

Long-term Care Coverage Designed for Employers

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Current Group Products: What is Missing?

If providing meaningful benefits that perform an important safety net function is the purpose of providing employee benefits, current employer long-term care products fail to deliver in one important way: too few employees end up with coverage. This limits growth in the employer market.

True Group Long-Term Care

Employer-sponsored long-term care insurance is more likely to take off if it is redesigned into a true group benefit. Group features common for retiree medical and pension benefits include waiting periods, vesting, employer contributions toward cost, and possibly self-funding or alternative funding. In order for group long-term care coverage to propagate, it will need to become a true group benefit that includes these features and encourages high employer and employee participation.

Funding Alternatives

Except for the very largest groups, there has only been one funding option available to employers who wish to provide long-term care coverage, and that is a fully insured option.

Self-funding, common for other employee benefits provides some flexibility and possibly cost savings for an employer. Providing alternatives to your employer clients can increase your market share.

Why Bother?

The individual market products have convinced employers that the benefit is too expensive. Moving to true group coverage could open a significant market for employers.

The authors of this article have written a book, ***True Group Long-Term Care***. It was published this summer by the International Foundation of Employee Benefit Plans (IFEBC). This article outlines problems and solutions associated with long-term care coverage of particular interest to nursing homes. The book develops many of these ideas in more detail for a generalized employer audience.

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While most long-term care insurance is sold on an individual basis, some employers have begun to make it available to employees and their families. Almost 25% of policies sold in 2001 were sold through employers, according to Health Insurance Association of America. More than 4,700 employers, including some very large employers such as IBM and the federal government, offer long-term care insurance. Growth in the employer long-term care insurance market (about 35% per year)ⁱ is outpacing growth in the sales of individual long-term care insurance policies (about 13% per year)ⁱⁱ. Clearly, long-term care products for employers represent a dynamic element of the current long-term care insurance market.



care insurance products. Group products usually include much lower commission rates and a lower level of underwriting for employees. Otherwise, these “group” or “true group” long-term care insurance products mimic individual products. The domination of the long-term care insurance market by individual products is so complete that, by current definitions, all you have to do to get a “true group” policy is to write the contract with the employer rather than the individuals. Designing it appropriately for an employer is not necessary to gain the definition.

What if insurers approached the design of long-term care insurance products more like the design of other group products? What might such products look like, and what would be their advantages over currently available group products?

Long-term care insurance offered through the workplace may be in the form of traditional group products, or in the form of worksite marketing of individual long-term

Current Group Products: What is Missing?

Current employer products provide a few nice features for employers and employees. First, they provide ease of enrollment. Employees can learn about the coverage and enroll at work, and then they can take advantage of payroll deduction to pay for their coverage. This arrangement costs the employer some employee time and little more, and it is convenient for employees. Second, obtaining long-term care coverage through an employer is less expensive than purchasing an individual policy due to the savings in commissions. Over the life of the two policies, an individual policy commission cost will range from 17% to 30% of premium, whereas an employer

policy enrollment cost will range from 3% to 8% of premium.

However, if providing meaningful benefits that perform an important safety net function is the purpose of employee benefits, current employer long-term care products fail to deliver in one important way: too few employees end up with the coverage. Because of that, growth in the employer market is limited.

While attracting quality employees and reducing employee turnover are commonly stated goals of employee benefit plans, most employee benefits have the primary purpose

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of providing a financial safety net for employees. Consider four standard employee benefits: medical coverage, life insurance, disability coverage, and pensions. Medical coverage protects against catastrophic medical bills for acute conditions that could be financially catastrophic. Life insurance protects against loss of income due to the death of a breadwinner. Disability coverage also protects against the loss of income, due to the inability to work. Pension, such as a 401(k) plan, replaces income after retirement.

A major financial hardship not covered by standard employee benefits is the cost of long-term care. In order for long-term care coverage to perform its safety net function, however, employees need to join employer plans in far greater numbers than they are currently. While long-term care insurance offered through the employer is a rapidly growing share of the long-term care insurance business, it would be hard to say that long-term care insurance as an employee benefit has really taken off. Participation is often no more than 6% to 15% of eligible employees, and it can be as low as 1% to 2%.



At one level, long-term care appears to be further removed. Medical, life, and disability coverages protect an employee who is currently employed. Pension benefits help smooth the transition from employed to retired status. Long-term care coverage primarily protects family members who are already retired. Thus, an employer appears to have less immediate concerns about the risk. However, the lack of a long-term care benefit can undermine the value of retirement benefits. In current dollars, a five-year stay would cost over \$300,000, and it could easily eat up all or most of the benefits a couple has accumulated in their 401(k) or other retirement accounts. The

result could be that the programs set up to protect retirees would be insufficient. Thus long-term care coverage becomes an add-on to protect the retirement income. In a recent article in *National Underwriter*, author Skip Liddell listed important assets and the vehicles used to protect those assets. This is presented in the

table below.ⁱⁱⁱ

Products and Positions in a Financial Plan	
ASSET	ASSET Protection
Car	Car Insurance
Home	Homeowners Insurance
Family	Life Insurance
Income	Disability Income
Wealth	More Life Insurance
Retirement	Long-Term Care Insurance

Source: Skip Liddell, "It's Time for Advisors to Address LTC's Place in a Financial Plan," *National Underwriter Life & Health/Financial Services Edition*, February 2, 2004.

Employers today face a dilemma if they offer long-term care insurance. They can choose to offer it as a voluntary, employee-paid benefit. The high cost to the employees, however, results in low participation. Or they can offer it with an

employer contribution toward the cost to achieve higher enrollment, resulting in high cost for the employer. The problem is that current products are offered to all employees and do not distinguish short-term from long-term employees.

True Group Long-Term Care

Long-term care insurance designs today are not consistent with how employers offer other lifelong benefits – only to longer-term employees, and including some employer contribution to cost. Employer-sponsored long-term care insurance is more likely to take off if it is redesigned into a true group employee benefit. Group features common for retiree medical and pension benefits, for example, include waiting periods, vesting, employer contributions toward cost, and possibly self-funding or alternate funding.

In order for group long-term care coverage to propagate, it will need to become a true group benefit that includes these features and encourages high employer and employee participation. A summary of the differences between true group (as we define it) long-term care coverage and current employer long-term care coverage is presented in the following table.

Contrast of True Group and Convenience Long-Term Care Plans	
True Group Long-Term Care	Current Employer Long-Term Care
Employer Contribution	No Employer Contribution
Targeted at long-term employees using waiting periods and/or vesting	Participation available to all employees immediately
Plan offered to dependents, if it meets employers' objectives	Plan offered to spouses, parents, retirees, others to maximize insurance company prospecting
Benefit design set by employer and may be changed	Benefit design set by insurer and immutable
Possibly self-funded or alternate financing	Always fully insured
Commissions always removed	Commissions may be removed
High participation expected, providing meaningful safety net	Participation at most 6% to 15%
Cost to employer around \$5 to \$25 per employee per month	Negligible cost to employer

Vesting and waiting periods

In a true group long-term care plan, the employer takes on some responsibility for the long-term care benefits of its employees. In return, the employer can share cost with

employees and limit its exposure only to those employees who are employed for a longer term.

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The plan design features that achieve these objectives are employer contributions, waiting periods, and vesting. Thus employers exchange a plan with no cost for one with a small cost that is directed at long-term employees.

A waiting period requires that employees be employed for a certain time period before they can participate in the plan. Waiting periods take place prior to the beginning of vesting periods and reduce costs for the employer by restricting coverage to those employees who do not leave employment after a short time.

Vesting rules determine the “ownership” of the employer contributions to the plan made on behalf of an employee once an employee leaves employment. While employed, all plan participants are eligible for benefits. When participants leave employment, they continue to be eligible for benefits funded by their own contributions. Vesting rules indicate whether departed participants are eligible for benefits funded by employer contributions. A fully vested participant “owns” the benefits that have been funded by the employer through the date of

departure. Once a vested employee departs, the employer does not make further planned contributions.

Because vesting allocates benefit dollars to those employees who have been with the employer the longest, it serves to retain valuable employees while keeping the per employee cost of doing so lower.

Waiting periods and vesting requirements can have a significant impact on cost. For a standard group long-term care benefit plan, some options and the approximate resulting savings are presented in the following tables. All savings are stated relative to a plan in which the employer pays 100% of the benefit cost, without waiting periods or vesting. We should note that our starting point is more expensive than the typical convenience benefit now in the marketplace. A “10 Years & Age 50” vesting rule is like pension vesting rules where a person must have at least 10 years in the plan and be at least 50 years old. The actual values will vary, depending on an employer’s turnover rates and age distribution.

Vesting and Waiting Period Savings (No Employee Contribution)			
Vesting Period	Savings Over Plan Without Vesting Or Waiting Period		
	No waiting period	1 year waiting period	2 year waiting period
0 Years	0%	12%	25%
5 Years	44%	44%	46%
10 Years	51%	51%	52%
20 Years	61%	61%	62%
10 Years & Age 50	55%	55%	55%

Source: Milliman USA, Milliman Long Term Care Model

Vesting and Waiting Period Savings (50% Employee Contribution)			
Vesting Period	Savings Over Plan Without Vesting Or Waiting Period		
	No waiting period	1 year waiting period	2 year waiting period
0 Years	70%	74%	77%
5 Years	83%	83%	84%
10 Years	85%	85%	85%
20 Years	88%	88%	88%
10 Years & Age 50	86%	86%	87%

Source: Milliman USA, Milliman Long Term Care Model

For example, a rich benefit plan with immediate vesting, no waiting, and no employee contribution might cost \$250 per employee per month – exorbitantly expensive. However, with 50% employee

How to Incorporate True Group Features

For defined benefit pension plans, most employers require five years of service before employees are eligible for any pension benefits, and then they are eligible for full pension benefits. This is known as “cliff vesting”. For defined contribution pension plans (Savings, Thrift, and 401(k) plans), employers typically employ a graduated vesting scale that fully vests after

contribution, a 10-year vesting period, and a 1-year waiting period, the employer cost would be reduced by 85% to \$37.50 per employee per month. Other benefit design changes could further reduce this amount.

seven years or less. Retiree medical benefits are only available to employees who satisfy certain age and service requirements (typically age 55 with 10 to 20 years of service). The table below presents the proportion of defined benefit plans that have various vesting and waiting period structures. Qualified pension plans under ERISA must vest with a five-year cliff or quicker.

Relative Use of Different Methods	
Cliff Vesting, < 1 Yr	1%
Cliff Vesting, 5 Yrs	85%
Cliff Vesting, 10 Yrs	1%
Cliff Vesting, after certain age, 5 Yrs	6%
Graduated, full after < 7 Yrs	6%
Graduated, full after 7 Yrs	1%
TOTAL	100%

Graduated vesting would create complexity that is: a) difficult to describe to employees,

and b) difficult to administer. Therefore, cliff vesting is advisable for a group

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long-term care plan. The most obvious choices are five and ten year cliff vesting. Additionally, plans may want to consider 15 and 20 year vesting depending on their goals, workforce profile, and budget.

During waiting periods employees cannot contribute and would not be eligible for benefits. Waiting periods reduce administrative costs for short-term employees and reduce costs overall because fewer employees participate. On the other hand, an overly long waiting period can undermine the objective of attracting employees.

Waiting periods are fairly easy to administer. Typical waiting periods for pension plans are 3 months, 6 months, 9 months and 12 months. Qualified pension plans under ERISA must have waiting periods of no more than 12 months.

There are two critical questions when designing employee contributions. The first is the percentage of the cost that the employee (or spouse) pays. Second is the time period over which the employee makes payments. Note that the contribution periods might differ for the employer and the employee. Most long-term care policies are paid for over the lifetime of the insured. In designing a true group plan, the employer would almost certainly want to pay contributions only for the expected working life of the employee, to age 65 for example. They may choose to have the employee pay premiums for life. This enables the employer-paid benefits to be fully accrued during the employee's working life, while keeping premiums payments for the employee as low as possible. If the employer plans to pay contributions on behalf of other dependents, other options might be preferred.

While the implementation of waiting periods is straightforward, vesting rules and employee contributions raise a number of questions regarding their implementation. These are discussed below.

For what benefits is a participant eligible after starting coverage but before becoming vested in the plan?

Generally, since long-term care coverage has a small element of current protection built into it, it makes sense to provide full benefits during the vesting period for participants who become ADL-impaired after joining the plan, but prior to being vested. It is less clear what the status of someone who is already ADL-impaired when joining the plan should be.

If someone separates employment before they have become vested, the plan could be designed to allow that person to continue coverage at a reduced level. For example, if the total benefit provided by the policy is \$200 per day and employees pays one-half of the total required contribution, then after separation, they would be eligible to have a \$100 per day policy if they continued paying the same amount of contribution after leaving employment.

Another option would be to automatically refund the employee contributions with some possible adjustments. However, this option would create instances where employees became uninsurable due to current or impending disability and did not purchase long-term care coverage on an individual basis because of the group coverage option. Therefore, they would be in a worse position than if they had not joined the group long-term care plan and had instead purchased their own individual coverage.

The plan should be designed to provide either a reduced benefit or the return of premium upon termination prior to being vested, but not a choice. Providing separating employees with both options could lead to adverse selection in that exiting employees who choose to remain in the plan might be more likely to need long-term care benefits than the average employee and would therefore be more expensive than average.

Once an employee is vested, what happens if s/he leaves employment prior to retirement age?

It is helpful to think of the employee's account in two pieces. The first piece is the portion that the employee pays. The second piece is the portion that the employer pays. Assume that the employee and employer each pay for one-half of the benefits. Because the employee separated employment prior to retirement age, the employer piece is not fully funded and the employer will not finish funding it.

The implication of vesting is that if people leave employment after becoming vested, the employer contributions that have been made on their behalf "belong" to them. Employee contributions always belong to the people who made them. The limitation is that employees cannot take the vested, accumulated contributions as cash. In order to fulfill the purposes of the benefits and to minimize adverse selection, those accumulated contributions remain in the fund to pay for long-term care.

In each piece of the account, a vested participant can take the value of the account as a reduced benefit. For example, if the daily benefit was \$100, the vested balance might allow a \$40 daily benefit. Alternatively, the participant can decide whether to continue making the scheduled

contributions. In practice, this allows three options:

1. Participants can stop making contributions. They are eligible for a reduced benefit from both pieces of the account.
2. Participants can continue making only the employee contributions. They are eligible for the full 50% benefit funded by the employee account, plus the reduced benefit from the employer account.
3. Participants can increase their contributions to cover both the employee and the employer portions. They are eligible for the full scheduled benefit.

The plan may experience significant adverse selection by those separating employment, and the employee contribution choices provided have to be carefully considered. Upon employment separation, if somebody is close to being ADL impaired or has been diagnosed with a condition that will present itself in a number of years, they will choose the option that provides the most coverage without going through underwriting (if such an option exists). On the other hand, somebody who could pass underwriting might choose to purchase an individual policy without benefit of the accumulated employer contributions. While some adverse selection is unavoidable because employees have more knowledge of their health status than anyone else, it can be minimized to a manageable level through careful underwriting and benefit design.

Once vested, what contributions are required after retirement?

Upon reaching retirement age, the employer piece of the benefit will have been fully funded. Therefore, the retirees only need to choose whether to continue their own contributions. If they do, the full benefit

will be available. If they do not, the benefit is only reduced for the missing retiree contributions.

It should be noted that employee contributions can be designed to end by a defined retirement age so that this choice may not be necessary.

Funding Alternatives

Except for the very largest groups, there has only been one option available to employers who wish to provide long-term care coverage, and that is a fully insured option. Self-funding, common for other employee benefits such as pension, provides some flexibility and possibly cost savings for an employer. Over time, we expect to see more self-funding or “alternate funding” arrangements for employer long-term care coverage.

We will start by defining what is meant by self-funding, compare advantages and disadvantages of self-funding (versus purchasing insured products), and consider the spectrum of self and alternate funding arrangements. As discussed below, tax limitations on self-funded plans could open a door to insurers’ alternate funding arrangements.

Definition of Self-funding

A self-funded plan is one in which employers and/or employees contribute to a fund, using a schedule of contributions over time. The money in the fund is invested to help grow the fund over time, and long-term care benefits are paid out of the fund. The schedule of contributions is set using actuarial assumptions regarding a range of items, including the age of the participants, the rate of ADL impairment, the daily cost of benefits while impaired, the average length of time covered when one is impaired, the investment earnings rate, operating expenses, any taxes payable, and turnover and vesting rates of employees.

Such a fund would necessarily need to purchase certain administrative services. These include services related to long-term care coverage, such as medical underwriting, benefit eligibility determination, and case management. They also include ongoing help in actuarial valuation and investment management. Insurers (or firms that provide services to insurers) are the most likely candidates to provide such services since the personnel and expertise are already in place.

Since long-term care is not a benefit that has been around for long, many employers understandably assume that it would be a risky venture. However, the nature of the pre-funding greatly limits that risk. This is because, in any year, the assets in the fund should greatly exceed the cost of the expected benefits to be paid out of the fund in that year. Long-term care plans are not unlike pension plans in this fashion. When a pension plan has an “actuarial gain or loss,” the amounts are amortized over five years in the plan. This occurs because, in any given year, the payout to retirees is much smaller than the assets in the pension plan. Likewise, gains and losses in a long-term care plan could also be amortized over the following five or more years.

Further, while the method and usage of delivering long-term care services could change over time, the rates of disability (either cognitive impairment or ADL dependency) should remain fairly stable or

improve. This is a fairly predictable risk, much like longevity is in a pension plan.

Advantages of a Self-Funded Plan

The advantages of a self-funded plan to an employer are control and cost. Self-funded plans can have non-standard benefit designs, and can even change over time. Contributions for a self-funded plan can be flexible as well. If fund experience is favorable, an employer could decide to increase the level of benefits or decrease contributions. Of course, the reverse may be necessary in the event of unfavorable experience.

Cost may also be an advantage when moving to a self-funded basis. Two comparable benefits, pensions and retiree medical, are rarely insured on a long-term basis. What is the reason for this? Each of these benefits involves a long-term risk that insurers are willing to take, but only with adequate protection. Such protection means that insurers must load in conservative margins to ensure that the risks they take are profitable.

Disadvantages of a Self-Funded Plan

The disadvantages of a self-funded plan to an employer are risk, hassle, and possibly taxes. While self-funding a coverage with a long time horizon such as long-term care coverage allows time for an employer to make corrections to benefit and contribution levels to ensure adequate assets for claims payment, this is still riskier than a fully insured product.

Another major disadvantage of self-funding is the hassle factor for the employer. The fund needs assistance (either internal or external) with administrative services, including tracking eligibility and contributions, underwriting, benefit eligibility determinations, case management,

employee communications, professional advice (e.g. an attorney, an actuary, and an accountant might all be needed), an investment manager, and fund monitoring. If an employer does not purchase these services as part of an insured arrangement, it will need to purchase them separately.

If an employer is a taxable entity (generally, other than a government entity, Taft-Hartley fund, or non-profit), it must pay taxes on the investment income it earns for the long-term funding of benefits. This can have a significant impact on the contribution rates needed for pre-funding the benefits. In addition, employers generally cannot deduct amounts that will be used to cover future inflation benefits from their taxes. However, a recent private letter ruling from the IRS suggests that insurance contracts that cover future inflation purchased by a self-funded plan would be deductible.

Alternative Forms of Self-Funding

Most self-funding methodologies assume that an employer is operating entirely separately from an insurer. In most other coverages, employers and insurers have entered into “alternate funding arrangements.” In such arrangements, the insurer passes aspects of the risk to the employer, while keeping the catastrophic risks and much of the benefit administration. A similar set of arrangements for true group long-term care does not yet exist.

Some group long-term care policies sold today look like individual policies in that the contract is primarily between the insurer and the individual, rather than between the insurer and the employer. Other group long-term care policies are like most other group coverages in that the contract is between the insurer and the employer, and the employees have certificates of coverage. Of the long-term care arrangements

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established as group contracts, only a few have established the rights of the employer to a fund/reserve transfer upon termination (although this is growing), and even fewer have explicit terms regarding how such a fund transfer would take place.

Insurers have not yet started the business of alternate funding arrangements that would allow an employer to take advantage of some aspects of self-funding, as well as some aspects of insured products. To consider the range of potential options, we will first consider the functions that an insurer could take on under an alternate funding arrangement.

1. Administrative functions. This includes enrollment, medical underwriting, benefit eligibility determinations, and case management. These are the basic technical support functions associated with long-term care coverage. While there are non-insurance companies that specialize in these functions, they also represent a core competency of many insurers.
2. Investment management. As the reserves associated with long-term care coverage grow, it is critical that these funds be well managed. While this is a function that is a core competency of insurers, there are also independent firms that currently specialize in investments for pension funds.
3. Holding the fund balance. By contract, the insurer would hold and manage the fund. The contract would specify what credits (including contributions and investment income) and charges (for

benefits and insurer services) would be made against the fund. If the contract were to be terminated, the fund balance would be returned to the employer. Since the insurer would be obligated to return the fund balance, its value could be deducted from the insurer's taxes, and therefore the fund balance could accumulate in a tax-preferred fashion. Since most employers have no means to accumulate funds in this fashion, this might be the most critical function that an insurer can undertake.

4. Taking a portion of the risk. An insurer could take all or a portion of the risk of long-term care claims. This risk could take the form of individual stop loss, covering each stay that exceeds a certain period of time (such as two years), or aggregate stop loss. Aggregate stop loss coverage protects an employer against a year of bad fluctuations in total claims in excess of a particular amount. Finally, an insurer could take the entire length-of-stay risk. In that case, whenever a claim occurs, the insurer would charge the fund for the entire claim at a fixed rate, and then take the risk for the actual claim length.

In any case, the obligations of each party would need to be specifically spelled out, whether it related to the charges associated with the functions, the rate guarantees for these functions, or the definition of the tasks to be performed.

We can imagine an alternate funding or administrative services agreement that could take the form of any or all of the four functions above. The most practical might

include items 1, 2, and 3. In this arrangement, the insurer and employer would agree on a set of contribution rates to the fund. The insurer would hold the funds, and manage the investments for the fund, crediting the results to the fund. The insurer would also provide necessary administrative functions, including enrollment, processing contributions, medical underwriting (when necessary), benefit eligibility determinations, and case management. Charges for these functions would be made against the fund. In subsequent years, the employer and insurer could agree on changes in benefits or contributions if needed. Because of tax limitations on many employers, this approach may be the most tax effective.

Other Possible Coverage Arrangements

While we think that the approaches mentioned above are best, each of them involved a degree of longer-term commitment for the employer. The following methods for creating long-term care coverage for an employer reduce this level of commitment while still providing an opportunity for a safety net for its employees.

Defined Contribution Program

Defined contribution programs have grown very popular in employee benefit programs. The most notable change in this regard has been the change from defined benefit to defined contribution pension plans. In defined benefit plans, the retirement benefit was set by a formula based upon the employee's longevity, salary, and age at retirement. Because of changes in investment returns, the cost of a defined benefit plan was not as predictable as employers liked. A defined contribution plan, such as a 401(k) plan, limits the employer's obligation to a fixed amount of contribution by year. If investment returns

are better than expected, the employee receives a greater amount of retirement income. If they are worse, the employee receives less.

There are several ways such a concept could be applied to long-term care. The simplest way is through an insured program, in which the employer contributes a fixed amount per year. If the insurer chooses to raise the premiums (which is its right), the employer could pass all of the increase on the employees.

Second, in a self-funded plan, any changes to the needed funding level could result in (a) a change in contributions for the employees, or (b) a change in the level of benefits. In this fashion, the employer could be insulated from disappointing investment earnings or higher than expected long-term care costs. Such a plan would need to be fully disclosed to employees at the beginning of the plan, possibly making it less attractive to employees.

Third, an individual employee account could be tracked with individual investment returns, and the employer contribution could be fixed. In each year, the cost of covering long-term care for that year could be deducted from the account. The employees would need to be advised of the value that could probably be funded, based on their current account balances. This would be admittedly complex to communicate.

Building Blocks Program

Some insurance companies currently offer single premium products: make one payment and your long-term care benefits are covered for life. Many more offer limited pay options, such as paid up in ten years. These products are very expensive.

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A building blocks program would also be an insured program. Although we are unaware of anyone currently offering this product, it is consistent with other products offered. Under a building blocks program, in each year that someone is employed, the employer and/or the employee would buy one building block. The block might have the standard features of a long-term care plan, except that it would only pay a limited amount per day, such as \$10. The maximum benefit would be expressed as a multiple of that amount, so a four-year plan might have a maximum benefit of \$14,600 (four years at \$10 per day). The plan could have inflation protection, elimination periods, and other similar features.

If an employee stayed with an employer for 20 years, this benefit would now be at \$200 per day plus inflation increases, and the maximum benefit would be up to \$292,000 plus inflation increases. If the plan is employer paid, this could also be arranged with vesting to keep the cost down. This would achieve the objective of predictable costs for the employer while providing reasonable benefits for the employee.

Yearly Renewable Term

Yearly renewable term coverage is limited to paying for any long-term care expenses that are incurred in the current calendar year.

In this context, “incurred” will generally refer a set of related expenses during one benefit period. These are expenses that all occur after a person has become disabled but not yet recovered. Thus, a five-year nursing home stay following ADL impairment could be covered by YRT.

However, planning to pay for all costs on a YRT basis is undesirable because costs increase dramatically at the older ages. Thus at some point, funding must begin, and at that point, costs will be higher than they would have been had the funding started earlier. However, many of the shorter-term employees will contribute very little cost to the program.

The difference between the YRT costs and funding over the working lifetime of the employee would likely become unfunded FAS 106 liabilities, and therefore would need to be disclosed on a company’s balance sheet.

Why Bother?

In presentations that we have given to employers, employers become much more interested in contributing to long-term care plans if the cost can be lowered to a small amount per employee per month while providing meaningful coverage. The individual market products have convinced employers that the benefit is too expensive. Moving to true group coverage could open a significant market for employers.

The long-term care financial crisis has been creeping up on Americans for years. However, in 1996, the passage of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) defined how long-term care coverage can be offered as a tax-preferred employee benefit. More employers, including the federal government and many state governments, are making long-term care insurance available through payroll deduction. But these “convenience” benefits are not consistent with the safety net provision goals of the employer due to the low participation rates among eligible employees. This low participation undermines the reasons for providing benefits in the first place, and offers little in the way of a safety net for the employee population.

In order to provide a meaningful safety net benefit in this important and often neglected area, employers need to find a method for offering this coverage such that employee participation is encouraged while keeping employer costs reasonably low. It seems to be only a matter of time before alternative approaches to offering and funding long-term care coverage will be sought.

About the Authors

Jonathan Shreve, FSA, MAAA is a Principal with the Denver office of Milliman. He leads the Health practice, which he started in 1992. He joined the firm in 1987.

Jon has worked in the long-term care insurance field for over 15 years. His work in this area includes pricing, product development, valuations of blocks of business, filing, and large group offerings. He has recently co-authored the book *True Group Long-Term Care*. In this book he emphasizes methods by which employers can offer long-term care coverage in an effective and efficient fashion using principles similar to other true group benefits such as pension.

Jon is a major contributor to Milliman's research efforts, including primary authorship of the Milliman Small Group and Individual Medical Underwriting Guidelines, as well as being a substantial contributor to the Long-Term Care Guidelines and Retiree Medical Cost Guidelines. He is Chairman of Milliman's Care Guidelines Division.

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Jill has also published a number of articles on long-term care and on Pharmacoeconomics from an actuarial perspective. She has contributed to Milliman's internal research on long-term care costs, the Long-Term Care Guidelines. She has a bachelor's degree from Davidson College and a master's degree from UCLA.

About Milliman

Milliman is an international independent actuarial and management consulting firm with offices in 35 cities throughout the United States and in Bermuda, Hong Kong, London, Melbourne, Seoul and Tokyo. In addition, Milliman is a founding member of Milliman Global, a prominent international affiliation of actuaries and consultants. Founded in 1947, Milliman is a highly respected and trusted business partner that has demonstrated the highest professional standards on behalf of its clients. The Denver office was opened in 1983 with the addition of a health practice in 1992.

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Long-Term Care Coverage

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