\$126 to \$150	8	13	12	11
\$151 to \$200	28	22	18	19
\$201 and Over	27	38	37	43
<b>Partnership Program</b>	16%	25%	30%	31%

Source: Analysis of 1,493 linked surveys and policy information in 2010.

Preferences, as well as the amount of money individuals are willing and able to spend, change dramatically with age (see Table 8). In general, older buyers tend to select shorter durations and lower daily benefit amounts; few choose inflation protection. Partnership Program policies are also less prevalent among this age group. Buyers age 55 to 64 are more than three times more likely to buy inflation protection than are

buyers over 75. Younger buyers expect to access benefits 15 to 20 years in the future, so benefit upgrades are particularly important. On the other hand, buyers age 75 and older 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.



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**Table 8: Key Policy Design Parameters Chosen by Individual Long-Term Care Insurance Buyers, by Age, 2010**

Policy Features	Age Category				
	Less than 55	55 to 64	65 to 69	70 to 74	75+
<b>Benefit Duration</b>					
Average	5.5 years	4.8 years	4.5 years	3.5 years	3.4 years
1-2 years	6%	7%	14%	25%	22%
3-4 years	39	51	48	57	64
5-6 years	29	26	25	13	5
7-9 years	5	3	4	—	9
Lifetime	21	13	9	5	—
<b>Nursing Home Benefit Amount</b>					
Average	\$156	\$153	\$148	\$151	\$121
Up to \$80	13%	6%	6%	8%	13%
\$81 to \$100	15	17	18	29	27
\$101 to \$120	3	5	10	3	13
\$121 to \$150	25	30	29	23	42
\$151 and Over	44	42	37	37	5
<b>Home Care Benefit Amount</b>					
Average	\$156	\$152	\$148	\$148	\$116
Up to \$80	13%	8%	8%	10%	17%
\$81 to \$100	14	17	19	27	31
\$101 to \$120	4	5	8	5	12
\$121 to \$150	25	28	28	22	34
\$151 and Over	44	42	37	36	6
<b>Percent with Inflation Protection</b>	71%	82%	75%	61%	22%
<b>Average Elimination Period</b>	90 days	92 days	95 days	91 days	99 days
<b>Percent with Home Care</b>	100%	99%	98%	95%	91%
<b>Average Annual Premium</b>	\$1,831	\$2,261	\$2,781	\$3,421	\$4,123
<b>Monthly Premium</b>					
Up to \$50	12%	3%	2%	1%	8%
\$51 to \$75	10	4	5	4	4
\$76 to \$100	12	11	5	5	1
\$101 to \$125	20	9	4	7	4
\$126 to \$150	9	14	11	3	5
\$151 to \$200	14	24	18	19	6
\$201 and Over	23	35	55	61	72
<b>Partnership Program</b>	28%	31%	26%	34%	25%

Source: Analysis of 1,493 linked surveys and policy design information in 2010.

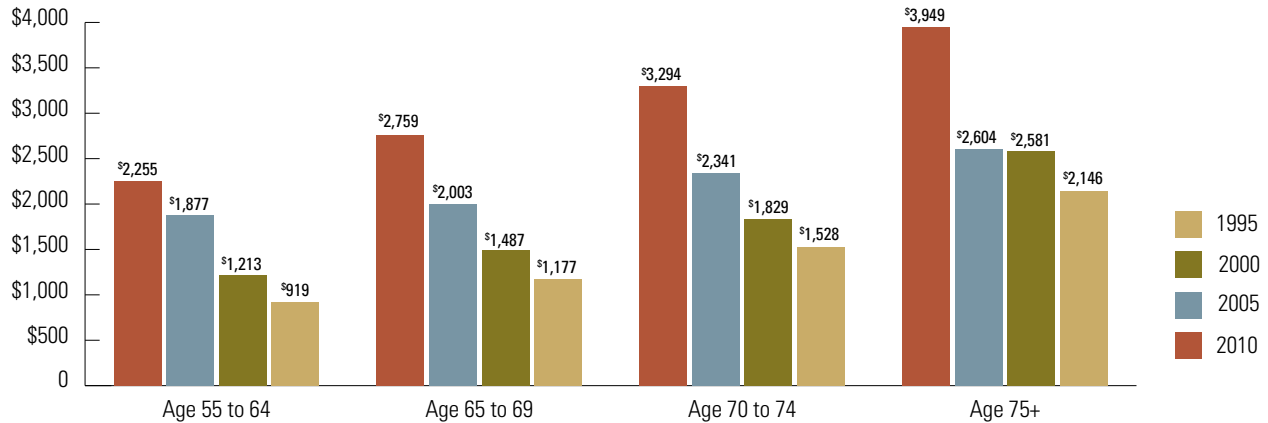
Finally, given the fact that long-term care policies are level-funded (i.e., benefits are prefunded) and the long-term care risk is highly correlated with age, if everything else is held constant, premiums will increase as purchase age increases. Thus, premiums for 75-year-old buyers are more than twice

as high as for those under 55 years of age, even though the latter purchase more comprehensive products. In terms of historical trends, the difference in premiums between age groups is becoming much smaller at the younger ages over time, but greater at the older ages (see Figure 7).

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**Figure 7: Age-Specific Premiums, by Purchase Year**



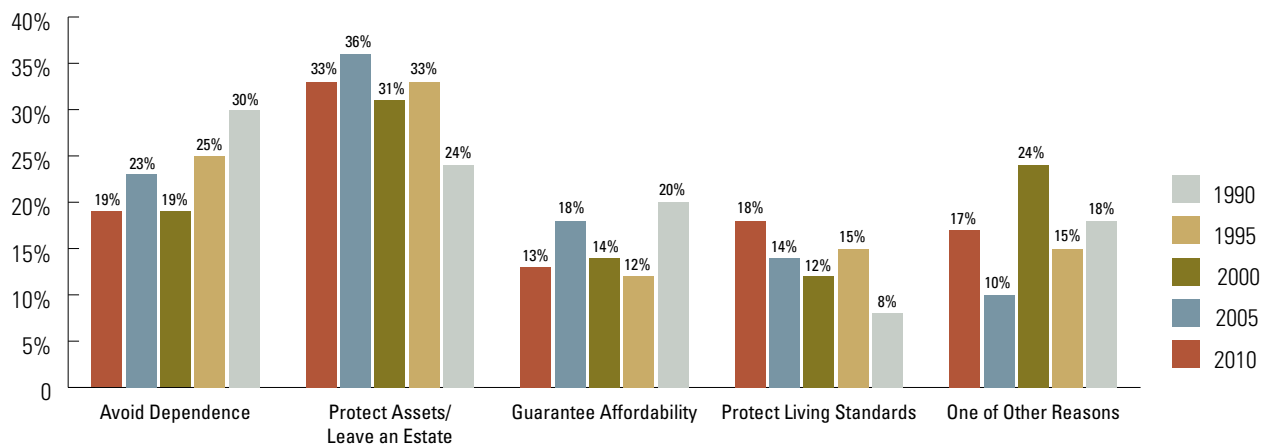
Source: Based on analysis of 8,099 policies sold in 2010, 8,208 in 2005, 5,407 in 2000, and 6,446 in 1995.

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

An important finding in previous studies was that people bought long-term care insurance policies for many reasons. These reasons included wanting to ensure the affordability of services, to protect assets, to ensure choice in terms of

service modality, and to protect 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 a single most important reason for buying insurance (see Figure 8).

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



Source: LifePlans, Inc., analysis of 1,493 buyers in 2010, 1,274 in 2005, 2,728 in 2000, 2,601 in 1995, and 8,363 in 1990.

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People purchase long-term care insurance for various reasons. Consistently over the last 15 years, the reason cited most often was the desire to protect assets/estate, although this was cited by only about a third of respondents. It does appear, however, that the desire to avoid dependence has declined as a prime motivator for the insurance purchase decision. Clearly, individuals are buying the insurance to meet multiple objectives.

Regarding specific reasons for purchase, responses have changed little in each of the purchase years (see Table 9). One item we added to the 2010 survey had to do with awareness of the Partnership Program policies and the ability they give buyers to retain some assets if they apply for Medicaid after insurance benefits cease. Clearly, the Partnership Program has appeal, as about two-thirds of respondents indicated that this was important in their purchase motivation.

**Table 9: Reasons Why Individual Long-Term Care Insurance Buyers Bought Policies, by Purchase Year**

Reasons for Insurance Purchase	2010	2005	2000	1995	1990
<b>1. Minimizing Financial Exposure</b>					
<b>The government will not cover the care I may need in the future.</b>					
Very Important Reason	55%	55%	54%	54%	54%
Important Reason	37	36	40	38	41
Not Very Important Reason	6	6	4	5	4
Not at All Important Reason	2	3	2	3	—
<b>With long-term care insurance I do not have to use up my savings or income to pay for nursing home or home health care services. I can protect assets.</b>					
Very Important Reason	75%	76%	71%	67%	72%
Important Reason	24	22	28	30	26
Not Very Important Reason	1	1	1	2	2
Not at All Important Reason	—	1	—	1	—
<b>Long-term care insurance guarantees that I will be able to afford needed health care services.</b>					
Very Important Reason	71%	68%	68%	66%	70%
Important Reason	28	31	31	32	29
Not Very Important Reason	1	1	1	1	1
Not at All Important Reason	—	—	—	<1	—
<b>2. Protect Family Resources</b>					
<b>Long-term care insurance helps assure an adequate income remains for my spouse if I need costly services.</b>					
Very Important Reason	57%	57%	62%	59%	74%
Important Reason	22	26	22	22	23
Not Very Important Reason	4	3	4	3	2
Not at All Important Reason	17	14	13	15	1
<b>I want to leave an estate to family/friends.</b>					
Very Important Reason	36%	39%	43%	43%	38%
Important Reason	33	32	36	37	36
Not Very Important Reason	23	18	17	15	20
Not at All Important Reason	8	11	5	5	6

## Who Buys Long-Term Care Insurance in 2010 – 2011?

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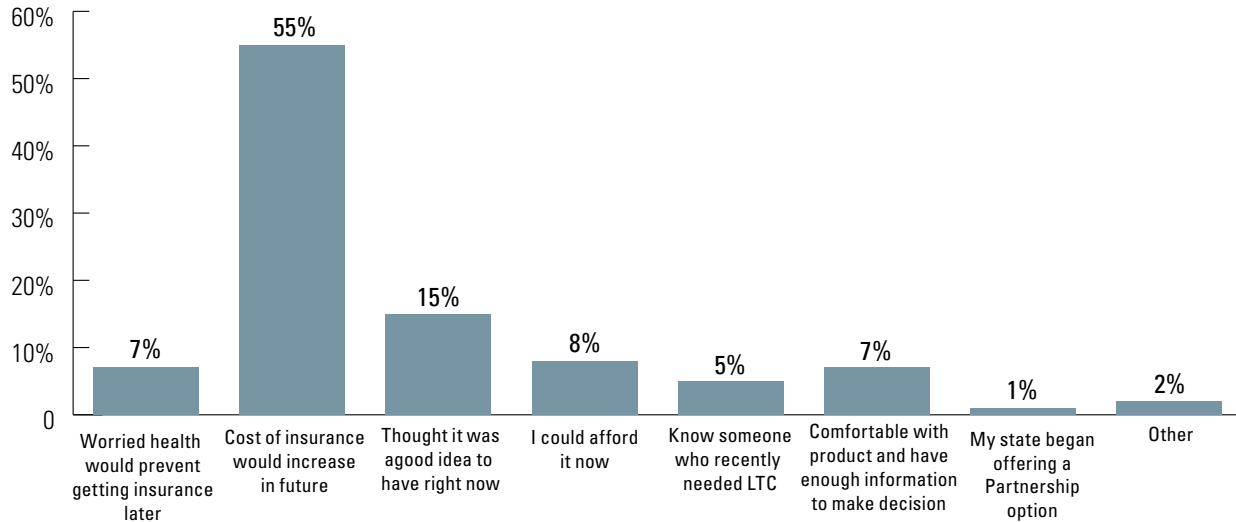
Table 9: Reasons Why Individual Long-Term Care Insurance Buyers Bought Policies, by Purchase Year (continued)					
Reasons for Insurance Purchase	2010	2005	2000	1995	1990
<b>3. Enhance Choice and Independence</b>					
<b>Long-term care insurance gives me the freedom to choose the nursing home or home care services I prefer.</b>					
Very Important Reason	61%	59%	58%	59%	74%
Important Reason	33	35	37	37	24
Not Very Important Reason	5	5	4	3	1
Not at All Important Reason	1	1	1	1	1
<b>With long-term care insurance, I can preserve my financial independence and avoid having to depend on others for care.</b>					
Very Important Reason	71%	72%	69%	69%	75%
Important Reason	27	26	28	29	24
Not Very Important Reason	2	1	2	1	1
Not at All Important Reason	—	1	1	1	1
<b>With Long-term care insurance, I will not have to depend on Medicaid, the public medical assistance program for the needy.</b>					
Very Important Reason	43%	39%	45%	50%	52%
Important Reason	40	42	40	41	39
Not Very Important Reason	14	15	11	7	7
Not at All Important Reason	3	4	4	2	3
<b>4. Long-Term Care Partnership Program</b>					
<b>My state participates in a Long-Term Care Partnership Program and I can access Medicaid benefits to help pay for long-term care services after using the benefits from my private long-term care insurance policy without having to use up all of my assets.</b>					
Very Important Reason	31%	N.A.	N.A.	N.A.	N.A.
Important Reason	34				
Not Very Important Reason	18				
Not at All Important Reason	17				

Source: LifePlans, Inc. analysis of analysis of 1,493 buyers in 2010, 1,274 in 2005, 2,728 in 2000, 2,601 in 1995, and 8,363 in 1990.

We were also interested in what made new buyers purchase their policies now instead of later. Figure 9 shows that an overwhelming majority of buyers said that the reason they bought the insurance now

was that they knew it would get more expensive if they waited to buy it in the future. Most were not too worried about their health—understandable because purchasers are now younger.

**Figure 9: Reasons Why New Buyers Bought Their Policies Now, 2010**



Source: LifePlans, Inc. analysis of 1,493 buyers in 2010.

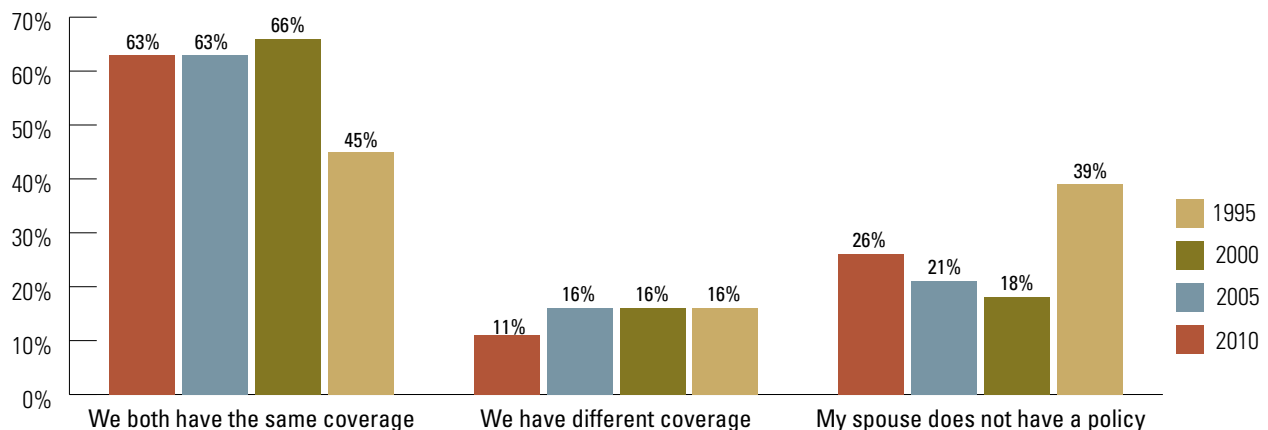
## 6. The Process of Buying Individual Long-Term Care Insurance

We asked buyers a number of questions relating to their experience with long-term care and with the process of insurance purchase. Most buyers we surveyed (89 percent) were purchasing a long-term care policy for the first time; the others were either replacing a previous policy (7 percent) or adding to an existing policy (4 percent).

Among married couples, 74 percent have a policy for each person, compared with 79 percent in 2005. Most companies offer substantial spousal discounts, and some make a counter-offer (rather than an underwriting rejection) to the less healthy member of a couple if the healthier member also buys a policy.<sup>14</sup>

<sup>14</sup> A counter-offer occurs when an individual wants to purchase a particular policy design configuration but, because of his or her health situation, the company offers a policy that typically is less comprehensive in its coverage. This is done in lieu of an outright rejection.

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



Source: LifePlans, Inc., analysis of 1,493 buyers in 2010, 1,274 buyers in 2005, 2,728 buyers in 2000, and 2,601 buyers in 1995.



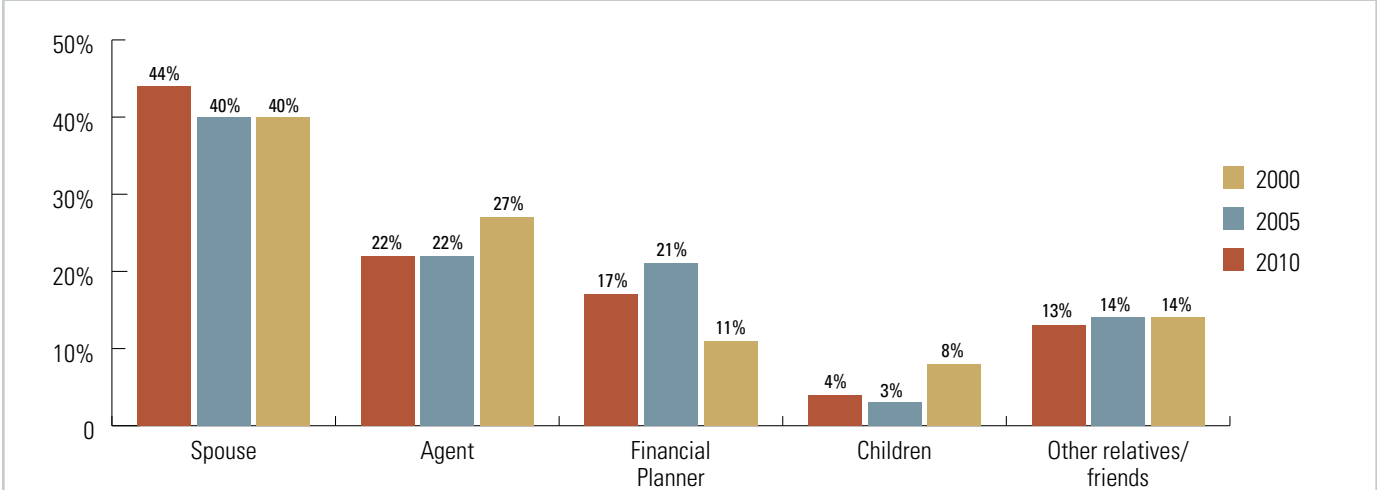
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This has appeared to be popular with consumers, as indicated by the fact that the proportion of married couples who have a policy for both persons has remained relatively constant over the last 15 years (see Figure 10).

For the most part, the decision to purchase long-term care 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, financial planners also play an important role. Only rarely do children take an active role, which is most likely because these days buyers are younger, hence their children are younger as well. Moreover, people appear less concerned with being a burden on their families should the need for care arise, so children are less likely to be a consideration or play an active role in the insurance purchase decision.

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

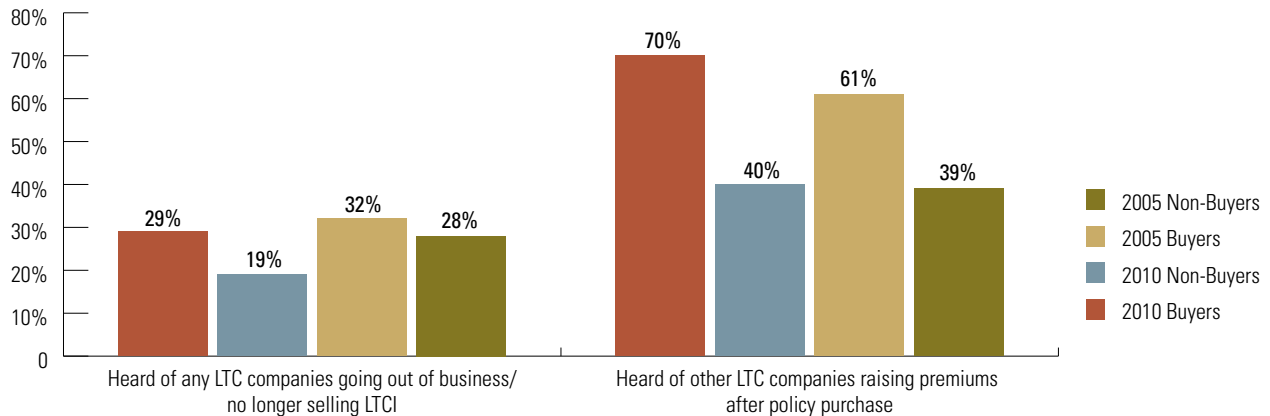


Source: LifePlans, Inc. analysis of 1,493 buyers in 2010, 1,274 in 2005, and 2,728 in 2000.

Since the beginning of the last decade, the market has experienced a number of difficult trends, including some carriers leaving the market and most having to adjust underlying pricing assumptions. We wanted to gauge whether buyers and non-buyers are aware of these trends and asked a number of specific questions in this regard. Specifically, we asked respondents if they had ever heard of any long-term care insurance companies that had gone out of

business or were no longer selling long-term care insurance, and if they were aware of companies that had raised premiums for policyholders after policy purchase. In 2010 slightly lower percentages of buyers and non-buyers were aware of companies going out of business than in 2005, but on the other hand, in 2010 more individuals had heard about companies raising their premiums after policy purchase (see Figure 12).

**Figure 12: Awareness of Long-Term Care Insurance Market Fluctuation Among Buyers and Non-Buyers**

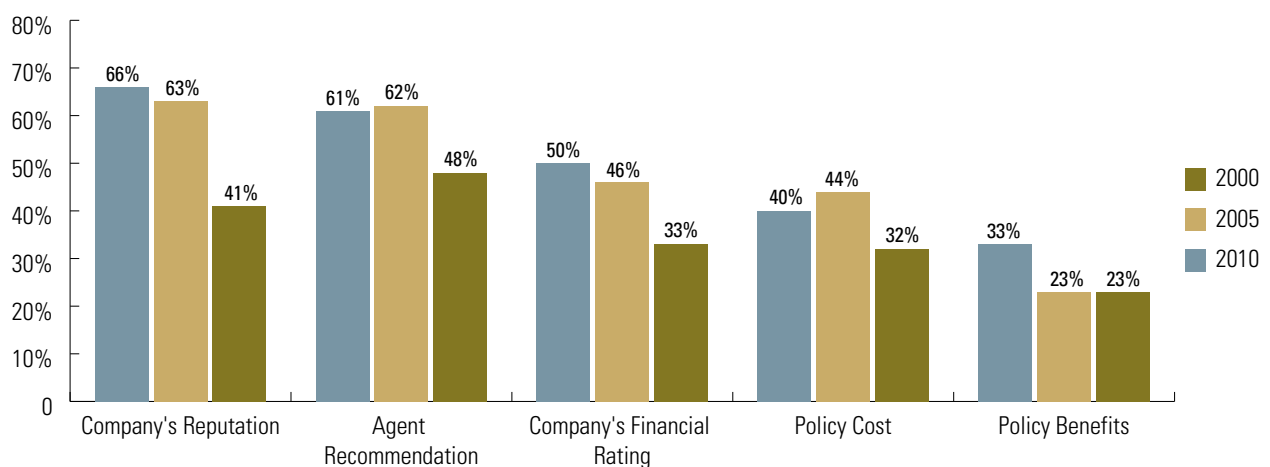


Source: LifePlans, Inc., analysis of 1,493 buyers and 408 non-buyers in 2010 and 1,274 buyers and 214 non-buyers in 2005.

We also asked what made the buyers decide to purchase a long-term care policy from a particular company (see Figure 13). The pattern of responses has stayed fairly constant over the past 15 years, with the most common reasons being the agent's recommendation and the insurer's reputation. Policy

benefits were less often cited—differentiation at the product level is not the most important choice criterion. Policy cost remains an important determinant of the company from which a policy was purchased, although this was not cited nearly as frequently as most of the other reasons.

**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 1,493 buyers in 2010, 1,274 in 2005, and 2,728 in 2000.

## Who Buys Long-Term Care Insurance in 2010 – 2011?

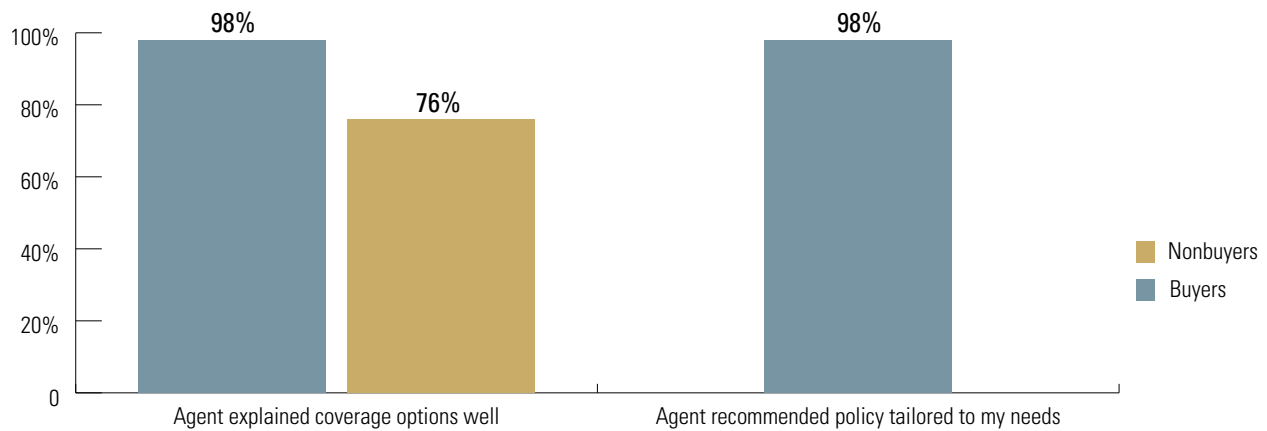
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Other factors—such as the length of time an insurance company had been selling long-term care insurance, whether or not the insurer had ever raised premiums for long-term care insurance after policy purchase, and whether the policyholder had other types of insurance with the carrier they chose—had little influence on the choice of company (13 percent, 7 percent, and 12 percent respectively cited these as important).

Given the prominent role of the agent—ranked the highest (24 percent) when respondents were asked to choose the

most important reason for company selection—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, and the vast majority of buyers felt that the agent listened well and recommended the policy best suited to the purchaser’s needs (see Figure 14).

**Figure 14:** Evaluation of the Role of the Agent by Individual Long-Term Care Insurance Buyers and Non-Buyers, 2010

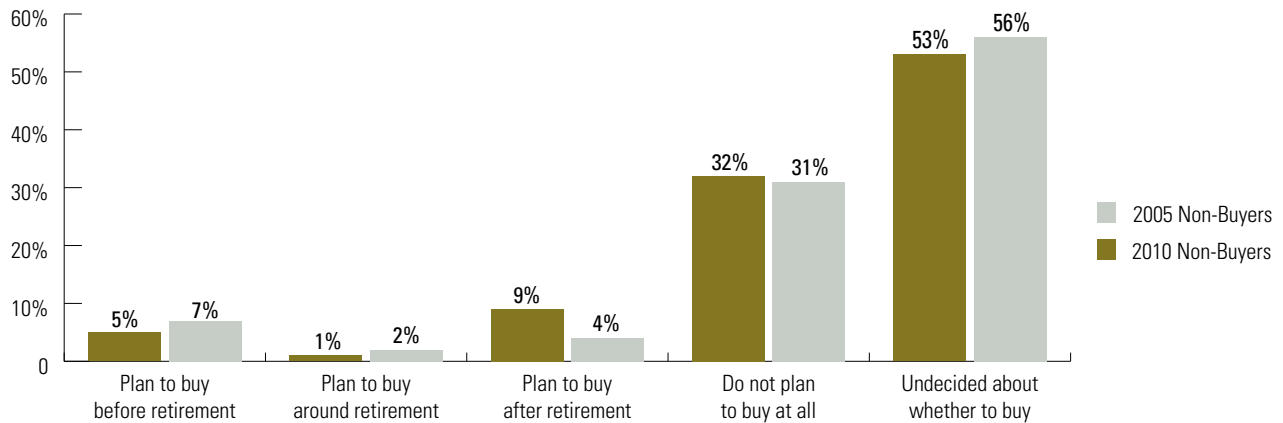


Source: LifePlans, Inc., analysis of 1,493 buyers and 408 non-buyers in 2010.

A new question was added to the 2005 survey for non-buyers that asked about their plans related to the potential future purchase of long-term care insurance (see Figure 15). Only a third of individuals indicated that they definitely do not

plan to buy the insurance in the future. Thus, the majority of non-buyers remain potential prospects for the future, and this has not changed over the last five years.

**Figure 15: Non-Buyers' Plans for Purchasing Long-Term Care Insurance, 2005 and 2010**



Source: LifePlans, Inc., analysis of 408 non-buyers in 2010 and 214 in 2005.

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

Given that fewer than 10 million Americans have private long-term care insurance, there remains a great deal of potential for market expansion. Over the last 20 years, we have attempted to uncover the primary barriers to purchase among non-buyers. Consistently, cost is cited as the most important reason for non-purchase. A more accurate interpretation is that individuals question the cost relative to the value in the policy. In 2010 cost was again cited by more than half of respondents as a very important reason why they chose not to buy a policy.

That said, there are a number of other factors that also contribute to the relatively modest market penetration. These relate to skepticism about insurance companies, a lack of understanding of the risk of needing long-term care, 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 10). 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.”

## Who Buys Long-Term Care Insurance in 2010 – 2011?

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**Table 10: Reasons Why Non-Buyers Do Not Buy Long-Term Care Insurance Policies, by Purchase Year**

Reasons for Non-Purchase of Insurance	2010	2005	2000	1995	1990
<b>1. Policy Cost</b>					
<b>Long-term care insurance costs too much.</b>					
Very Important Reason	56%	53%	54%	57%	58%
Important Reason	31	30	30	32	33
Not Very Important Reason	8	9	10	6	6
Not at All Important Reason	5	8	6	5	3
<b>2. Policy Design /Attitude About Insurer</b>					
<b>It's too confusing to know which policy is right for me.</b>					
Very Important Reason	14%	14%	18%	28%	54%
Important Reason	35	26	28	37	33
Not Very Important Reason	22	24	25	16	6
Not at All Important Reason	29	36	29	19	7
<b>I felt that there were too many conditions that had to be met before someone could receive benefits.</b>					
Very Important Reason	23%	22%	25%	30%	N.A.
Important Reason	35	33	34	34	
Not Very Important Reason	23	22	21	17	
Not at All Important Reason	19	23	20	19	
<b>I am waiting for better policies.</b>					
Very Important Reason	21%	19%	28%	32%	41%
Important Reason	30	32	30	32	34
Not Very Important Reason	27	20	16	16	15
Not at all Important Reason	22	29	26	20	10
<b>I don't believe that insurance companies will pay benefits as stated in the policy.</b>					
Very Important Reason	19%	17%	15%	21%	36%
Important Reason	30	25	29	25	35
Not Very Important Reason	23	30	27	24	14
Not at All Important Reason	28	29	29	30	15
<b>I was concerned that a policy bought today would not cover the types of services that I might need in the future.</b>					
Very Important Reason	31%	23%	N.A.	N.A.	N.A.
Important Reason	36	32			
Not Very Important Reason	21	24			
Not at All Important Reason	12	21			
<b>3. Financial Exposure</b>					
<b>If I need long-term care services, I believe that Medicare will pay.</b>					
Very Important Reason	7%	4%	6%	15%	20%
Important Reason	21	16	18	27	38
Not Very Important Reason	34	42	37	28	24
Not at all Important Reason	38	38	39	30	17



## Who Buys Long-Term Care Insurance in 2010 – 2011?

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**Table 10: Reasons Why Non-Buyers Do Not Buy Long-Term Care Insurance Policies, by Purchase Year (continued)**

Reasons for Non-Purchase of Insurance	2010	2005	2000	1995	1990
<b>If I need long-term care services, I believe that Medicaid will pay.</b>					
Very Important Reason	7%	5%	9%	12%	20%
Important Reason	16	14	13	24	38
Not Very Important Reason	33	32	29	24	24
Not at All Important Reason	44	49	49	40	17
<b>If I need long-term care services, my family will take care of me.</b>					
Very Important Reason	4%	5%	6%	8%	9%
Important Reason	14	15	17	22	26
Not Very Important Reason	31	33	30	28	31
Not at All Important Reason	51	47	47	42	34
<b>I don't mind using my own income and assets to pay for whatever care I may need.</b>					
Very Important Reason	10%	13%	11%	15%	22%
Important Reason	32	36	32	41	50
Not Very Important Reason	29	27	30	22	17
Not at All Important Reason	29	24	27	22	11
<b>4. Other</b>					
<b>I don't think I will ever need services.</b>					
Very Important Reason	7%	5%	10%	9%	15%
Important Reason	23	21	24	25	41
Not Very Important Reason	35	38	39	36	29
Not at All Important Reason	35	36	27	30	14
<b>My spouse could not get coverage so I did not want to buy a policy.</b>					
Very Important Reason	13%	22%	17%	11%	20%
Important Reason	11	9	17	12	21
Not Very Important Reason	19	14	19	17	16
Not at all Important Reason	57	55	47	60	43
<b>I had concerns that the insurance company would raise premiums after I bought a policy.</b>					
Very Important Reason	30%	24%	N.A.	N.A.	N.A.
Important Reason	36	31			
Not Very Important Reason	19	25			
Not at all Important Reason	15	20			

Source: LifePlans, Inc. analysis of 408 non-buyers in 2010, 214 in 2005, 638 in 2000, 1,245 in 1995, and 1,750 in 1990.

## Who Buys Long-Term Care Insurance in 2010 – 2011?

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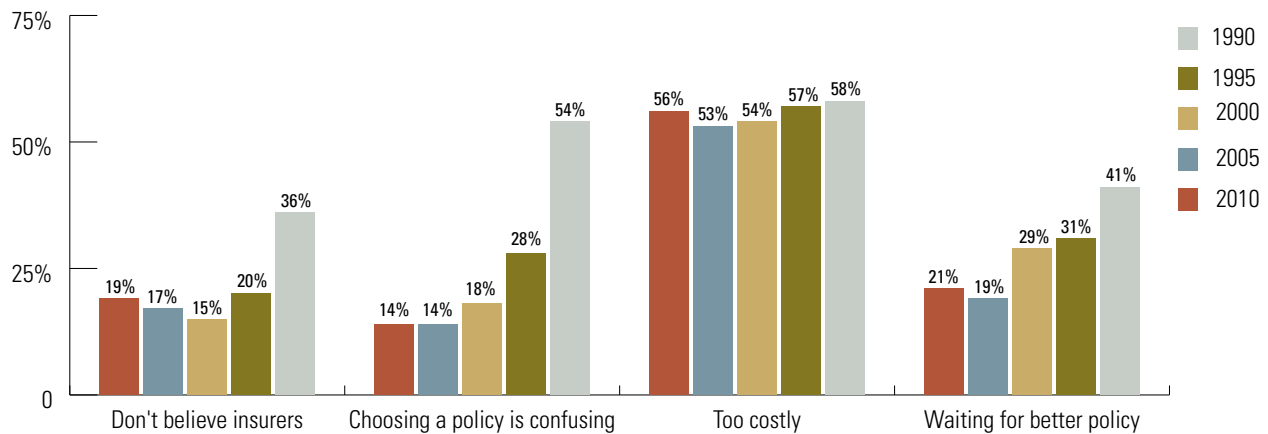
Cost is cited most frequently as a very important reason for deciding not to buy. While the proportion of non-buyers citing cost has remained fairly stable over the past 20 years, the number of non-buyers who said it was too confusing to know which policy was right for them has decreased significantly over time. Also, slightly more than 20 percent indicated that a very important reason for not buying was that they were waiting for better policies. The comprehensive nature of policies, along with the flexible way that benefits can be used, is the likely reason why current designs are not viewed as significant impediments to purchase. The proportion of non-buyers citing the presence of government programs as a very important reason for not buying remains relatively low.

Given the continued decline 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 potential buyers were

concerned that the services covered by policies today would not be relevant in the future. We posed 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 respondents if that influenced their decision not to buy a policy. In 2005 about one quarter said that this was a very important reason for them not to buy a policy (more than half said it was at least important), and this number had grown to slightly less than one-third in 2010. Thus, this continues to pose a challenge for insurers trying to overcome obstacles to purchase.

Figure 16 highlights how responsive insurers have been to concerns raised by consumers over the last decade. The proportion of people who say they are not buying because they are waiting for better policies or do not believe insurers will pay benefits has been cut in half, to roughly 20 percent. Also, today non-buyers do not find choosing a policy that is right for them confusing.

**Figure 16: Most Frequently Cited as Very Important Reason for Non-Purchase of Individual Long-Term Care Insurance, by Year**



Source: LifePlans, Inc. analysis of 408 non-buyers in 2010, 214 in 2005, 638 in 2000, 1,245 in 1995, and 1,750 in 1990.

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

The long-term care financing challenge in the United States requires both the public and private sectors to play meaningful and significant roles. The decline in the number of carriers selling long-term care insurance suggests that the private market continues to face challenges in its attempt to attract more consumers. How to encourage growth is a concern for policymakers and the industry alike. While the 1990s were characterized by rapid growth in sales, the past 10 years have seen only modest growth. Finding ways to make the product

more attractive to consumers—so that the value proposition is clear—is a difficult task, especially in light of the fact that carriers have had to increase premium rates to account for the low interest rate environment and other factors.

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 11). Respondents were asked to indicate whether a factor would make them “much more interested,” “more interested,” “not more interested,” or “not at all interested.”

**Table 11: Factors That Would Make Non-Buyers More Interested in Purchasing Long-Term Care Insurance Policies, by Purchase Year**

Factors Influencing Potential Purchase	2010	2005	2000	1995
<b>If I could deduct premiums from my income tax I would be....</b>				
Much more interested	43%	41%	37%	45%
More interested	44	42	44	36
Not more interested	9	11	10	10
Not at all interested	4	6	9	8
<b>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....</b>				
Much more interested	39%	33%	33%	N.A.
More interested	41	44	45	
Not more interested	15	17	15	
Not at all interested	5	6	7	
<b>If I were certain that the premiums that I paid would not increase over time I would be.....</b>				
Much more interested	38%	30%	29%	36%
More interested	49	49	50	51
Not more interested	10	16	14	8
Not at all interested	3	5	7	5
<b>If I thought there was a good chance that my spouse or I would need long-term care services in the future I would be....</b>				
Much more interested	27%	25%	20%	27%
More interested	50	47	48	52
Not more interested	19	23	24	16
Not at all interested	4	5	8	5

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**Table 11: Factors That Would Make Non-Buyers More Interested in Purchasing Long-Term Care Insurance Policies, by Purchase Year (continued)**

Factors Influencing Potential Purchase	2010	2005	2000	1995
<b>If I could use non-taxable funds such as IRA's or 401(k)'s to pay premiums I would be....</b>				
Much more interested	22%	20%	11%	N.A.
More interested	38	34	32	
Not more interested	24	31	33	
Not at all interested	16	15	23	
<b>If I could get discounts on the costs of services covered by the policy I would be....</b>				
Much more interested	26%	27%	21%	N.A.
More interested	54	50	52	
Not more interested	15	17	20	
Not at all interested	5	6	7	

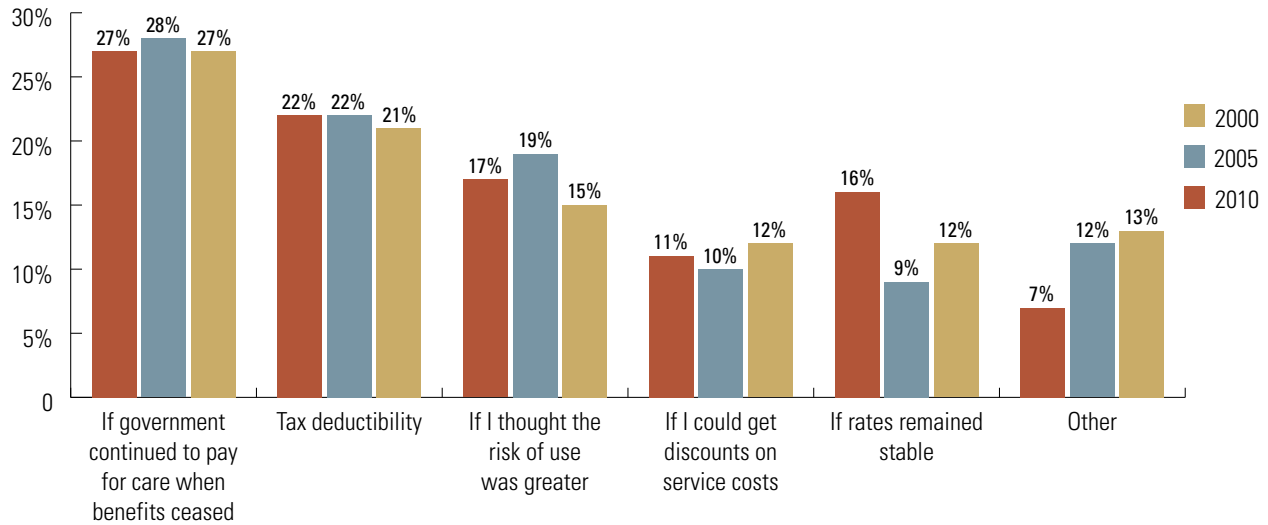
Source: LifePlans, Inc. analysis of 408 non-buyers in 2010, 214 non-buyers in 2005, 638 non-buyers in 2000 and 1,245 non-buyers in 1995.

Findings from Table 11 suggest that any action that has the effect of lowering the cost to the consumer or overall liability for long-term care services makes non-buyers more interested in purchasing a policy. Almost 90 percent of non-buyers would be more interested in buying a policy if they could deduct premiums from their taxes, or if they felt premiums would remain stable over time. Four in five non-buyers said that they would be more interested in buying a policy if they thought the government would continue to pay for care after they have used up their long-term care insurance benefits or if they could get discounts on the cost of services covered by their policy. Fewer non-buyers would also be influenced by an option to use funds from an individual retirement account (IRA) or a 401(k) plan to pay premiums. This may reflect recent economic conditions, which have led to declines in value in these savings vehicles, as well as a recent decline in rates of participation in them. There has been little change in attitudes over the past decade regarding these factors.

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 17). A government program that continued to pay for care after long-term care insurance benefits ran out program (perhaps similar in structure to the Partnership Programs) and tax deductibility are the two most important factors that non-buyers say would make them more interested in buying a policy. Rate stability has become an increasingly important issue for individuals, as the proportion that cite this as the single most important factor that would lead them to consider buying a policy has almost doubled over the last five years. Given that most companies have filed for rate increases on older blocks of business over the past five years, there is much greater awareness of this issue. Moreover, one of the purposes of insuring for long-term care is to trade off an unknown and uncertain risk (i.e., long-term care expenses) for a certain and known payment (i.e., premium). Thus, to the extent that insurers can reassure consumers about the stability of rates—so long as the “cost of stability” is not overly high—this should help to encourage more consumers to consider the insurance.

**Figure 17: Most Important Factors That Would Lead Non-Buyers to Consider Buying a Long-Term Care Insurance Policy, by Purchase Year**



Source: LifePlans, Inc. analysis of 408 non-buyers in 2010, 214 in 2005, and 638 in 2000.

### 9. 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, current non-buyers are willing to pay about \$94 per month (\$1,128 per year) for a long-term care insurance policy. This represents a 16 percent decline in “willingness to pay” compared to 2005, when

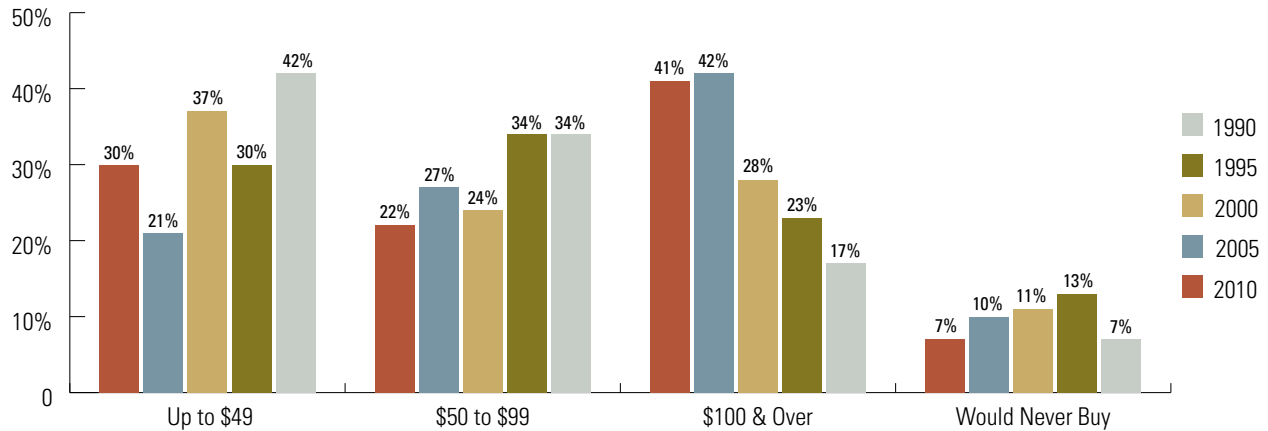
non-buyers indicated that they would pay \$112 per month (\$1,344 per year) for a long-term care insurance policy. The proportion of non-buyers willing to pay over \$100 per month in premiums has stayed steady over the past five years, and the percentage who indicate that they would never buy—regardless of price—has declined over the 15-year period (see Figure 18).



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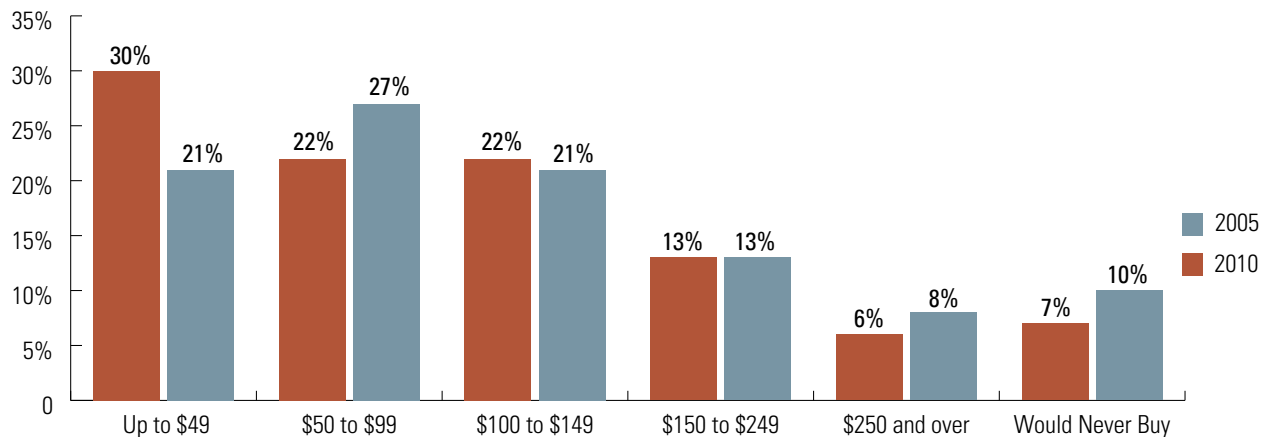
**Figure 18: Willingness of Non-Buyers to Pay Monthly Premiums for Policy That Would Meet Their Needs, by Purchase Year**



Source: Based on analysis of 408 non-buyers in 2010, 214 in 2005, 638 in 2000, 1,245 in 1995 and 1,750 in 1990.

Figure 19 shows a further breakdown, indicating that 20 percent would be willing to pay monthly premiums between \$100 and \$149 and another 13 percent between \$150 and \$250.

**Figure 19: Willingness of Non-Buyers to Pay Monthly Premiums for Policy That Would Meet Their Needs, 2005 and 2010**



Source: Based on analysis of 408 non-buyers in 2010 and 214 in 2005.

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In Table 12 we examine the relationship between the amount that an individual non-buyer would be willing to spend and what is currently paid in the market for each specific age group. We focus on the proportion of individuals who indicate a willingness to pay for a policy that has a premium greater than or equal to the average premiums paid by like-aged buyers. As shown in 2010, between 13 and 18 percent of non-buyers would, under the right circumstances, pay the premiums for policies selling to their age group (see Table 12). This represents a fairly significant decline from 2005 across all ages except the oldest. What is also worth noting

is that, while in previous years younger non-buyers (age 55 to 64) were more inclined than older non-buyers to pay actual premiums for long-term care policies, this trend has reversed—in 2010 a greater proportion of older non-buyers were willing to pay actual premiums for their age level. This reflects the previous finding that the difference in premiums between age groups is becoming smaller over time, and it also likely indicates that policy premiums have increased more rapidly than has individuals' "willingness to pay" for such premiums. Most non-buyers still do not see the value of the policy relative to its cost.

**Table 12: Percentage of Non-Buyers Willing to Pay Average Monthly Premiums Paid by Buyers, from 1990 to 2010, by Age**

Age Group	Average Monthly Premiums Paid					Percent of Non-Buyers Willing to Pay Average Monthly Premium				
	2010	2005	2000	1995	1990	2010	2005	2000	1995	1990
<b>All Ages</b>	\$217	\$168	\$140	\$121	\$90	15%	24%	15%	16%	28%
<b>55 - 64</b>	\$190	\$154	\$104	\$77	\$60	13%	25%	17%	25%	38%
<b>65 - 74</b>	\$246	\$172	\$145	\$120	\$89	15%	21%	15%	15%	26%
<b>75+</b>	\$344	\$237	\$218	\$179	\$145	18%	14%	14%	11%	8%

Source: Based on analysis of 1,493 buyers and 408 non-buyers in 2010, 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, 1,750 non-buyers and 8,363 buyers in 1990.

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

Consumers typically buy insurance when they perceive that they are exposed to a financial risk and that it would be inefficient to try to self-fund for that risk. If one believes that another payer, such as the government, will cover that risk, there is little incentive to take personal responsibility and purchase private insurance. In addition, in the current fiscal environment, major expansions in long-term care financing through current public programs such as Medicaid appear unlikely.

Along with buyers and non-buyers, we interviewed individuals in the general population age 50 and older to solicit their opinions on the role of government and the private sector in financing long-term care (see Table 13). Across all groups, and over the last 10 years, well under half of respondents believe that it is the federal government's responsibility to pay for the long-term care needs of all

people. Over the decade, fewer and fewer people believe this; while in 2000, 42 percent of those age 55 and older from the general population agreed, by 2010 only 25 percent (from the general population 50 and older) agreed. There is also great consensus that it is up to individuals to take personal responsibility for planning and paying for their long-term care services.

The view of private insurance has also improved over the decade. In 2000, among the general population age 55 and older, 34 percent agreed with the statement, "Private insurance companies provide good long-term care products that are a good value for the money." By 2010 this figure had grown to 46 percent. This same pattern exists for non-buyers as well. Finally, the majority of respondents in the general population age 50 and older believe that it is the federal government's responsibility to encourage people to buy long-term care insurance by allowing premiums to be fully tax-deductible or allowing employed individuals to use pretax dollars to pay for the insurance.

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**Table 13: Attitudes About Government and Private Sector Roles in Financing Long-Term Care, 2010, 2005 and 2000**

Opinions About Long-Term Care Financing	2010			2005			2000		
	Buyers	Non-Buyers	Surveyed Individuals 50+	Buyers	Non-Buyers	Surveyed Individuals 50+	Buyers	Non-Buyers	Surveyed Individuals 50+
<b>It is the federal government's responsibility to pay for long-term care needs of all people.</b>									
Agree	19%	31%	25%	25%	32%	34%	26%	35%	42%
Disagree	81	69	75	75	68	61	74	65	52
Don't know	—	—	—	—	—	5	—	—	6
<b>Whatever health reform comes about in the next few years, it is more likely that individuals will have to rely on themselves to plan and pay for long-term care.</b>									
Agree	92%	87%	85%	96%	85%	79%	91%	85%	77%
Disagree	8	13	15	4	15	16	9	15	17
Don't know	—	—	—	—	—	5	—	—	6
<b>Within the next 10 years, my state or the federal government will have a new long-term care program to pay for all individuals.</b>									
Agree				12%	22%	26%	24%	35%	38%
Disagree	N.A.	N.A.	N.A.	86	77	63	76	65	49
Don't know				1	1	11	—	—	13
<b>Private insurance companies provide good long-term care products that are a good value for the money.</b>									
Agree	87%	38%	46%	77%	33%	32%	78%	30%	34%
Disagree	13	62	54	17	61	42	22	70	40
Don't know	—	—	—	6	6	25	—	—	26
<b>It is the federal government's responsibility to encourage people to buy long-term care insurance by allowing premiums to be fully tax deductible whether or not one itemizes.</b>									
Agree	85%	77%	73%	90%	84%	73%			
Disagree	15	23	27	10	16	21	N.A.	N.A.	N.A.
Don't know	—	—	—	--	—	6			

## Who Buys Long-Term Care Insurance in 2010 – 2011?

A Twenty-Year Study of Buyers and Non-Buyers (in the Individual Market)

**Table 13: Attitudes About Government and Private Sector Roles in Financing Long-Term Care, 2010, 2005 and 2000 (continued)**

Opinions About Long-Term Care Financing	2010			2005			2000		
Private insurance companies should help policyholders find long-term care providers when they need them.									
Agree	88%	81%		84%	71%				
Disagree	12	19	N.A.	15	28	N.A.	N.A.	N.A.	N.A.
Don't know	—	—		1	1				
It is the federal government's responsibility to encourage people to buy long-term care insurance by allowing employed individuals to use pretax dollars to pay for the insurance.									
Agree	77%	73%	63%						
Disagree	23	27	37	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Based on analysis of 1,493 buyers, 408 non-buyers, and 500 individuals from the general population age 50 and older in 2010; 1,274 buyers, 214 non-buyers, and 503 individuals age 50 and older in 2005; 2,728 buyers, 638 non-buyers, and 500 individuals age 55 and older in 2000.

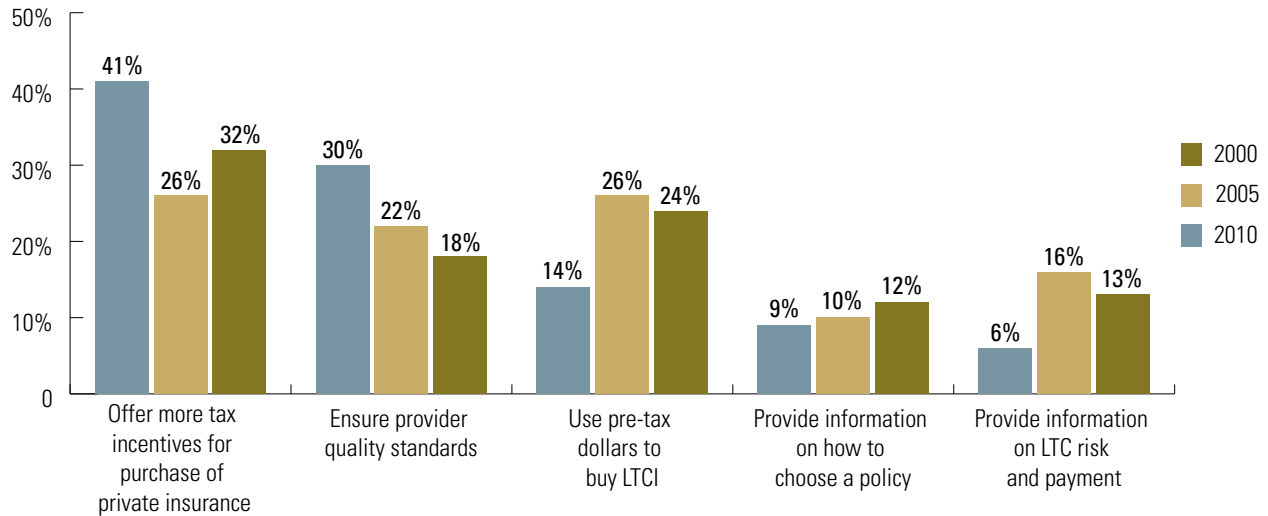
In Figure 20 we present information about the single most important specific actions that surveyed individuals from the general population age 50 and older believe the government should take in the area of long-term care. Roughly two in five Americans believe that the single most important government action is to offer more tax incentives for the purchase of private insurance policies. This is up significantly

from 2005, and it reflects the fact that government action that would reduce the cost of long-term care insurance is viewed as important by more people now than it was five years ago. Slightly less than a third of respondents also want the government to ensure provider quality standards, and this activity has been cited by a growing number of respondents over the years.

## Who Buys Long-Term Care Insurance in 2010 – 2011?

A Twenty-Year Study of Buyers and Non-Buyers (in the Individual Market)

**Figure 20: Single Most Important Action Government Should Take, Responses From Surveyed Individuals Age 50 and Older, 2000-2010**



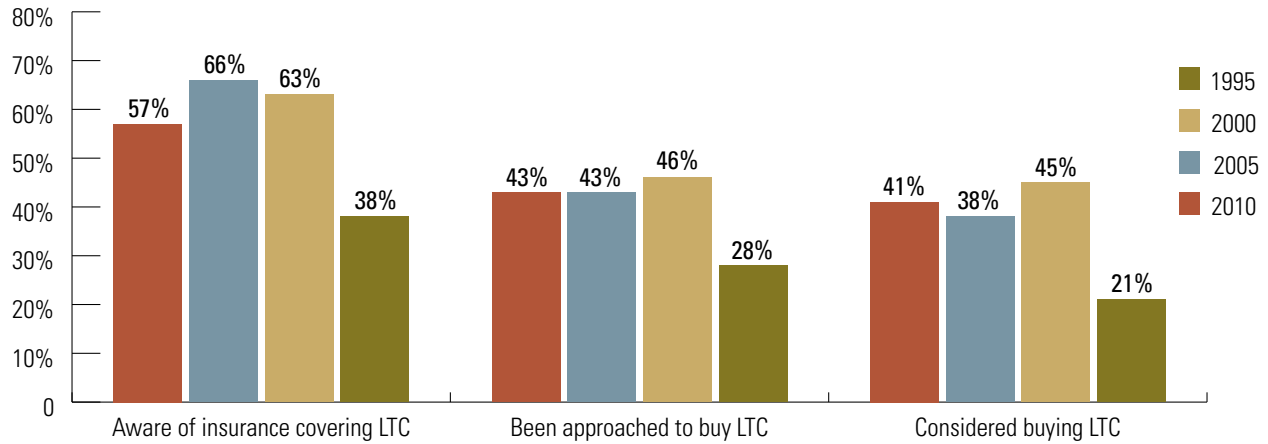
Source: Based on analysis of 500 individuals age 50 and over in each of the three survey years.

### 11. Knowledge of Surveyed Individuals Age 50 and Older Regarding Long-Term Care Insurance

We asked individuals from the general population age 50 and older a series of questions about long-term care insurance. Respondents were asked whether or not they knew of companies that offered long-term care 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.

In 2000 and 2005 almost two-thirds of surveyed individuals from the general population age 50 and older were aware of companies that offer this insurance, but this figure has dropped in 2010 (see Figure 21). This may be related to the fact that because there are fewer companies in the market, it is to be expected that there is somewhat less generalized advertising designed to educate the public about private long-term care insurance. Also, the recent health care reform debate focused peoples' attention on health insurance rather than long-term care insurance. The proportion that has been approached to buy insurance or have considered buying it has stayed constant over 2005 and 2010.

**Figure 21: Awareness Among Individuals Age 50 and Older of Long-Term Care Insurance**



Source: Based on analysis of 500 individuals age 50 and older in 2010 and 2005, 500 individuals age 55 and older in 2000, and 1,000 individuals age 55 and older in 1995.

## 12. Partnership Programs

One of the ways in which policymakers have worked to expand the private insurance market is to support Partnership Programs. These programs, which represent a partnership between state Medicaid programs and the private insurance industry, are designed to enable individuals who purchase qualified long-term care insurance policies to access Medicaid benefits without having to spend down their assets to Medicaid levels, if and when their long-term care insurance benefits are exhausted. A growing number of states—36 by the end of 2010—have implemented such programs.

An analysis of new sales in 2010 suggests that more than

a quarter (28 percent) were Partnership Program policies. Features of a Partnership Program policy vary somewhat by state; the main special requirement is that buyers 75 and younger have policies with inflation protection.

Table 14 shows that few people (less than 25 percent) actually know whether or not their state has a Partnership Program. However, the Partnership Program does hold appeal; fully 45 percent of respondents indicated that they would be likely to purchase a private long-term care insurance policy if their state participated in a Partnership Program. Thus, those states that do have such programs in operation would be well served to publicize it and educate citizens about it.

**Table 14: Attitudes Among the General Population About Partnership Programs**

	Individuals Age 50+
<b>Does your state participate in a Long-Term Care Partnership Program?</b>	
Yes	7%
No	18%
Don't know	75%
<b>If your state did participate in a Partnership Program, how likely would you be to buy a private LTC insurance policy?</b>	
Likely	45%
Not likely	51%
Don't know	4%

LifePlans, Inc. analysis of 500 individuals age 50 and older (2010).



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### CONCLUSIONS

The survey of individuals in the general population suggests that there is much work to be done in the area of consumer education about the risks and costs of long-term care. This is in spite of the fact that there has been an improvement in the general knowledge of long-term care insurance over the 15 years that we have been surveying this population. Regarding the roles of the government and the private sector, compared to 2005 respondents in 2010 were less likely to believe that it is the role of the government to pay for long-term care for everyone. However, they do believe that the government should assist individuals with paying for long-term care insurance by providing tax incentives to spur purchase. A majority of respondents had heard of long-term care insurance, and two in five have considered purchasing the insurance. Cost remains the most significant barrier to purchase. There is considerable support for Partnership Programs, even if there is confusion about which states actually have such programs, suggesting a need for greater publicity.

Results from buyers and non-buyers also show that many of the trends evident by 2005 have persisted over the past five years. The average age of buyers continues to decline, and they are increasingly being drawn from higher-income groups. They are purchasing comprehensive products whose value is protected by the decision to purchase inflation protection.


While attitudes have remained fairly constant in some areas over the years (e.g. purchase barriers), across all groups there is a more positive view of the insurance industry and its products. This is despite the fact that more buyers and non-buyers are aware of rate increase activity in the market. Even so, the majority of non-buyers do not rule out a future purchase of long-term care insurance, indicating remaining market potential. Moreover, the positive view of the Partnership Program among the general population age 50 and older suggests that this option should be emphasized to consumers.

Buyers are attempting to control the cost of policies by buying coverage with less duration, longer elimination

periods, and somewhat more modest daily benefit amounts. Price sensitivity appears to be particularly strong. An overwhelming majority (70 percent) stated that they bought their policy now because they knew the cost of the insurance would increase as they age. In addition, the most popular actions that were recommended for government policy related to mechanisms designed to reduce the net cost of insurance or reduce the financial exposure to long-term care costs. Again, a government program that would continue to pay for long-term care when private benefits run out (much like the Partnership Programs of today), was ranked as the most important development that would make non-buyers more interested in buying. This was followed closely by premium deductibility. Also, one in four surveyed individuals from the general population age 50 and older 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 in the middle of the decade with respect to the role of the public and private sectors in long-term care financing has continued and actually accelerated. A majority of individuals believe that they will have to rely on themselves to pay for long-term care, in part because they do not believe that the government—either federal or state—will implement new programs. Moreover, in 2005 most respondents did not believe that it was the government's responsibility to pay for long-term care, and even more people think this in 2010.

Knowledge of long-term care insurance among the general population age 50 and older continues to improve; most people have heard of long-term care insurance, and many have actually considered its purchase. Even so, there remains a great deal of untapped market potential. Given population demographics, the severe fiscal constraints on the government's ability to expand and pay for public programs, and the growing interest among Americans age 50 and older in acquiring this insurance, market prospects remain bright. For that reason, it seems likely that despite recent market challenges, over time this insurance will play a more meaningful role in financing the long-term care needs of individuals and their families.



LifePlans, Inc., is a risk management, insurance services and research company that provides data analysis and information to the health and long-term care insurance industries. In addition to its wide array of risk and care management services, the firm works with insurers, the federal government, industry groups, and other organizations to conduct research that helps these groups monitor their business, understand industry trends, advise them of their strategic direction.



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