Statement

of the

American Council of Life Insurers

On

Medicaid Waste, Fraud, and Abuse: Threatening the Health Care Safety Net

Before the

Senate Finance Committee

of the

United States Congress

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My name is Joyce Ruddock and I am Vice-President of Long Term Care Insurance at MetLife. Today I am representing MetLife and the American Council of Life Insurers (ACLI), a Washington D. C.-based national trade association representing more than 350 member companies that offer life insurance, annuities, pensions, long-term care insurance, disability income insurance and other retirement and financial protection products. ACLI member companies provide 81 percent of the long-term care insurance coverage in the United States.

By way of background, my professional training is in gerontology and I have worked in long-term care my entire career, first on the service delivery side and then on the financing side. It was clear to me early on that private insurance could be one way to help middle-income Americans pay for long-term care services so that Medicaid could be a safety net for the truly needy. With Medicaid costs rising, accounting for nearly half of all spending on long-term care, the need has never been greater for alternative solutions.

MetLife has been a leader in designing long-term care insurance for nearly twenty years, providing coverage through many of our nation's employers as well as through agents and financial planners. We have the sole endorsement of AARP to provide long-term care insurance to its members and we are one of two carriers offering coverage under the Federal Long-Term Care Insurance Program. As the largest provider of group long-term care insurance and the fastest growing individual carrier, we are pleased to offer a perspective on the market.

We are delighted that this Committee is addressing an important issue facing this nation -- long-term care -- through the hearing process. We applaud Chairman Grassley for drawing attention to this matter, and we are pleased to discuss with the Committee the role that private long-term care insurance plays in helping to provide the retirement security of millions of middle-income families.

To elevate the issue of long-term care today and over the next decade, ACLI cosponsored the 2005 White House Conference on Aging's Mini-Conference on Long-Term Care. At this conference, participants representing long-term care stakeholders within both the public and private sectors came together to actively address the serious issues associated with long-term care and worked to formulate national public policy recommendations to the upcoming White House Conference on Aging that will be held later this year. Hopefully, this effort, along with others, will move the issue forward on the national agenda. Among the several recommendations that the participants developed was urging Congress to enact laws which would encourage private arrangements by individuals and their families for long-term care services, such as tax incentives for the purchase of long-term care insurance or other private options for financing long-term care.

One of the greatest risks to asset loss in retirement is unanticipated long-term care expenses. The risks of needing nursing home care also are substantial. Over half of women and nearly one-third of men 65 and older will stay in a nursing home sometime during their lifetime.[1] The annual cost of a nursing home stay averages $70,000 and is projected to reach $241,000 by 2030.[2] Five visits a week by a home health aide to help with bathing, dressing, and household chores can cost over $1,300 per month.[3] If more hours of home care are needed, the expense is greater. These costs can quickly erode a hard-earned retirement nest egg.

Current Financing for Long-Term Care Services

- **Long-Term Care Insurance**

The long-term care insurance market is evolving and growing in both the individual and group segments. ACLI recently surveyed the long-term care insurance market, with the assistance of America's Health Insurance Plans (AHIP) and found that the market has grown to nearly $7 billion in premiums, covering over 5 million people.

The individual long-term care insurance market grew at 7.5% from 2003 to 2004 (in terms of premiums) and the group market grew at 25%. The average age of purchasers of long-term care insurance continues to decrease to the late 50s as individuals increasingly understand it as a tool to help provide financial security during retirement. Just as the number of people covered by long-term care insurance has increased, so, too, has the amount that has been paid out in claims. In 2004, long-term care insurance carriers paid more than $2.1 billion, or a 20 percent increase from 2003, in long-term care insurance benefits.

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[1] Murtaugh, C.M., P. Kemper, and B.C. Spillman (1990). The Risk of Nursing Home Use in Later Life. *Medical Care* 28(10): 952-62.

[2] MetLife, Mature Market Institute, The MetLife Market Survey of Nursing Home and Home Care Costs, Sept. 2004.

Long-term care insurance products continue to evolve to give policyholders more choices and flexibility at the time of claim. For instance, the market has evolved from one that offered primarily nursing home-only plans early on, to one that offers flexible care options and numerous consumer protections today. Most policies allow customers to choose between in-home care, assisted living facilities and nursing homes, encouraging the individual and their families to customize his or her care needs. In addition, policies offer the services of a care coordinator at the time of claim to help craft a plan of care and identify local care providers. Other common benefits include:

- respite care to provide temporary relief to family caregivers;
- homemaker or chore services;
- restoration of benefits;
- coverage of some medical equipment;
- survivorship benefits;
- payment of family caregivers;
- spousal discounts; and
- paid-up policies.

Plans today are guaranteed renewable, have a 30-day “free look” period, offer inflation protection, cover Alzheimer’s disease, have a waiver of premium provision, and offer unlimited benefit periods. Benefits are paid when a person needs help with two or more activities of daily living or is cognitively impaired.

- **Incentives to Encourage Individuals to Buy Long-Term Care Insurance**

An integral part of a solution to finance long-term care will be the passage of S. 1244, the “Long-Term Care and Retirement Security Act of 2005." We thank Chairman Grassley and Senator Lincoln for their sponsorship of this important legislation and applaud their continued support. The measure provides individuals with a phased-in above-the-line federal income tax deduction for the eligible portion of the premiums they pay to purchase long-term care insurance. The long-term care policies eligible for the deduction are subject to broad consumer protections. In addition, the measure would permit long-term care insurance

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[3] “Can Aging Baby Boomers Avoid the Nursing Home? Long-Term Care Insurance for ‘Aging in Place’,” American Council of Life Insurers, March 2000.

policies to be offered under employer-sponsored cafeteria plans and flexible spending accounts; and would clarify that a qualified long-term care policy could be exchanged tax-free for another qualified long-term care policy better suited to the insured’s needs. Finally the bill includes a phased-in tax credit to individuals with long-term care needs or their caregivers of up to $3000.

These important tax incentives will go a long way toward encouraging the purchase of long-term care insurance by middle-income Americans. Moreover, providing these important tax incentives will reduce the burden on the Medicaid system. Individuals will have the ability to pay privately and have the choice of a variety of services and care settings. Today’s long-term care insurance policies cover a wide range of services to help people live at home, participate in community life, as well as receive care in a nursing home. This flexibility can enable people who are chronically ill to live in the community and to retain their independence.

While the financial benefits to individual policyholders are obvious, the benefits to government - and future taxpayers - of wider purchase of private long-term care insurance are substantial. By the year 2030, Medicaid’s nursing home expenditures could reach $134 billion a year – up 360 percent over 2000 levels. ACLI’s research, previously reported in “Can Aging Baby Boomers Avoid the Nursing Home,” March 2000, indicates that by paying policyholders’ nursing home costs - and by keeping policyholders out of nursing homes by paying for home- and community-based services, private long-term care insurance could reduce Medicaid’s institutional care expenditures by $40 billion a year, or about 30 percent.

In addition, the same ACLI study found that wider purchase of long-term care insurance could increase general tax revenues by $8 billion per year, because of the number of family caregivers who would remain at work. Today, according to a recent study by the National Alliance for Caregiving, 6 percent of caregivers quit work to care for an older person; nearly 10 percent have to cut back their work schedules; 17 percent take leaves of absence, and 4 percent turn down promotions because of their caregiving responsibilities.

- **Long-Term Care Partnerships**

Increasingly, states are tackling the costs of long-term care and are exploring ways to partner with the private insurance industry to alleviate the growing burden. One such way is through the *Partnerships for Long-Term Care,* a pilot program developed by the Robert Wood Johnson Foundation in conjunction with state governments and the support of the private insurance industry.

The Partnerships allow consumers to purchase a long-term care policy whose benefits must be fully utilized prior to qualifying for Medicaid. When that coverage is exhausted, individuals may apply for Medicaid, as they would have without the private insurance. Because they utilized their insurance coverage under the Partnership, they can protect the level of assets as defined in their policy.

Partnerships have taken the form of two models. The dollar-for-dollar model allows people to buy a policy that protects a specified amount of assets. The total asset model provides protection for 100 percent of assets once they exhaust their private insurance coverage.

The Partnership program is currently operational in four states: California, Connecticut, Indiana and New York. More than 200,000 long-term care insurance Partnership policies have been purchased in those states, and less than 100 policyholders have exhausted their policies and accessed Medicaid. The Partnership benefits consumers, Medicaid and private insurers.

In 1993, shortly after the Partnership pilots began, Congress suspended expansion of the Partnership to any additional states. The pilots were stopped due to concerns that a publicly funded program such as Medicaid would endorse private insurance programs. Others were concerned that the Partnership might increase Medicaid spending. However, as Medicaid costs increase, Congressional representatives from non-Partnership states have become interested in implementing Partnership programs. During the 108th Congress, legislation was introduced in both the House and the Senate that would repeal that prohibition. In addition, 16 states have passed legislation that would implement a Partnership once the 1993 restrictions are withdrawn or waived. The long-term care insurance industry is interested in expanding the Partnership beyond the four pilot states and is actively engaged in a public policy dialogue that is intended to utilize the lessons learned from those four Programs.

ACLI believes that some type of simplified uniform approach to the long-term care Partnership Program that includes eligibility for benefits for any approved tax-qualified long-term care policy; state reciprocity; dollar for dollar asset protection; uniform, simplified annual reporting to a single repository; and consumer education can play an important role in encouraging the purchase of long-term care insurance and help provide important savings to Medicaid.

Future Financing for Long-Term Care

Private long-term care insurance can be a significant part of the solution to the future financing of long-term care. But this will require helping families understand the risk they face, through education, and providing them with options and financial incentives to plan ahead. Innovative approaches to combining long-term care benefits with other products such as annuities and life insurance are being explored by the industry. The goal of these approaches is to provide consumers with protection which changes as their life stage changes. Regardless of the approach, both public and private resources will be needed to educate Americans about long-term care and to help them prepare for it.

The insurance industry continues to educate Americans that a financially secure retirement includes a plan to cover future long-term care expenses. To help educate consumers on how to select and purchase a long-term care insurance policy, ACLI maintains educational brochures and information on its website that encourage consumers to do their homework when considering the purchase of long-term care insurance. For example:

(1) look for insurance companies that are reputable, consumer oriented, financially sound and licensed in their particular state,

(2) take time when making a purchase, ask for and read the outline of coverage of several policies,

(3) understand what the policy covers and ask questions to be clear about what the policy is not intended to cover, and

(4) understand when the policy becomes effective, what triggers benefits and if it is tax deductible at the state and/or federal level.

The federal government and the states have also recognized the need to educate individuals in the workplace to plan to cover their future long-term care needs. The federal government, by Act of Congress, has taken the lead and set the example for other employers by offering federal employees and their families the protection of long-term care insurance. Through this program, federal employees are able to help protect their retirement savings from a long-term care event and will have the choice of providing care for themselves or a family member in the home, through assisted living or in a nursing home.

Last year, the Department of Health and Human Services began a federal project to increase awareness among retirees and near-retirees about the need to plan ahead for potential long-term care needs. Governors of five pilot states conducted long-term care awareness campaigns over a three-month period, starting in January 2005. The campaign included press conferences, mailings to 50- to 70 year-olds in each state, advertising and follow-up mailings. The five states include Virginia, Idaho, New Jersey, Nevada and Arkansas. The program is expanding to include additional states.

States are supporting the purchase of long-term care insurance in a number of ways. About half the states have implemented long-term care insurance programs that offer state employees/retirees the opportunity to purchase individual long-term care insurance policies. Twenty-four states provide tax incentives for purchasing long-term care insurance. Most state tax deductions share some features with federal rules – allowing all or part of premiums and expenditures to be deducted. Three states provide a tax deduction or credit for employers offering group long-term care insurance policies. As more than 77 million baby boomers approach retirement, the rapidly aging workforce, together with more employees caring for elderly parents, heighten the importance of long-term care planning as a workplace issue.

In conclusion, we believe that protection and coverage for long-term care is critical to the economic security and peace of mind of all American families. Private long-term care insurance is an important part of the solution for tomorrow's uncertain future. As Americans enter the 21st century, living longer than ever before, their lives can be made more secure knowing that long-term care insurance can provide choices, help assure quality care, and protect their hard-earned savings when they need assistance in the future. We also believe that the costs to Medicaid --- and therefore to tomorrow's taxpayers --- will be extraordinary as the baby boom generation moves into retirement, unless middle-income workers are encouraged to purchase private insurance now to provide for their own eventual long-term care needs. Education, options, incentives and the efficient use of both public and private resources are critical to our nation’s ability to finance long-term care in the decades ahead.

Again, the ACLI looks forward to working with this Committee to help Americans protect themselves against the risk of long-term care needs.