

## Long-term Care Insurance Gains Prominence

by [Jordan Pfuntner](#) and [Elizabeth Dietz](#)

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*Long-term care insurance appeared in the 1980s, and since then, increasing numbers of workers are offered group long-term care plans through their place of employment.*

Long-term care insurance, which pays for custodial care, home care, or nursing home care for periods longer than a year, is a relatively new component of the employee benefits picture that has grown in prominence. The first group long-term care insurance contract was written in 1987.<sup>1</sup> BLS data for 1989 show that long-term care insurance was offered to 3 percent of full-time employees in private industry establishments with 100 or more employees.<sup>2</sup> As of 2000, more than one million policies had been sold through 3,500 employers.<sup>3</sup> By 2003, 13 percent of full-time workers in all private industry were offered long-term care insurance, while 19 percent of full-time workers in large private establishments (100 or more workers) were offered this benefit.<sup>4</sup>

The term *long-term care* refers to a spectrum of health, social, and environmental support services and assistance provided by paid and unpaid caregivers in institutions, the home, and the community to persons who are limited in their mental or physical ability to function independently on a daily basis.<sup>5</sup> Although long-term care can be required by individuals of any age group, the elderly are most likely to need long-term care.<sup>6</sup> As life expectancy increases, and as the "baby boom" generation moves into its elder years, long-term care is expected to be needed by larger portions of the population.<sup>7</sup>

Likewise, experts project that the need for protection from the financial consequences of requiring long-term care will grow dramatically over the next few decades. The costs of long-term care and care for chronic conditions can be extremely high. The average cost of home health care, for example, is more than \$20,000 per year (at \$18 per hour, visits of 5 hours per day, 5 days per week). Nursing-home care costs an average of \$52,000 per year for a semiprivate room,<sup>8</sup> and the average stay at a nursing home is 2.6 years.<sup>9</sup> Moreover, the cost for a semiprivate room in a nursing home is projected to increase to \$190,600 per year by 2030.<sup>10</sup>

Long-term care insurance offsets the risk of a large financial drain if one should need medical and custodial care for chronic conditions, which are not covered by health insurance plans.<sup>11</sup> Traditionally, a person needing long-term care would turn to family members to provide unpaid, informal services, but with greater incidence of divorce, dual-career families, and mobility in today's society, it is less likely that an extended family will be available to provide care. If a person has substantial savings, he or she could use them to pay directly for the full cost of care.

Medicaid covers long-term care services; however, it is designed to give medical care to those with minimal assets. Medicaid was the largest funding source for long-term care in 2000, accounting for 45 percent of the total amount spent on such care.<sup>12</sup> David M. Walker, Comptroller General of the United States, in testimony to the Special Committee on Aging, expressed concern that "many elderly persons become eligible for Medicaid as a result of depleting their assets to pay for nursing home care that Medicare does not cover." Many of these persons "have become nearly impoverished by spending down' their assets to cover the high costs of their long-term care." Furthermore, Walker's testimony indicated that the projected dependence on Medicaid for long-term care coverage will put unsustainable pressure on the Federal budget in the years ahead.<sup>13</sup>

Private long-term care insurance has been of particular interest to the elderly or to those planning for their elderly parents as a way of avoiding out-of-pocket expenditures or dependence on Medicaid and the resulting loss of assets. Private insurance paid for only 11 percent of aggregate long-term care expenditures in 2000;<sup>14</sup> however, this percentage is expected to grow as more people purchase long-term care insurance--either individually or through their employers.

The Employee Benefits Research Institute (EBRI) notes that helping workers care for elderly dependents is a feature of long-term care insurance that has impelled employers to add it to the benefits package: "Employers have also begun to realize that not only must many of their employees now care for young children, but many are being called on to care for elderly

parents. Recognizing and meeting the needs of these individuals by assisting them in providing for their children, parents, and grandparents may have the potential to reduce absenteeism, and improve morale, company loyalty, and ultimately productivity."<sup>15</sup> The first individual policies for long-term care insurance were written in the early 1980s. In those early days, there were no actuarial tables to assist insurance providers in assessing risk, and the policies could vary widely on coverage and premiums.

The Health Insurance Portability and Accountability Act (HIPAA), enacted in 1997, set standards for a long-term care insurance plan to be considered *federally qualified*. HIPAA established provider rules, for example, that guarantee renewability of plans, require consumer protections, define the scope of coverage, and set criteria individuals must meet before benefits can be paid. It also established the tax treatment of employer and employee expenditures on federally qualified plan premiums.<sup>16</sup>

Unlike other forms of insurance provided through the workplace, long-term care insurance is typically funded completely by the employee, without a contribution from the employer. Even without a contribution from the employer, long-term care insurance through the workplace can give employees the advantages of group insurance over individual policies.<sup>17</sup>

Group long-term care policies commonly provide a benefit expressed as a dollar amount payable per day (for example, \$50 or \$75 for nursing home care), and in some cases allow employees to select the dollar coverage level. Typically, benefits are payable for several years or up to a maximum dollar limit, such as \$100,000. Benefits for other services, such as home health care, may be expressed in a similar fashion, often at half the rate payable for nursing home care. Benefits may be adjusted for inflation, but annual adjustments may be capped at a fixed percent, such as 3 percent. Premiums can vary by a number of factors, such as the age of the employee, the dollar amount of the coverage selected, and whether coverage against rising prices is chosen. Policies can be written to cover not only an employee, but the employee's spouse, children, and parents.

**Coverage of Private Industry Workers.** [National Compensation Survey \(NCS\)](#) data on benefits show the percent of workers offered long-term care insurance through their employer--whether the employer pays a portion of that insurance premium or not. An employer-based policy that pays full or partial benefits for custodial care, home care, or nursing home care lasting a year or more is counted as long-term care insurance. BLS surveys have shown a slow, steady rise in the proportion of employees offered long-term care insurance. (See chart.) A decade ago, long-term care insurance was offered to just 3 percent of private industry employees;<sup>18</sup> by 2003, that figure had grown to 11 percent.<sup>19</sup> A more detailed look at the current data shows that coverage patterns vary by type of private business establishment and worker.

NCS data show that offerings varied sharply for some characteristics of the worker or the occupation in which the worker was employed. (See table 1.) As is true for benefit plans in general, long-term care insurance offerings in 2003 were higher among full-time workers (13 percent) than among part-time workers (4 percent). Also, workers in white-collar occupations were more likely to be offered coverage (16 percent) than were those in either blue-collar occupations (7 percent) or service occupations (4 percent). For occupations in which average wages were \$15 or more per hour, 19 percent of employees were offered long-term care insurance; in occupations paying less than \$15 per hour, only 6 percent had such coverage available.<sup>20</sup>

This difference was less pronounced among union (16 percent) and nonunion (11 percent) workers, perhaps because many white-collar workers are nonunion, and long-term care insurance is more frequently offered to white-collar workers.

Offerings also varied according to the type of establishment employing the worker. Long-term care insurance followed the pattern of most types of benefits by being offered much more frequently to employees of establishments with 100 or more workers (20 percent) than to employees in smaller establishments (3 percent). While 12 percent of workers in establishments located in metropolitan areas had coverage available, only 4 percent of their counterparts in nonmetropolitan areas were offered coverage.

On the other hand, some of the other variables examined in the survey did not show sharp differences. For example, the survey published data on goods-producing and service-producing industries and found that both segments offered long-term

care insurance to 11 percent of their employees. Offerings by broad region of the country were 7 percent in three of the Census divisions, and 10 to 14 percent in the other six divisions.

**Coverage of State and Local Government Workers.** Data from the 1998 Employee Benefits Survey (EBS),<sup>21</sup> the most recent BLS data on benefits for public sector workers, show differences in the percentages of full-time State and local government workers offered long-term care insurance: The benefit was offered to 20 percent of State government employees, compared with 8 percent of local government workers.<sup>22</sup> Long-term care insurance follows the same general patterns of coverage as those of health insurance in the private sector and in State and local governments, although health insurance percentages reflect *participation* while long-term care insurance percentages reflect *access* to this benefit.

**Coverage of Federal Workers.** In 2000, the United States Congress enacted the Federal Long Term Care Insurance Program (FLTCIP).<sup>23</sup> This program is open to all Federal employees and annuitants (including the U.S. Postal Service), active and retired members of the uniformed services, their spouses, and other qualified relatives. The FLTCIP held its first open season in fall 2002. As of November 2003, more than 200,000 individuals had enrolled in the program.<sup>24</sup> A development such as this seems to define long-term care insurance as more than an emerging benefit; rather, it is one that is gaining in significance and may take a predominant role in how Americans plan for and pay for a potentially large liability.

**Long-term Care Insurance Coverage in the Future.** When considering the demographic trends of the next few decades, many experts predict that long-term care insurance will continue to grow in importance as an employee benefit. BLS will continue to track long-term care insurance offerings as part of the National Compensation Survey (NCS), and the data will be reported in an NCS annual Benefits news release and annual Benefits bulletin.<sup>25</sup>

Jordan Pfuntner

Deputy Associate Commissioner, Office of Compensation and Working Conditions, Bureau of Labor Statistics.

Telephone: (202) 691-6309; E-mail: Pfuntner.Jordan@bls.gov

Elizabeth Dietz

Economist, Division of Compensation Data Analysis and Planning, Bureau of Labor Statistics.

Telephone: (202) 691-5177; E-mail: Dietz.Liz@bls.gov

## Notes

<sup>1</sup> Beam, Burton T., Jr., and John J. McFadden, *Employee Benefits*, fifth edition, Dearborn Financial Publishing, 1998, p. 336.

<sup>2</sup> *Employee Benefits in Medium and Large Firms, 1989*, Bulletin 2363 (Bureau of Labor Statistics, June 1990), p. 2.

<sup>3</sup> Data from the Health Insurance Association of America Long-term Care Survey, 2000, cited in "An Employer's Guide to Long-term Care Insurance," Health Insurance Association of America, Washington, DC, 2002, p. 2, on the Internet at <http://membership.hiaa.org/pdfs/2002LTCIGuide.pdf>, visited December 9, 2003. Also see "Long Term Care Insurance in 2000-2001, Executive Summary Research Findings," Health Insurance Association of America, January 2003, on the Internet at [http://www.hiaa.org/store\\_pdf/preview/ACF1679.pdf](http://www.hiaa.org/store_pdf/preview/ACF1679.pdf), visited December 9, 2003.

<sup>4</sup> *Employee Benefits in Private Industry, 2003*, USDL 03-489 News Release (Bureau of Labor Statistics, September 17, 2003), table 4, p. 6.

<sup>5</sup> As summarized in *Fundamentals of Employee Benefit Programs*, fifth edition, Employee Benefit Research Institute, Education and Research Fund, Washington, DC, 1997, p. 301.

<sup>6</sup> Advances in medical technology and treatments have contributed somewhat to the need for long-term care: individuals are increasingly likely to survive what in the past may have been a fatal accident or childhood ailment, although not necessarily free from disability; as noted in *Fundamentals of Employee Benefit Programs*, fifth edition, Employee Benefit Research Institute, Education and Research Fund, Washington, DC, 1997, p. 302.

<sup>7</sup> "Aging into the 21st Century: Projected Health Conditions Among the Elderly," a special report by Jacob Siegel for the National Aging Information Center, Administration on Aging, U.S. Department of Health and Human Services, May 31, 1996, on the Internet at [http://www.aoa.dhhs.gov/prof/Statistics/future\\_growth/aging21/aging\\_21.asp](http://www.aoa.dhhs.gov/prof/Statistics/future_growth/aging21/aging_21.asp) visited December 9, 2003).

<sup>8</sup> MetLife Market Survey of Nursing Home and Home Care Costs, April 2002, as cited in "What Does LTC Cost?," The Federal Long Term Care Insurance Program, July 21, 2002 edition, on the Internet at [http://ltcfeds.com/ltc\\_basics/costofcare.html](http://ltcfeds.com/ltc_basics/costofcare.html) (visited December 9, 2003).

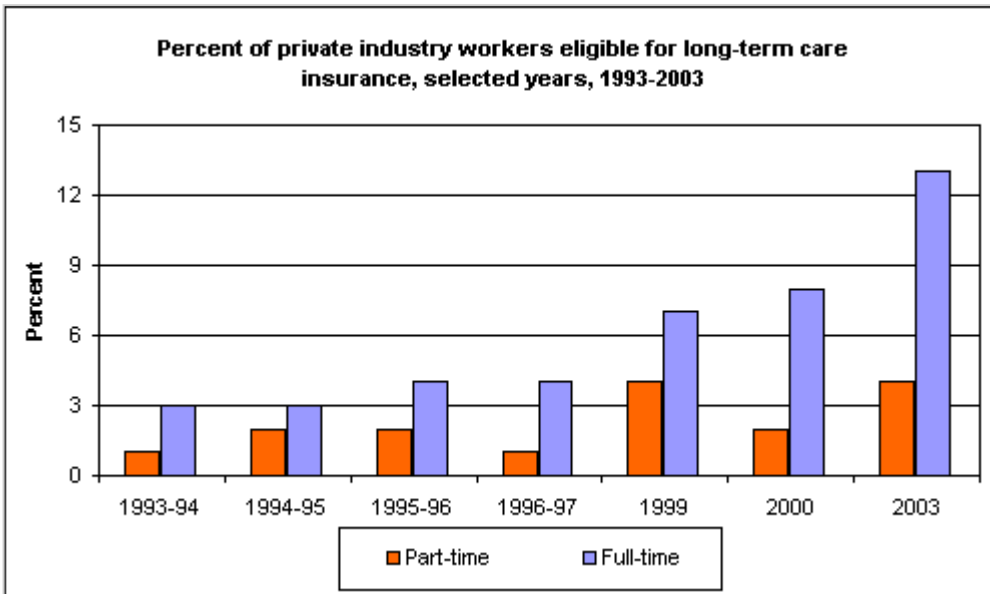
<sup>9</sup> Conning & Company, "Long-Term Care Insurance : Baby Boom or Bust?," 1999, p. 15, cited in "What Does LTC Cost?," The Federal Long Term Care Insurance Program, December 24, 2002 edition, on the Internet at [http://ltcfeds.com/ltc\\_basics/mythsandfacts.html#five](http://ltcfeds.com/ltc_basics/mythsandfacts.html#five) (visited December 9, 2003).

- 10 *Long-term Care: Medicaid's Role and Challenges*, (publication 2172) The Henry J. Kaiser Foundation, November 1999, cited in "What Does LTC Cost?," The Federal Long Term Care Insurance Program, December 24, 2002 edition, on the Internet at [http://ltcfeds.com/ltc\\_basics/mythsandfacts.html#five](http://ltcfeds.com/ltc_basics/mythsandfacts.html#five) (visited December 9, 2003).
- 11 While employee health insurance plans typically cover short-term stays in nursing home and extended care facilities for acute conditions (conditions that are expected to improve), they do not cover long-term stays or stays resulting from chronic conditions (conditions that are expected to persist).
- 12 "Long-term Care: Aging Baby Boom Generation Will Increase Demand and Burden on Federal and State Budgets," Statement of David M. Walter, Comptroller General of the United States, Testimony before the Special Committee on Aging, U.S. Senate, U.S. General Accounting Office report GAO-02-544T, March 21, 2002, p. 4. Medicare, while funding 14 percent of long-term care expenditures in the U.S., is not a viable option for many elderly because it pays only limited amounts for skilled care following a hospital stay; it does not cover purely custodial care, which is required by most people in nursing homes.
- 13 *Ibid.*, pp. 4-6; quotes, p. 4.
- 14 *Ibid.*, p. 5.
- 15 *Fundamentals of Employee Benefit Programs*, fifth edition, Employee Benefit Research Institute, Education and Research Fund, Washington, DC, 1997, p. 302.
- 16 Enid Kassner, "Long-term care insurance and the new tax law," Public Policy Institute, AARP, Washington, DC, February 1998, on the Internet at: [http://research.aarp.org/health/fs7r\\_ltcclaw.html](http://research.aarp.org/health/fs7r_ltcclaw.html), visited December 9, 2003. See also Leimberg, Stephan R. and John J. McFadden, *Tools and Techniques of Employee Benefit and Retirement Planning*, National Underwriter Company, Cincinnati, Ohio, Seventh Edition, 2001, pp. 365-6.
- 17 *Fundamentals of Employee Benefit Programs*, fifth edition, Employee Benefit Research Institute, Education and Research Fund, Washington, DC, 1997, p. 304.
- 18 *Employee Benefits in the United States, 1992-93* (Bureau of Labor Statistics, March 1995), table titled "Percent of employees eligible for selected benefits, by private and public sectors and full-time and part-time status, United States, 1992-93."
- 19 "Employee Benefits in Private Industry, 2003," USDL 03-489 News Release (Bureau of Labor Statistics, September 17, 2003), table 4, p. 6.
- 20 In 2003, the NCS published incidence data broken out by wage level for the first time.
- 21 Standard errors have not been calculated for Employee Benefits Survey estimates. Consequently, none of the statistical inferences made in this report could be verified by a statistical test. For more information on the differences between the National Compensation Survey, Benefits, and its precursor, the Employee Benefits Survey, see Allan P. Blostin, "An Overview of the EBS and the NCS," *Compensation and Working Conditions*, Spring 1999, pp. 2-5.
- 22 *Employee Benefits in State and Local Government Establishments, 1998*, Bulletin 2531 (Bureau of Labor Statistics, December 2000), table 130, p. 110.
- 23 The Federal Long Term Care Insurance Program (FLTCIP) is sponsored by the U.S. Office of Personnel Management (OPM) and administered by "Long Term Care Partners, LLC." It is jointly offered by the John Hancock Life Insurance Company of Boston and the Metropolitan Life Insurance Company of New York.
- 24 "OPM Director Kay Coles James Highlights Importance of Educating Federal Employees on Federal Long Term Care Insurance Program," Office of Personnel Management News Release, November 19, 2003, on the Internet at <http://www.opm.gov/pressrel/2003/mo-ltc.asp>, visited December 9, 2003.
- 25 For more information, visit the NCS and EBS pages of the BLS website, on the Internet at <http://www.bls.gov/ncs/ebs/home.htm>, or contact OCLTINFO@bls.gov or 202-691-6199.

**Table 1. Percent of employees eligible for long-term care insurance, private industry, 2003**

Worker and establishment characteristics	Percent
<b>All workers</b>	11
Worker characteristics	
<b>White-collar occupations</b>	16
<b>Blue-collar occupations</b>	7
<b>Service occupations</b>	4
<b>Full time</b>	13

Worker and establishment characteristics	Percent
Part time	4
Union	16
Nonunion	11
Average wage less than \$15	6
Average wage \$15 or greater	19
Establishment characteristics	
Industry	
Goods-producing	11
Service-producing	11
Size of establishment	
1-99 workers	3
100 workers or more	20
Area	
Metropolitan areas	12
Nonmetropolitan areas	4
Region	
New England	11
Middle Atlantic	12
East North Central	10
West North Central	7
South Atlantic	14
East South Central	7
West South Central	10
Mountain	7
Pacific	14



**Percent of private industry workers eligible for long-term care insurance, selected years, 1993-2003**

	1993-94	1994-95	1995-96	1996-97	1999	2000	2003
<b>Full-time</b>	3	3	4	4	7	8	13
<b>Part-time</b>	1	2	2	1	4	2	4

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