**Testimony Before the**
**U.S. House Committee on Energy and Commerce**
**Subcommittee on Oversight and Investigation**

**Hearing Entitled:**

# Long-Term Care Insurance: Are Consumers Protected for the Long-Term?

**Testimony on Long-Term Care Insurance Claims**

**Presented by:**

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## I. INTRODUCTION

Good morning, Mr. Chairman and members of the subcommittee. I am Marc Cohen, President of LifePlans, Inc. which is a Boston-based long-term care research, consulting and products-offering company. Among other things, our company has been conducting research on issues related to long-term care financing and private insurance for over 20 years. We are an organization that coordinates the private long-term care insurance industry for research studies that contribute to the knowledge base and provide empirical data to inform policymakers, regulators and the industry itself.

These hearings underscore the subcommittee's commitment to supporting policies that help the long-term care needs of our nation's aging population. I appreciate the opportunity to testify on this important issue. Today I would like to present findings from more than a decade of research about how long-term care insurance is influencing the lives of claimants and their families and how companies are servicing claims. I want to acknowledge the support of the Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, Office of Disability, Aging and Long-Term Care Policy and the Robert Wood Johnson Foundation for these studies. They had the foresight to fund research over the past decade that has important implications today. My testimony, which is based in large part on recent studies, will focus on three broad areas:

(1) The impact of private long-term care insurance on claimants and their families;

(2) How families evaluate their experience with the insurance company at the time that they file their claim; and

(3) Industry-wide claim approval and denial rates.

The information presented here is representative of the industry as a whole. [1,2,3,4,5,6]

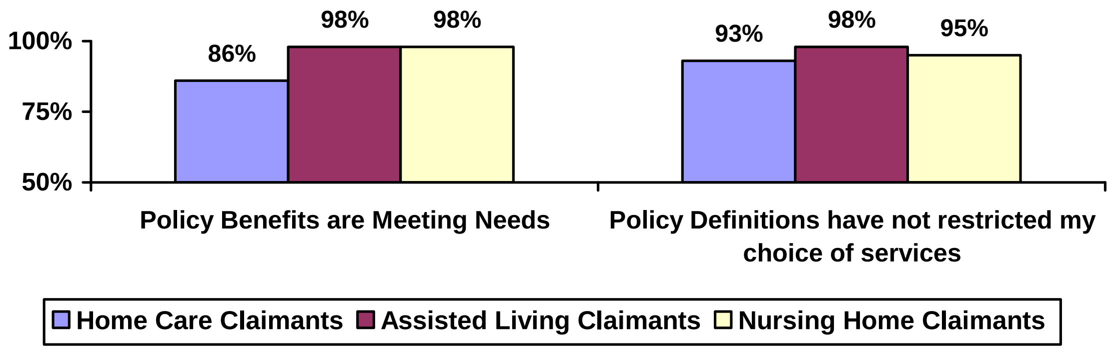
**I. The Impact of Private Long-Term Care Insurance on Claimants and Families**

Private long-term care insurance currently pays less than 10% of the nation's long-term care service bill, but its share will likely grow in the coming years as more people obtain policies and as current policyholders age, become disabled and require care. Between the individual and group market, more than 10 million policies and riders have been sold and the number of individuals with policies is estimated to be between 6 and 7 million.[7] Estimates are that in 2007, long-term care insurance companies paid out more than $4 billion in claims payments to disabled policyholders, and held far more in reserves for future payments.[8] These payments help disabled policyholders purchase home care services, assisted living and nursing home care. While the aggregate dollars paid by policies does provide us with information about the financial value to disabled elders and their families, these statistics do not tell us how these insurance payments are affecting the lives of policyholders and their families. Are policies helping people stay in their homes longer? Are claimants satisfied with their purchase decisions? What impact are policy benefits having on the lives of family caregivers?

To answer these and other questions, we completed studies based on personal interviews with more than 2,500 policyholders making initial or ongoing claims on their long-term care insurance policies. These individuals were randomly selected from major long-term care insurance companies and their experience is representative of the industry as a whole. Here is what we found:

First, the vast majority of new claimants indicated that policy benefits were meeting their care needs. Moreover, they did not feel that policy coverage definitions encumbered their choice of providers. In fact, across all service settings, more than 90% of claimants felt that the contract definitions provided the necessary flexibility to enable them to exercise their service choices.

**Figure 1: Are policy benefits helping to meet need and are they flexible in covering services?**




Notes: This data is derived from individuals who have begun receiving insurance benefits within four months of the interview.

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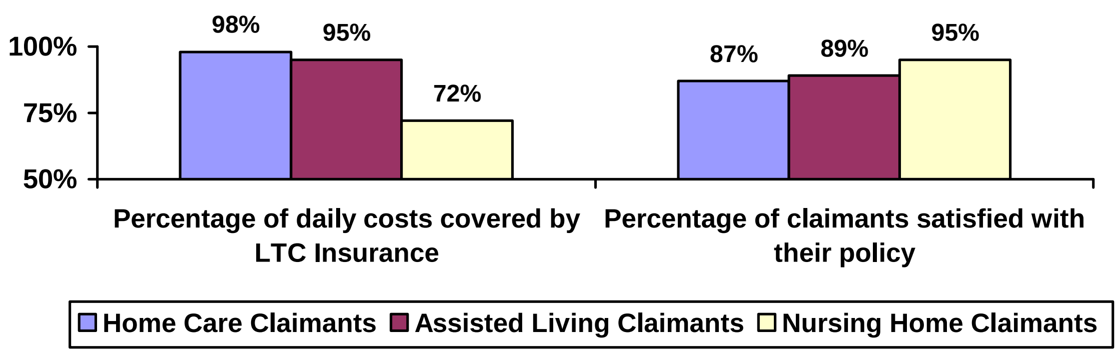
As well, about 80% of claimants reported that having the insurance made it easier for them to obtain services and that it provided them with greater flexibility with respect to their choice of service setting. This is particularly important because one of the major concerns that people have at the time that they are offered the policy, is whether the insurance will pay the benefits that are defined in the policy. Moreover, an important reason why people buy the insurance is to assure that if they need services, they will have flexibility regarding service choice.[9]

Second the insurance pays a significant percentage of the daily costs of care, which in part explains why so many claimants are satisfied with their policy. The majority of claimants -- more than 75% -- reported that their policies were paying for at least most of their care at any given time. More than 90% of the daily costs of home care and assisted living are paid for by the insurance. The figure is closer to 75% for nursing home claimants. Policy payouts range greatly, depending on the costs of services and the benefit plan chosen by the policyholder. Payouts in excess of $3,000 - $4,000 a month are not uncommon. Thus, <u>one month</u> of long-term care insurance benefits paid to a policyholder in a facility setting will typically exceed a full year of premium costs.

While there is a large financial impact on individuals and their families, there is of course an effect on public expenditures as well. Our own simulations show that having the insurance will lead to a reduction in the probability of spending down to Medicaid eligibility for some policyholders. This necessarily implies that as the market continues to expand to lower age groups and more modest income groups, (through state-sponsored Long-term Care Partnership Programs, for example), public expenditures on long-term care should decline.[10]

The positive view of the impact of the insurance persists over time so that even among policyholders who had been receiving services for a little more than a year, more than four in five indicated that they were satisfied or very satisfied with their policy. This is not surprising given the fact that out-of-pocket expenditures are reduced by thousands of dollars a month for most claimants.

**Figure 2: Percentage of daily costs covered by policies and percentage of claimants satisfied with their policy**




Notes: This data is derived from 1,200 individuals who have been receiving insurance benefits for an average of 13 months.

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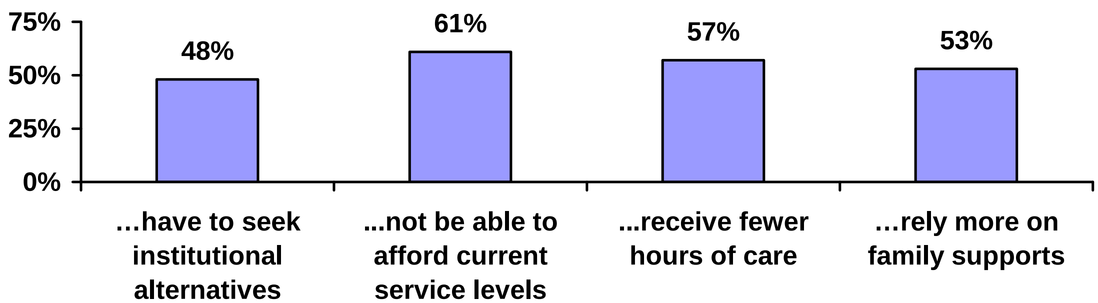
Third, having long-term care insurance allows disabled elders to remain in their homes and delay or avoid using institutional services. When asked, about half of both family caregivers and claimants who were receiving home care benefits felt that in the absence of their policy, they would have to seek institutional alternatives, would not be able to afford current service levels, would receive fewer hours of care, and would have to rely more on family supports (see Figure 3). Moreover, two-thirds of family caregivers claimed that the presence of insurance-financed benefits had reduced the stress associated with caregiving; also, adult children who cared for an insured disabled parent were more likely to be able to stay in the labor force when their parent had long-term care insurance.[11]

**Figure 3: Impact of Policy on Home Care Claimants:**
**In absence of policy would:**




Notes: This data is derived from 700 home care claimants who have been receiving insurance benefits for an average of 13 months.

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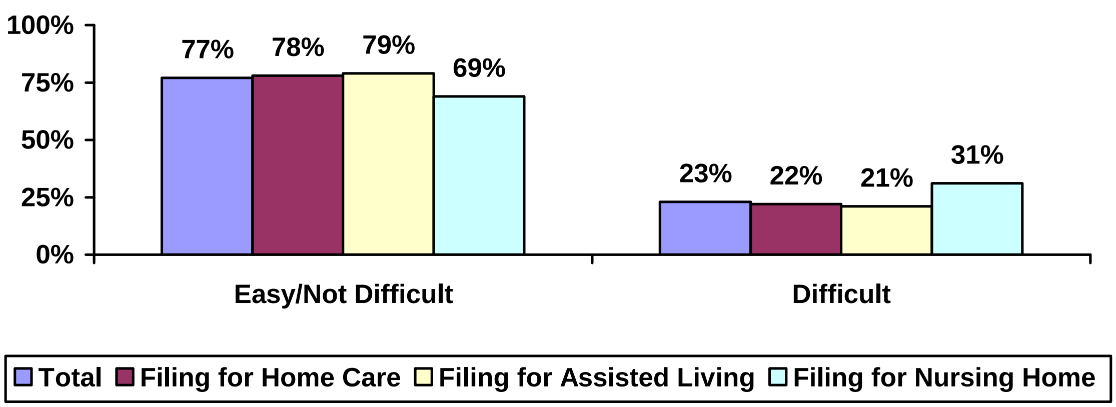
Taken together, these data suggest that the vast majority of disabled policyholders are satisfied with their insurance at the time that they need it most; that policy benefits are helping people live independently in the community; that choice is not being limited; that the insurance pays for a high proportion of the costs of care; and that family caregivers are benefiting from the insurance as well.

## II. Interactions with the Insurance Company at Time of Claim

There have been a number of relatively recent newspaper articles that have raised important questions about the claims payment practices of long-term care insurance companies.[12,13] As part of our broader research effort, and before the publication of these articles, we had explored a number of issues related to the interaction between policyholders and long-term care insurance companies at the time that claims were being filed.

We asked about 1,500 individuals how easy or difficult it was to file their claim (See Figure 4). Most policyholders (77%) did not find it challenging. Slightly less than one-quarter (23%) did find filing a claim to be difficult. When looked at by service setting, a higher percentage of nursing home residents found filing a claim difficult (31%) than those receiving care at home (22%) or in an assisted living facility (21%). For those who found it difficult, the most common reasons were that it took longer than expected to obtain benefits and that there were certain problems understanding and filling out the claim forms.[1]

**Figure 4: Ease of Filing Claims and Obtaining Benefits**




Notes: This data is derived from individuals filing claims for the first time.

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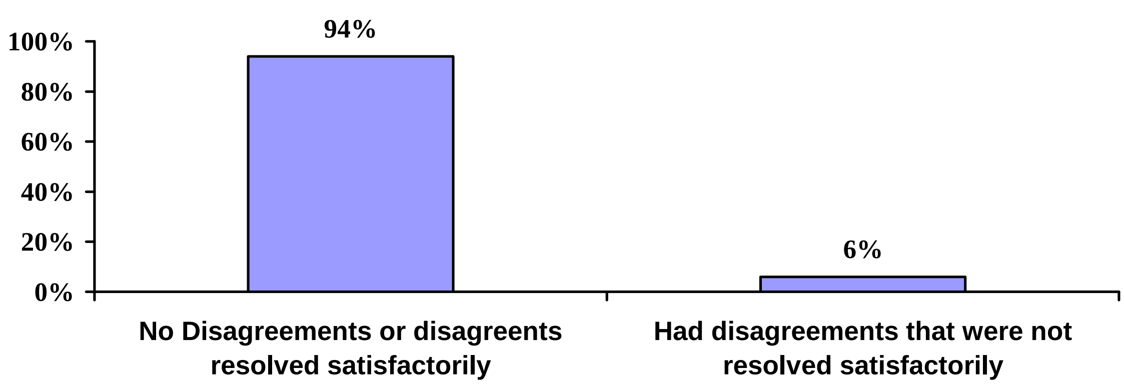
[1] Nursing home residents were the most disabled and were far more likely to be cognitively impaired.

Given the relatively complex nature of long-term care insurance, when someone files a claim there is likely to be a great deal of personal interaction with the insurance company. We asked individuals who were filing their first claim if they had had any disagreements with the insurance company and whether such disagreements were resolved satisfactorily. This question was asked of both individuals who had their claim approved and those whose claim was denied. The vast majority of individuals filing a claim (94%) did not have any unresolved disagreements with their insurance company. Among people approved for claim, 97% had no unresolved disagreements and even among those denied claims about two-in-five were in agreement with the insurer. Thus, even among the minority of people who report difficulty when they first file a claim have had the insurance company deal with their issues in a satisfactory manner.

**Figure 5: Proportion of Both Approved and Denied Claimants Reporting Disagreements with their LTC Insurance Company**




Notes: This data is derived from individuals filing claims for the first time.
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This is a particularly important finding because an impediment cited by individuals who choose not to buy LTC insurance has been a fear that insurers will not pay for benefits as stated in the policy; moreover, among buyers of LTC insurance, an important reason for purchasing the insurance in the first place is the belief that having the insurance will give them the freedom to choose the care that they prefer – something which is indeed occurring.[14] Thus, while the hopes of buyers seem supported by these findings, the fears of non-buyers about not getting the benefits that they desire when they are determined to be benefit-eligible seem to be unwarranted.

**III. Industry-wide Claims Denial Rates**

People purchase long-term care insurance in part to assure that if and when they become disabled their policies will pay for the care that they need. Until the Health Insurance Portability and Accountability Act (HIPAA) of 1996 standardized benefit triggers, consumers faced some difficulty in knowing the circumstances under which they would receive benefits under their policies. The passage of HIPAA helped to clarify this issue for consumers.

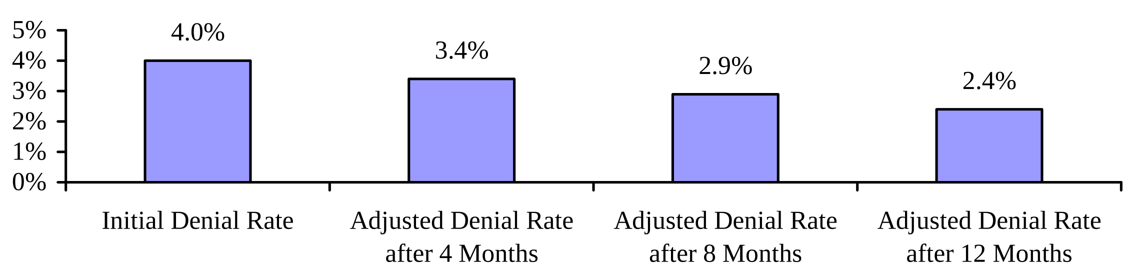
Since the payment of claims is really where the "rubber meets the road" when it comes to long-term care insurance, it is important to examine the extent to which individuals who file a claim under their policy are approved to receive benefits. While there have been anecdotal reports in a number of newspaper articles that claim denial rates are excessive (some alleging that such rates are greater than 20% in some areas), industry data provided to the National Association of Insurance Commissioners (NAIC) suggests claims denial rates are relatively low – between 3% and 6% depending on how claims are counted. Until recently, there has been no independently provided empirical evidence to validate the probability that a policyholder submitting a claim will have it approved or denied.

To obtain an estimate, we drew an industry wide sample and interviewed 1,500 policyholders who had just started, or were about to start, using long-term care services. These policyholders were interviewed at four-month intervals over a two and a half year period. Of those who filed a claim and had a decision rendered at the time of the first interview, 96% were approved and 4% were denied.  This suggests an industry-wide initial claims denial rate of 4%. The vast majority 93% of all cases had a decision rendered within a two-month period and the remaining 7% within another 2 months.

All long-term care insurance policies have provisions that delineate an appeals process, and many of the individuals who were denied benefits appealed the initial decision or refiled at a later point. In fact, within one year, roughly half of the individuals who had their initial claim denied were approved for benefit payments.  Thus, the adjusted industry-wide denial rate over a one-year period was actually a little over 2%.

A majority of the initial 4% who reported that their claim was denied indicated that the reason for their denial was that they were not disabled enough to meet policy definitions.  An in-person nursing assessment of these individuals showed that indeed many had not reached a level of disability that would qualify them for benefits.  They were, however, very close to meeting eligibility, in that most could not perform at least one activity of daily living and they had other challenges such as shopping independently, doing light housework, using transportation etc. None of the policyholders who were denied benefits were cognitively impaired.  Some who were denied reported that they were using services or providers not covered under their policy or that they had not yet met their policy elimination period.

**Figure 13:  Initial Denial Rates and Adjusted Denial Rate over 12 Month Period**




Notes:  This data is derived from individuals filing claims for the first time.
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The empirical data clearly shows that the vast majority of individuals applying for benefits under their long-term care insurance policies are approved for benefits at time of initial claim filing and half of the relatively small number of initial denials is approved within a one year period.

## VII. CONCLUSION

Taken together, the findings from these empirical analyses suggest that by in large policyholders are satisfied with their insurance at the time that they need it most; that policy benefits are helping people live independently in the community; that choice is not being limited; and that the policies are also benefiting family caregivers. As policyholders file claims, their interactions with their insurance companies are generally satisfactory, even though nearly one-quarter found the initial claim-filing process to be challenging. To the extent that disagreements do arise, most are resolved to the satisfaction of the consumer. In contrast to what has been reported in the popular press, claim denial rates are relatively low to begin with -- less than 5% -- and diminish even further over time, as individuals' functional and cognitive condition changes, or as the appeals process at the insurance company is engaged.

I appreciate this opportunity to testify about these important issues and look forward to continuing to work with the subcommittee to inform the development of policy solutions to help all Americans prepare for their future long-term care needs.

[1]Miller, J. and Shi, X., Cohen, M. (2008) "Following an Admissions Cohort: Care Management, Claim Experience and Transitions among an Admissions Cohort of Privately Insured Disabled Elders over a Twenty-Eight Month Period. Final Report." Department of Health and Human Services, Office of Disability, Aging and Long-Term Care Policy. April.

[2]Cohen, M., Miller, J. and Shi, X. (2007) "Following an Admissions Cohort: Care Management, Claim Experience and Transitions among an Admissions Cohort of Privately Insured Disabled Elders over a Sixteen Month Period. Interim Report." Department of Health and Human Services, Office of Disability, Aging and Long-Term Care Policy. May.

[3] Cohen, M., Miller, J. and Shi, X. (2006) "Service Use and Transitions: Decisions, Choices and Care Management among an Admissions Cohort of Privately Insured Disabled Elders." Department of Health and Human Services, Office of Disability, Aging and Long-Term Care Policy. December.

[4] Cohen, M., and Miller, J. (2000). "The use of Nursing Home and Assisted Living Facilities among Privately Insured and Non- Privately Insured Disabled Elders." Final Report to the Assistant Secretary for Planning and Evaluation, Aging and Disability Policy, Department of Health and Human Services. Washington, D.C. April.

[5] Cohen, M., Miller, J. and Weinrobe, M. (1999). "A Descriptive Analysis of Patterns of Informal and Formal Caregiving among Privately Insured and Non-Privately Insured Disabled Elders Living in the Community." Final Report to the Assistant Secretary for Planning and Evaluation, Aging and Disability Policy, Department of Health and Human Services. Washington, D.C. April.

[6] Weinrobe, M., Miller, J. and Cohen, M. (2000). "Informal Caregivers of Elders with Long-Term Care Insurance." Final Report to the Assistant Secretary for Planning and Evaluation, Aging and Disability Policy, Department of Health and Human Services. Washington, D.C. October.

[7] Estimates from AHIP Long-Term Care Market Surveys, 2004, extrapolated forward, Washington, D.C..

[8] NAIC Exhibits, Form A. Part 2. Total Incurred Claims summed for all companies and extrapolated to 2008.

[9] Who buys Long-Term Care Insurance? A 15 year Study of Buyers and Non-Buyers, 1995-2005, April 2007, Prepared by LifePlans, Inc. for America's Health Insurance Plans.

[10] Source: Department of Health and Human Services. "The Impact of Private Long-Term Care Insurance Benefits on Selected Medicare Services." Final Report prepared for the Department of Health and Human Services, Office of Disability, Aging and Long-Term Care Policy. March, 2002.

[11] The Metlife Study of Employed Caregivers: Does Long-Term Care Insurance Make a Difference? Findings from a National Study by the National Alliance for Caregiving and LifePlans, Inc. Published by the Mature Market Institute, March 2001.

[12] NY Times – March 26, 2007 - Aged, Frail and Denied Care by Their Insurers, By Charles Duhigg (available via: http://www.nytimes.com/2007/03/26/business/26care.html )

[13] Feb 26, 2008 - WSJ - States Draw Fire for Pitching Citizens On Private Long-Term Care Insurance, By Jennifer Levitz and Kelly Greene, **(**http://online.wsj.com/article/SB120398804143592269.html?mod=article-outset-box **)**

[14] Who buys Long-Term Care Insurance? A 15 year Study of Buyers and Non-Buyers, 1995-2005, April 2007, Prepared by LifePlans, Inc. for America's Health Insurance Plans.