# Long-Term Care Insurance

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## Issue

Explain long-term care (LTC) insurance, including recent policy proposals in Connecticut and other states to reduce premium increases.

## Summary

Long-term care insurance generally provides coverage for home care, assisted living, and other services that help individuals perform activities of daily living (ADLs), such as bathing, dressing, and personal hygiene.

According to an August 6, 2020, Congressional Research Service (CRS) report, the LTC insurance market is unstable because insurers incorrectly predicted future claims, resulting in most policies issued before the mid-2000s being priced too low relative to risk. CRS notes that factors contributing to incorrect LTC insurance pricing include (1) lower mortality, (2) lower voluntary policy termination rates, (3) lower investment returns, and (4) higher claim costs.

As a result, LTC insurers generally have requested large rate increases to pay the higher number of current and expected claims. Insurers that do not increase prices to more accurately reflect risk may not have money to pay actuarially expected claims or remain solvent. Conversely, insureds who originally purchased LTC policies to mitigate future expenses may be faced with unaffordable premium increases.

In 2014, the Connecticut legislature attempted to minimize the impact of rising premiums by requiring large increases to be spread out over three years (PA 14-10). Additionally, Connecticut was one of the first states to implement an LTC Partnership Program, which provides LTC policyholders with Medicaid asset protection. The CT Partnership for Long-Term Care is a public-private initiative under which the state approves special LTC insurance policies sold by private

companies. These policies offer Medicaid asset protection equal to the amount the policy has paid for their care. According to the American Association for Long-Term Care Insurance, most states have an LTC partnership program, and many also provide reciprocity with LTC insurance policies purchased elsewhere.

Other proposals that were considered in Connecticut but not adopted include (1) spreading out large increases over five or more years and (2) providing tax credits or deductions for purchasing LTC policies.

Other states have also considered ways to mitigate rising LTC premiums. Washington, for example, established a state-funded LTC program, and Arizona considered a pilot program to compensate caregivers.

## Long-Term Care Insurance Laws in Connecticut

By law, LTC insurance policies provide benefits on an expense-incurred, indemnity or prepaid basis for necessary care or treatment of an injury, illness, or loss of functional capacity provided by a certified or licensed health care provider in a setting other than an acute care hospital (CGS §§ 38a-501 & 38a-528).

### *Policy Requirements*

State law requires LTC insurance policies sold in Connecticut to meet certain minimum requirements, as described below.

*Loss Ratio.* Among other things, state law requires LTC insurers to maintain a minimum loss ratio of 60% for individual LTC policies and 65% for group LTC policies. This means that for every dollar of premium collected, the insurer has to spend at least 60 or 65 cents on claim payments, respectively.

*Benefit and Elimination Periods.* By law, LTC insurance policies must provide benefits for at least one year after an elimination period. An elimination period is the period before which benefits are payable under a policy. In Connecticut, individual LTC insurance policies may generally have a maximum elimination period of 100 days (i.e., the policy begins paying benefits on the 101st day of injury, illness, or other benefit trigger). Group policies may have a "reasonable" elimination period.

*Additional Policy Requirements.* LTC insurance policies sold in Connecticut must offer insureds the option of purchasing non-forfeiture and inflation protection benefits (Conn. Agency Regs. §§ 38a-501-19 & 20 and 38a-528-12 & 13).

### *Premium Increases*

In addition to the minimum policy requirements described above, state law includes certain consumer protections related to rate increases.

*Benefit Reductions Following Increases.* By law, before implementing a rate increase, LTC insurers must give policyholders the option of reducing their benefits to reduce their premium. Insurers must (1) notify policyholders of this option and (2) allow policyholders at least 30 days to select new coverage before they are deemed to have chosen to keep the existing policy benefits.

*Large Increases.* By law, insurers filing for a rate increase of 20% or more must spread the premium increase over at least three years. Beginning January 1, 2022, insurers are also prohibited from filing an additional rate increase during this time (PA 21-150).

Under a new law effective January 1, 2022, the insurance commissioner must develop a minimum set of affordable benefit options to be offered by LTC insurers that file for large rate increases of 20% or more (PA 21-150). As with the benefit reduction option described above, insurers must notify policyholders of the minimum benefit option and allow them at least 30 days to select new coverage.

### *Rate Reviews*

Premium increases must be filed with, and approved by, the Connecticut Insurance Department (CID) prior to use.

Rate increases are filed for a "block" of policies, which are generally a group of similar policies sold on the same market (i.e., individual or group) during a specified period of time. Rate filings must demonstrate that anticipated claims in relation to premiums, combined with actual experience, will meet the minimum loss ratio requirement. The insurance commissioner may disapprove a rate filing if he determines the loss ratio requirement will not be met over the lifetime of the policy form.

As of October 22, 2021, CID has 18 open LTC insurance rate filings for individual policy blocks and two open rate filings for group policies. The highest average rate request is 194% for an individual policy block and 28.01% for a group policy block. Open policy filings are available here. All LTC insurance filings are available here.

## Connecticut Policy Proposals

Over the last several years, the Connecticut legislature has consistently considered bills to address large LTC insurance premium rate increases while also recognizing the risk of insurer insolvency, as described below.

*LTC Premium Tax Credits or Deductions.* Connecticut has considered several bills over the last few years to provide taxpayers with a state tax deduction or credit based on the amount spent on LTC premiums (e.g., HB 6674 (2021)).

*Spread Premium Increases.* As described above, LTC insurers in Connecticut must spread out large premium increases over three years. The General Assembly has seen several proposals to increase this to five years or otherwise make increases more manageable to consumers (e.g., HB 6245 (2021)).

## Policy Options Considered in Other States

Below are several novel policy approaches intended to address rising LTC insurance premiums, as described in this 2019 Pew Trust article and this 2021 Legibrief from the National Conference of State Legislatures (NCSL)

- In 2018, Minnesota researched (1) requiring insurers' supplemental Medicare policies to include limited home chore benefits, presumably reducing the need for certain long-term care needs, and (2) allowing insurers to sell term life insurance policies that convert to a LTC product once the beneficiary reaches retirement age. This latter idea is called "Lifestage Protection."

- In 2019, Arizona considered creating a pilot program to provide grants of up to $1,000 per year to reimburse caregivers for taking care of disabled family members at home, presumably reducing the need for LTC insurance (SB 1172).

- In 2019, Washington established a first in the nation, state-operated program funded through a payroll tax to provide up to $36,500 in lifetime benefits to help workers pay for in-home LTC services (HB 1087 (2019) and HB 1323 (2021)). Implementation is generally expected to begin in 2022.

- In 2018, Maine considered but rejected a referendum to fund long-term care benefits through a tax increase.

Additionally, the National Association of Insurance Commissioners (NAIC) Long-Term Care Insurance (EX) Task Force is exploring possible solutions to LTC insurance issues. Among its charges is to "recommend options to provide consumers with choices regarding modifications to LTCI contract benefits where policies are no longer affordable due to rate increases." It is also considering the market impact of a multi-state actuarial review process for LTC insurance rates. The task force's September 2021 draft report is available here.

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