Choosing a Long-Term Care Insurance Policy: Understanding and Improving the Process

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Executive Summary

Policy makers at the state and Federal level have shown a tremendous interest in using public resources to encourage people to purchase private long-term care insurance. More than three quarters of states provide financial incentives to purchase long-term care insurance. At the Federal level, Congress created tax incentives in 1996 and 2003 to subsidize premiums for such insurance. In addition, the American Homeownership and Economic Opportunity Act of 2000 has a provision to reduce the cost of reverse mortgages used to purchase a qualified long-term care insurance policy. Additional ideas on subsidizing private insurance, such as expanding the existing tax deduction for long-term care insurance premiums, have been proposed.

While subsidizing premiums can increase the number of people who purchase long-term care insurance policies, some people might not purchase this insurance for reasons other than cost. Some contend that the structure of the policies is the problem: typically, plans limit the amount that will be paid, and there are few protections in the event that the insurer goes out of business or the policy holder can no longer afford to pay the premium. Confusion about the nature of the product, difficulty in understanding and making an informed choice from an array of critical options, and denial about becoming dependent may be significant barriers that impede widespread purchase of long-term care insurance. As a result, agents and other counselors typically spend a significant amount of time helping consumers understand the cost of long-term care, the importance of the insurance and, if appropriate, the issues in selecting a policy.

The purpose of this paper is to explore the sources of information used in making decisions about whether and what type of long-term care insurance to purchase. We focused on three main areas. First, we examined how state regulation affects the information provided to individuals interested in purchasing a policy. This was accomplished through a review of state regulations. Second, we assessed the three main sources of consumer information: widely-used written consumer guides, required information provided by insurance agents, and the activities of State Health Insurance Assistance Programs (SHIPs) -- publicly-funded organizations tasked with broad education of seniors.[1] We reviewed readily-available resources and had structured interviews with six agents. We also undertook a survey of SHIPs to ascertain the extent to which they are currently helping consumers with long-term care insurance issues. Third, we assessed the required and optional education that insurance agents receive by reviewing the courses required by some states and the content for two long-term care insurance certification courses.

In general, we found ample sources of high-quality, deep, and objective information about long-term care and long-term care insurance. However, consumer guides tend to be too general to be effective at helping consumers make a specific set of choices about long-term care insurance. While some agents are experts on long-term care, most long-term care insurance is not sold by an agent that is an expert. SHIPs are also variable in terms of their own efforts to educate the volunteer insurance counselors about long-term care and

[1] Note that these organizations are also called State Health Insurance Counseling and Assistance Programs. Throughout this paper, they are called State Health Insurance Assistance Programs or SHIPs for convenience.

long-term care insurance. In nearly all states, insurance agents need not know very much about long-term care to be licensed and it does not appear that most take the time, expense, or effort to become a specialist on long-term care insurance.

This review suggests that consumers need additional help in sorting through the decisions necessary to consider and purchase long-term care insurance. Specifically, we propose a three-pronged approach towards helping potential purchasers of long-term care insurance policies. First, consumers need a tool for comparing and contrasting policies and making informed decisions about the trade-offs of alternative options available within a policy. Secondly, since consumers depend on sales agents for information, it is imperative that sales agents have a solid base of knowledge about long-term care as well as the role of different insurance features to help insure risk and finance care. Finally, as a check on agents knowledge and as a source of independent opinions, potential purchasers should have access to knowledgeable counselors who are not sales agents to help them make better informed decisions about whether to purchase long-term care insurance and what type of coverage to buy.

These results also have implications for the law that is about to be implemented that promotes using reverse mortgages to finance long-term care insurance. The law requires that individuals participating in this program receive counseling on the advantages and disadvantages of these types of products. The regulations, which have yet to be released, should consider standards for training those who provide the counseling, for what materials are used, and for the content of the information regarding both the costs and suitability of obtaining a reverse mortgage and using the proceeds to purchase long-term care insurance. Agents representing reverse mortgage brokers and long-term care insurance should be required to understand the trade-offs inherent in combining the sale of one's equity with the purchase of long-term care insurance.

Overview of the Issues Examined in This Study

Long-term care is assistance with essential but routine tasks of everyday life, such as bathing, dressing, eating, toileting, or moving about the house for individuals who are severely limited in conducting these activities on their own. Much of this care is provided by family, friends, and volunteers. For many, but not most, the care provided by family members is supplemented by professional home health aides, certified nursing assistants, personal care assistants, as well as special equipment such as walkers, wheelchairs, lifts, ramps, pill dispensers, and grab-bars. For most people with long-term care needs, care is provided in residential homes, but some persons are transported to an adult day care facility or live in an institution such as a nursing home or assisted living facility.

Long-term care costs can substantially erode retirement savings. The average annual cost of a nursing home exceeds $50,000. Home care and informal long-term care can also be costly. The current market price for paid home care ranges from an hourly rate of $37 for a licensed practical nurse to an hourly rate of $18.12 for a home health aide.[2] For the families that provide

[2] Mature Market Institute, "The MetLife Survey of Nursing Home and Home Care Costs", 2003.

informal care, the cost of care takes the form of time off from work, limits in their preparation for retirement, and neglect of their own health. In the future, the number of people likely to need long-term care is expected to grow substantially faster than the population of adult children and paid caregivers. The expected mismatch between the growing demand and available supply will likely to increase the cost of long-term care.[3]

For the most part, long-term care is not covered by Medicare or private health insurance. Medicaid is the largest payer of long-term care in the country, but covers only those with the highest costs, fewest resources, and greatest needs. Because of Federal rules and significant state control over Medicaid, both eligibility and available benefits depend on where you live and whether or not you meet specific categorical, financial, and functional status requirements. Due to strict Medicaid eligibility requirements, individuals and families pay a large portion of the long-term care costs.

Policy makers, long-term care providers, and consumers are increasingly turning to private long-term care insurance to fill this void. Because the risk of needing expensive long-term care is low to modest but financial consequences when it is needed are substantial, experts believe long-term care costs are more efficiently handled by insurance than by saving.[4] Without the pooling of risk accomplished by insurance, invariably one would either save too much or too

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[3] Robert B Friedland, *Caregivers and Long-Term Care Needs in the 21st Century: Will Public Policy Meet the Challenge*? Georgetown University Financing Long-Term Care Project, August 2004. http://ltc.georgetown.edu/pdfs/caregiversfriedland.pdf.
[4] Kenneth J. Arrow, Uncertainty and the Welfare Economics of Medical Care, *American Economic Review*, 53 (1963): 941-973.

little relative to actual costs of needed care. Given the likelihood that far too few people are adequately saving to meet expected living expenses during retirement without considering long-term care, chances are low that they will have sufficient resources to finance the potentially extraordinary expenses associated with the need for long-term care. Consequently, there is considerable interest in having people include in their planning for retirement and other life-course events the contingencies associated with needing long-term care.

Nursing home insurance has been around for nearly as long as nursing homes, but insurance coverage for a broader array of long-term care services is more recent. National companies did not begin selling long-term care insurance until the mid-1980s. Since then, there has been tremendous growth and change in the number of companies selling policies, the characteristics of those policies, and the number of long-term care insurance policies sold.

At the end of 2001, over 8.3 million individual and group long-term care insurance policies had been sold, with about 5.1 million policies still in effect (i.e., that had not lapsed).[5] While this reflects a tremendous rate of growth, particularly since the mid-1980s, the proportion of the population age 50 or older with a long-term care insurance policy is still relatively small. Less than 11 percent of the population age 65 and older has a policy.[6]

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[5] Kofman, M. (2003, May). *Private Long-Term Care Insurance.* Fact Sheet. Washington, DC: Georgetown University Long-Term Care Financing Project. Available at http://ltc.georgetown.edu/.
[6] HIAA. (2000). *Who Buys Long-Term Care Insurance, in 2000? A Decade Study of Buyers and Non-Buyers*. Washington, DC: HIAA.

To date, most long-term care insurance policies sold have been sold individually, but employers are an important part of this growing market. At least 4,700 employers[7], including 27 state governments provide access to long-term care insurance to their retirees, employees, and to the parents and dependents of their employees.[8] In 2002, the largest employer in the country, the Federal government, offered access to a long-term care insurance policy to Federal employees, retirees, and family members of Federal employees. However, only about 200,000 of the 20 million persons eligible were enrolled in the new program as of January 2003.[9] Most employers that offer long-term care insurance do not contribute towards the premium. Perhaps this would help explain why most employers have not been able to encourage more than seven percent of eligible employees to purchase a policy.[10]

To encourage more people to purchase a long-term care insurance policy, state and Federal policy makers have supported financial incentives, mostly through tax incentives. At least 39 states provide explicit tax breaks or special asset protection in Medicaid for those who purchase long-term care insurance.[11] Laws passed in 1996 and 2003 created limited Federal income tax incentives for

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[7] Coronel, S. (2003, January). *Long-Term Care Insurance, 2000-2001*. Washington, DC: Center for Disability, HIAA.

[8] Minnesota Long-Term Care Initiative. (2003, August). *Survey of States that Offer or Plan to Offer Long-Term Care Insurance to Employees and/or Retirees*. Minnesota Department of Employee Relations. Available at http://www.doer.state.mn.us/ei-gen/pdfs/STATESUR.pdf.

[9] See Long Term Care Partners, LLC, *Federal Long Term Care Insurance Program Announces Open Season Preliminary Results*, Press Release, 31 February 2003, available at http://www.opm.gov/insure/ltc/2003archive.asp.

[10] Lutzky, S., Corea, J., & Alecxih, L. of the Lewin Group. (2000, May) *A Survey of Employers Offering Group Long-Term Care Insurance to Their Employees, Final Report*. Washington, DC: ASPE, DHHS. Available at http://aspe.hhs.gov/daltcp/reports/ltcinsfr.htm. The median participation rate among employees was 3.1 percent and two-thirds of employers had participation rates below six percent.

[11] Public Policy Institute. (2002). *Across the States: Profiles of Long-Term Care, 2002*. Washington, DC; AARP. Available at http://research.aarp.org/health/d17794_2002_ats.pdf.

purchasing long-term care insurance. Some policy makers support other options to encourage growth in the long-term care insurance market including providing a full federal income tax deduction of long-term care insurance premiums as well as allowing for the purchase long-term care insurance through employer-provided flexible spending accounts and employee benefit cafeteria plans.[12]

A different type of incentive for purchasing long-term care insurance was included in a law passed in 2000. A provision of The American Homeownership and Economic Opportunity Act encourages people to use reverse mortgages to finance the premiums for long-term care insurance. Reverse mortgages are effectively loans from the bank to the homeowner for the equity in their home. Homeowners need not move out of the home, but the home must be sold once the person dies or moves out of their home and the proceeds of the sale of the home are used to satisfy the reverse mortgage loan.

Those who obtain a reverse mortgage must also purchase a reverse mortgage insurance policy.[13] However, under the American Homeownership and Economic Opportunity Act, persons who use the equity in their home to purchase qualified long-term care insurance get the initial reverse mortgage insurance

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[12] Merlis, M. (2003, May). *Tax code treatment of long-term care and long-term care insurance*. Fact Sheet. Washington, DC: Georgetown University Long-Term Care Financing Project. Available at http://ltc.georgetown.edu/. Self-employed workers already can deduct the premium if they purchase a federally tax-qualified policy. Federally qualified long-term care insurance policies also enable persons to count the premiums towards their Medical expense deductions and receive most of their long-term care insurance benefits tax free. Moreover, the earnings on the insurance premium reserves are not taxed.

[13] This premium is to protect consumers in case of lender problems and to protect lenders from excessive losses. For background on this legislation and reverse mortgages, see Ahlstrom, A., Tumlinson, A., & Lambrew, J. (2004, March). *Primer: Linking Reverse Mortgages and Long-Term Care Insurance*. Washington, DC: The Pew Charitable Trusts, The Brookings Institution, and George Washington University. Available at http://www.brook.edu/views/papers/orszag/20040317.htm.

premium waived. Since the average cost of this initial premium is around $2,000, the waiver could be a financial incentive for purchasing long-term care insurance.[14] Regulations for this program have not yet been issued, but those in the business of producing and selling long-term care insurance seem hopeful that it will help generate sales.[15]

While additional tax and other financial incentives might help to encourage a few people who otherwise would not purchase a policy to do so, evidence so far suggests that consumers need more than marginal subsidies to encourage them to purchase long-term care insurance. Some contend that the products are the problem: policies have limits on the amounts they contribute to total long-term care costs and offer few protections in the event that insurers go out of business or the consumer can no longer afford the premium. Consumer confusion about the nature of the products; the mistaken belief that Medicaid and Medicare provide comprehensive coverage; lack of assurance that the specific options they choose effectively tailor the insurance policy to cover the risks; and denial of the possibility of dependency also impede the purchase of long-term care insurance.

The purpose of this paper is to identify what is known about the resources available to consumers to make an informed decision about long-term care

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[14] For an analysis of the potential of reverse mortgages for financing long-term care as well as long-term care insurance see Mark Merlis, *Home Equity Conversion Mortgages and Long-Term Care*, forthcoming through the Georgetown University Financing Long-Term Care Project at http;/ltc.georgetown.edu.

[15] In a poll of readers of LTCe-Wire, a semi-monthly online newsletter on long-term care insurance news and trends, 68 percent responded to the affirmative that taking out a reverse mortgage is a good way for cash-strapped 65-year-olds to find the dollars to pay for long-term care premiums. Among respondents to the poll, 22 percent said it was never a good idea, 8 percent were undecided and 2 percent did not know. The National Underwriter Company. (2004, June 1). The Results of Last Months LTC Poll. *LTCe-Wire.* 3(12).

insurance. The paper begins by defining the unique nature of long-term care insurance, the consumer decision-making process, and state regulation regarding long-term care information and education. To better understand the information on long-term care insurance available to consumers, we collected information from consumer organizations; visited the websites supported by Federal agencies, state agencies, and consumer organizations; reviewed the materials agents must provide applicants in states adhering to the National Association of Insurance Commissioners (NAIC) guidelines; and surveyed SHIPs. Because insurance agents are an integral part of the purchase process, this paper also reviews the regulatory framework governing sales agent disclosure, education and training, as well as private sector initiatives to educate agents about long-term care and insurance. The paper then draws upon the review of information sources, a survey of SHIPs, and interviews with long-term care insurance agents to articulate recommendations that could give consumers better tools to make informed decisions about long-term care insurance.

Background on Long-Term Care Insurance, Consumer Decision Making, and State Regulation

The Unique Nature of Long-Term Care Insurance. Long-term care insurance helps to finance the cost of long-term care that is purchased when the policy holder has met a specific threshold of dependency. Generally, claimants are reimbursed either a fixed dollar amount for specific services or a fixed daily or monthly amount. These services might include: nursing home care; personal care for needs like bathing, eating, and dressing; homemaker services for chores like cleaning, shopping, or cooking; physical, occupational, or other therapies to restore or maintain function; and respite care to relieve family caregivers. Consumers effectively design their own insurance policies when they apply for insurance. They choose the benefit amount and the duration for which benefit payments will be paid. Consumers can also choose a policy whose benefit amounts increase over time, and, to a limited degree, how those benefit amounts are to be increased over time. To file a claim for benefits, individuals typically must not be able to perform specific functional tasks or be so cognitively impaired that supervision is required to undertake a task. Different policies use different tests and procedures to determine eligibility, including the relative number of limitations necessary to file a claim. So in effect, consumers also have to choose the level and test of impairment in their policy. Most policies offer a choice of waiting or elimination periods, which reflects the period of time in which one meets the test for functional dependency but must wait before filing an insurance claim. The choices vary from no days to 180 days, and the requirements for the waiting period can also vary. Some policies simply count the number of days in which the claimant is functionally dependent while other policies count the number of days in which the person meets the test of functional dependence and has purchased qualified long-term care services. A 90-day elimination or waiting period, which is quite common, will mean very different levels of coverage if the elimination period requires purchasing services for 90 days rather then simply needing care for 90 days.

The price of the policy, or its premium, is affected by these particular policy choices and the age of the applicant. A policy with a 90-day elimination period that requires purchasing services, for example, will be much less expensive than a policy with no elimination period, assuming all else is the same. A policy that increases benefits at a compounded inflation rate of 5 percent will cost more than a policy with an annual increase in benefits of 5 percent without compounding, which in turn will cost more than a policy with no benefit increases, assuming all else is the same.

Policies are usually not sold to persons with a chronic health condition, especially a chronic condition that is potentially debilitating. Long-term care insurance companies try to set the insurance premium so that it will remain the same amount for the life of the policy holder. This is done by setting the premium based on the average life expectancy at the initial age of purchase. Premiums are set to exceed the expected claims for most years and the excess premium is used to fund the policy when expected claims begin to exceed the annual premium. If premiums were not structured this way but instead varied as policyholders got older (like term life insurance does), then annual premiums would increase so dramatically after age 70 that virtually no one could afford it. The additional premiums paid in the earlier years are pooled and managed by professional money managers to help fund average expected claims when the risk of needing long-term care vastly exceeds the premium.[16]

[16] Insurers may intend to keep the premiums the same for the lifetime of the policyholder. However, premiums can and do increase. When the policy is sold, insurers reserve the right to increase premiums for all of the policy holders with this policy. They can't selectively increase the

Setting a premium based on the initial age of purchase provides an incentive to purchase long-term care insurance at younger ages. Relative to the price that would have to be paid if purchased at an older age, the annual cost of the policy is dramatically lower and as long as the premium does not change it becomes a known expense, whose price over time is declining in real terms. This makes it easier to incorporate into the family budget, especially as incomes are rising. If one can afford $100 a month premium at age 40, then in most circumstances paying $100 a month a decade later at age 50 will be even easier to manage.

Although this characteristic of long-term care insurance makes it easier to budget for, it also makes it very expensive to change or modify policies. The prefunding accomplished in one policy is not usually transferable to another policy. Therefore, if the policy holder wishes to change policies, they are likely to have to forgo the accumulated value of the prefunding and start anew. The new policy (for the same amount of coverage) will require a higher premium since the individual is now purchasing the policy at an older age.[17] Since the cost of

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premiums for a subgroup, but can increase the premiums for everyone in the group. They will do this if they anticipate that the initial prices were set incorrectly relative to assumed long-term interest rates, long-term lapse rates, long-term mortality rates, and changes in claims experiences relative to what had been projected. For more information see Kofman, M. & Thompson, L. (2004, March). *Consumer protection and long-term care insurance: Predictability of premiums.* Issue Brief. Washington, DC: Georgetown University Long-Term Care Financing Project. Available at http://ltc.georgetown.edu. Also, Mark Merlis M. (March 2003). *Private Long-Term Care Insurance: Who Should Buy It and What Should They Buy?* The Henry J. Kaiser Family Foundation.

[17] Supplemental policies may be available to current policy holders. These policies may be an effective way of dealing with the need for increasing coverage without having to drop the first policy. These supplemental policies often waive any consideration of current health status when purchased in conjunction with an existing policy. However, their price will not only reflect the purchaser's older age but that it is being purchased by a policy holder who need not reveal their health status. This fact is likely to make the supplemental policy even more expensive.

changing policies becomes larger the longer the policy is held, this makes the initial policy choice extremely important.

This pricing structure, plus the nature of long-term care, makes the purchase of long-term care insurance relatively unique from at least two perspectives. First, it limits the degree to which a policyholder can change policies without a substantially financial penalty. It is quite likely that as one gets older, one's understanding and perceptions of the risks of needing long-term care might change as does one's family and financial circumstances. Moreover, both the fiscal strength of the insurance company as well as its interest in selling and servicing long-term care insurance can change over time as well.[18] Insurance companies may have very different priorities that affect the servicing of policies if they no longer choose to sell long-term care insurance policies. Yet, policy holders are not likely to be able to change their policy or move their policy to another insurer without facing a huge financial loss. This is unlike most other forms of insurance which are renewed and revised annually.

Second, long-term care insurance relies on speculation in a number of areas. Individuals generally cannot know how much long-term care insurance they might need or the types of long-term care services that will be offered in the future. Similarly, insurers cannot know how long-term interest rates, disability

[18]Perhaps the closest type of insurance to long-term care insurance in terms of this pricing structure is whole or universal life insurance. Unlike long-term care insurance, however, the importance of life insurance declines as dependent children get older and certainly after the policy holder leaves the labor force. Consequently, the pricing is structured for a shorter time period. Moreover, universal life insurance is targeting a specific income upon premature death, is taking advantage of the tax code to include tax deferred savings, and is not a policy designed to access future services.

rates, and mortality rates, as well as how policy holders or the service delivery system might change over time.

The inability to anticipate the future, for both the purchaser and the insurer, is a an issue in other forms of insurance. However, in all other forms of insurance, the contemporary facts, such as current earnings, or the value of the car or house are relevant in helping to define the amount of life, disability, auto or homeowners insurance to purchase. Contemporary facts for example, like the existing technology and costs of repairing an automobile, for example, help to guide insurance companies when setting automobile rates for the next year. Fortunately they need not worry about setting rates in the future. For long-term care insurance, contemporary facts, such as current income and assets or even the current cost of long-term care, are not as relevant in choosing a long-term care insurance policy as it is in choosing any other form of insurance. It is for this reason that long-term care insurance has been structured to provide a payment towards the cost of services rather than covering the cost of services. This limits the insurer's risk, but leaves the policyholder at risk for covering the gap between the cost of services and the benefit level of the policy.

Consumer Decision Making. Few studies have been done on how individuals make decisions regarding long-term care insurance. Among people who had purchased a long-term care insurance policy, 40 percent said that the most important influence was their spouse and 27 percent said it was their insurance agent.[19] A different study examined reasons for <u>not</u> purchasing long-term care insurance by surveying people who considered buying a policy, met with an insurance agent, but subsequently decided not to purchase a policy. For this group, price (54 percent), benefit design (28 percent), and product confusion (18 percent) were the three most significant reasons mentioned for not making the purchase.[20] It is hard to know what respondents meant when saying the price was too high. Does it mean that they could not afford it, or does it mean that the product is not sufficiently valued and therefore they are not willing to purchase the recommended product at that price? Product confusion may mean that potential consumers are not sure of their own needs, the nature of the product, the trustworthiness of the agent, and/or the reliability of the insurer(s).[21]

In some respects, decisions about long-term care insurance resemble decisions made about other employee benefits. Generally, most people rely on co-workers, friends, and family for help in deciding what forms of insurance to purchase and from whom. The reputation of the insurance company may be a key part of the consumer's decision making process.[22] The importance of

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[19] LifePlans, Inc. (2000, October). *Who Buys Long-Term Care Insurance in 2000? A Decade of Study of Buyers and Nonbuyers*. Washington, DC: HIAA.
[20] LifePlans, Inc. (2000, October). *Who Buys Long-Term Care Insurance in 2000? A Decade of Study of Buyers and Nonbuyers.* Washington, DC: HIAA.
[21] Naresh K. Malhotra (1982, March). Information Load and Consumer Decision Making. *Journal of Consumer Research*, 8(4): 419-430. Mary Frances Luce (1998, March). Choosing to Avoid: Coping with Negatively Emotion-Laden Consumer Decisions. *Journal of Consumer Research*, 24(4); 409-433. Finucane, Melissa L., Paul Slovic, Judith H. Hibbard, Ellen Peters, C. K. Mertz, and Donald G. Macgregor. (2002, February). Aging and Decision-making Competence: An Analysis of Comprehension and Consistency Skills in Older verses Younger Adults Considering Health-plan Options. *Journal of Behavioral Decision Making*, 15: 141-164. Smoles, George, Loren V. Geistfeld, and Suzanne B. Badenhop. (1978). Informational Inputs as Influences on Efficient Consumer Decision-Making. *The Journal of Consumer Affairs*, 12(1): 88-103.
[22] Chakraborty, Goutam, Richard Ettenson, and Gary Gaeth, (1994). How Consumers Choose Health Insurance, *Marketing Health Services*. Spring (14, 1) pp. 21-33. Sainfort, Francois and Bridget C. Booske, (1996). Role of Information in Consumer Selection of Health Plans. *Health*

consumer perceptions and advice from others who are trusted is also born out in academic research on consumer decision making.

Regrettably, research on consumer decision making casts a pallid shadow on the notion that providing better or easier to read information can make for a more deliberative decision making process.[23] The pioneers of behavior research now believe that deliberative calculated decision making is more the exception than the rule; most consumer behavior is guided by simple, instinctive behavioral rules that can be triggered to operate differently in the same person, by how the costs, risks, and benefits are construed by that person at the time the decision is being made.

In the case of long-term care insurance, the likelihood of purchasing a policy is increased by trust in the agent and how the agent presents the risks and benefits of long-term care insurance for the potential client and his or her spouse. A long-term care insurance agent is likely to be involved in helping a potential customer decide if long-term care insurance is right for them as well as which policy options to purchase. Most agents recognize the importance of gaining the trust of potential clients as an honest broker of information about policy choices.[24]

Care Financing Review. Fall, Vol. 18. No. 1. pp.31-54. Kuusela, Hannu and Mark T. Spence. (1998). How Consumers Select Life Insurance Policies: A Protocol Analysis. *Services Marketing Quarterly*, Vol. 18., No 1., pp.49-63. Friedland, Robert B. *(*1994, April). *When Support and Confidence are at Odds: The Public's Understanding of the Social Security Program*. Washington, DC: National Academy of Social Insurance.

[23] This statement contradicts the common perception that consumers are rational, calculating, and able to consistently maximize their utility. Yet, research being conducted by economists, psychologists, and psychiatrists suggest that the common perception does not reflect the actual decision-making process. For a good review of this literature, see George Loewenstein (2001, December). The Creative Destruction of Decision Research, *Journal of Consumer Research*, Vol. 28, 499-505.

[24] Crosby, L.A., Evans, K.R., & Cowles, D. (1990, July). Relationship Quality in Services Selling: An Interpersonal Influence Perspective. *Journal of Marketing* 54(3): 68-81. Crosby, L.A. and N.

Some long-term care insurance agents have specialized in earning the trust of other financial and insurance professionals, so that a trusted financial advisor, stock broker, real estate agent, or auto insurance agent can "transfer the trust they have developed with their customer" to the long-term care insurance agent by recommending that they talk to a particular long-term care insurance agent.[25] Though agents may not attain the level of trust that a spouse or friend would, they may compensate for this through their knowledge of a product that is confusing to consumers. As such, insurance agents are a major influence on how individuals make long-term care insurance decisions.

State Regulation of Long-Term Care Insurance and Education. State laws govern both what constitutes long-term care insurance and the sale of long-term care insurance – including the type of training agents must acquire to be licensed and the information agents must provide to consumers. States turn to the National Association of Insurance Commissioners (NAIC) for guidance on such laws. The NAIC, comprised of the Insurance Commissioner from each state, establishes templates of laws and regulations that states might consider across different types of insurance products. These templates, called Models, are offered to minimize the variation in insurance products and regulatory practices across states. Moreover, they are developed in the belief that they are the most

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Stephens (1987, November). Effects of Relationship Marketing on Satisfaction, Retention, and Prices in the Life Insurance Industry. *Journal of Marketing Research*, 24(4), 404-411.

[25] Lite, L. "Becoming the LTC Expert In Your Community." Presentation, 16th Private Long-Term Care Insurance Conference, San Antonio, TX, February 12-14, 2003. Available on the Long-Term Care Education Foundation website at http://www.ltcedfoundation.org/conference_2003/index.html.

practical and effective way of protecting the consumer and ensuring the integrity of the insurance industry. NAIC Models are formed through a negotiated process that includes insurance regulators, industry representatives, and consumer groups; the Models are often modified considerably when adopted by state legislatures.

The NAIC Long-Term Care Insurance Model Act and the NAIC Long-Term Care Insurance Model Regulations were first drafted in 1986 and were most recently revised in 2000. The model law and regulations have few provisions specific to agents selling long-term care insurance. The NAIC models simply require that agents have a state license to sell insurance, and that the insurance companies ensure that agents representing their products are properly trained to market those products in a "fair and accurate" manner and to determine the "suitability" of long-term care insurance for each potential applicant. In June 2004, the NAIC Senior Issues Task Force began to evaluate incorporating California's education requirements for long-term care insurance agents into the NAIC long-term care model laws. [26]

Over the years, these models have been useful for state regulators, but they are only a part of the political process that determines a state's insurance laws and regulations. State legislatures may choose to adopt all, some, or none of the NAIC model. Some states have adopted considerable portions of NAIC

[26] It should be noted that the NAIC Interstate Compact is working to develop a uniform system of standards for long-term care insurance and other products. The Interstate Compact has decided to adopt the NAIC Long-Term Care Model Act and Regulations that were current at the time states agreed to the form the compact. However, currently there is no agreement that any future changes in the NAIC model laws or regulations would be incorporated by the Interstate Compact.

recommendations. Most states, in fact, have minimum requirements about the printed information that agents must provide applicants.

Only a few states, however, have any requirements on what long-term care information agents must understand about long-term care or long-term care insurance before they can sell a long-term care insurance policy. In virtually all states, a license to sell insurance is all that is needed. California may have the most substantial set of requirements. New agents selling long-term care insurance in California must complete 25 hours of continuing education -- 8 hours of which must be specific to long-term care insurance -- per year for the first four years of their license. Then, after the initial four year period, to renew their license, insurance agents must complete 30 hours of continuing education during each 2-year term, which must include 8 hours of a long-term care insurance course. In Colorado, the required long-term care insurance continuing education course need only be taken once. These may be the only states with requirements for any initial or ongoing specific long-term care or long-term care insurance education.

Sources of Consumer Information on Long-Term Care Insurance

To better understand the information on long-term care insurance available for consumers, we reviewed information from consumer organizations, visited the websites supported by Federal agencies, state agencies, and consumer organizations, and reviewed the materials agents must provide applicants in states adhering to the NAIC guidelines.[27] These types of information are divided into three categories: readily-available consumer guides, information provided by long-term care insurance agents, and information provided by SHIPs.

Readily-Available Consumer Guides. We identified a wide variety of organizations providing readily-available and free long-term care information that could be easily found by potential consumers. We ignored informational brochures and websites that were clearly part of a sales effort. The amount of sales information, it should be noted, is overwhelming and will certainly dominate a consumer's internet-based search process. In particular we collected information from the following organizations:

Consumer Groups

[27] For a more detailed description of long-term care insurance web-based resources reviewed see the supplement *Web-Based Resources on Long-Term Care Insurance* found at www.aging-society.org.

- AARP
- Consumers Union
- The National Association of Insurance Commissioner's Long-Term Care Insurance Shopper's Guide (NAIC)
- United Seniors Health Cooperative (USHC, National Council on Aging)
- www.ElderLawAnswers.com
- Center for Medicare Advocacy
- California Health Advocates (CA HICAP Association)
- New York State United Teachers (NYSUT)

Governmental Agencies

- Center for Medicare & Medicaid Services (CMS)
- SHIP Programs
- Administration on Aging (AoA, DHHS)
- Office of Personnel Management (OPM) (www.ltcfeds.com)
- Medicare.gov - An interactive website or Long-Term Care Counselor (developed by the NCOA for CMS)

Trade Organizations

- Health Insurance Association of America (HIAA) (now known as America's Health Insurance Plans, or AHIP)
- National Association of Health Underwriters (NAHU)
- American Council of Life Insurers (ACLI)
- Insurance Marketplace Standards Association (IMSA)
- American Health Care Association (AHCA) and the National Center for Assisted Living (NCAL)

Although some of these organizations have a vested interest in promoting long-term care insurance, with the exception of AARP, they are not selling a specific product.

Table 1 summarizes what we found by categorizing the type of information provided and culling examples of the advice from different brochures. Our intent here is not to provide a comprehensive set of guidelines, nor is it to evaluate either the brochure or the advice provided. We merely want readers to get a sense of the array of information that consumers might find. Since the information was not uniform or even consistent, our choice of whose advice to present is biased by our desire to convey some of the variability in what is available.

Table 1
Selected Consumer Advice on Long-Term Care Insurance, Culled from a Variety of Readily-Available Sources

Area of Advice	Suggestion	Other Considerations
At what age should you purchase Policy features	Age 40 and certainly by age 65. (Consumers Union)	
Daily benefit amount	• Find out what long-term care costs in your area to help determine the base amount (AARP, NAIC)	• Consumer need not buy insurance that covers the full cost of care since some long-term care is financed by Medicare (CMS)
Benefit trigger	• Limits in two ADLs and that one of the ADLs used in the list should be a limitation in bathing (Consumers Union) • Be sure that Alzheimer's disease is covered (NAIC/HIAA)	• Eligibility should be certifiable by policyholder's physician rather than someone chosen by the insurance carrier (AARP) • Don't buy a policy that requires hospitalization or nursing home care or skilled nursing care in

Area of Advice	Suggestion	Other Considerations
		order to begin receiving benefits (NAIC/HIAA; IMSA) • Avoid policies that do not cover care received outside of the U.S. (LTCFEDS.COM)
Types of services	• In-home care and nursing home care should be covered (AARP) • Alternative care facilities, like care at an assisted living facility should be covered (ConsumersUnion) • Personal care and homemaker services (i.e. cooking, shopping) should be an option (AHCA, NCAL, ElderLawAnswers.com)	• Services covered should not be limited to skilled care (NAIC/HIAA) • Home care benefit should include adult day care, hospice services, and respite care. (Consumers Union)
Waiting periods (sometimes called the elimination period or deductible)	• 30 days (Consumers Union)	• Buy a policy in which this is applied once, rather than for each episode of care (AARP)
Length or duration of coverage	• At least one year (NAIC/HIAA)	• Four years (Consumers Union)
Inflation protection	• Buyers should obtain a policy that automatically increases the benefit amount over time (AARP) • For buyers age 70 or older, 5% annual increases should be sufficient and for younger buyers a compounded 5 percent benefit amount (NAIC Shopper's Guide)	• A 65 to 75 year old should consider buying a 6-year or lifetime benefit with simple inflation. Those ages 75 and older should buy a bigger daily benefit for as long a period as they can afford (ElderLawAnswers.com)
Non-forfeiture of benefits, if you should stop paying premiums	• Highly recommended (NYSUT)	• It adds to the cost, but you should consider it (Consumers Union)
Waiver of premiums while receiving benefits	• Yes (NYSUT)	• Make sure there are no restrictions while receiving benefits

Area of Advice	Suggestion	Other Considerations
		(HIAA)
Other provisions	• Find a policy that provides an ability to increase or decrease coverage (NYSUT)	• The right to change the benefit should be guaranteed without providing evidence of insurability (NAIC/HIAA)
How much should you spend on long-term care insurance?	• No more than 7 percent of annual income (United Seniors Health Cooperative) • Not more than 5 to 10 percent of income (ElderLawAnswers.com)	• If the premium is a concern, it is better to purchase a 2-year policy with inflation protection than a longer term policy without inflation protection (medicare.gov) • Check with your state's insurance department to learn how rate increases are regulated (NAIC Shopper's Guide)
Financial strength of insurer	• Rated in one of the top two categories by at least two rating services, such as A.M. Best, Moody's Investor Services, Fitch Ratings, or Standard & Poor's) and have no low ratings (NYSUT)	• Weiss financial safety rating of at least a B+ (Consumers Union)
Insurer reputation	• Insurance company is a member of the Insurance Marketplace Standards Association	
Agent commission	• Consumers should know how their agent is paid (Consumers Union)	• Be sure the commission amount is within reason (NYSUT)

As this table demonstrates, consumers can find abundant information about long-term care insurance. We were surprised, however, by the variability and vagueness in some of the advice. Perhaps there is too much information, since not all of the information is consistent and quite general. However, it does help consumers focus on key questions to discuss with their agent or insurance counselor, or answer by reviewing prospective insurance policies.

Information Provided by Long-Term Care Insurance Agents. The previous discussion was about the information that is readily available to any consumer. At the point of contact with an insurance agent, most agents provide consumers written information. Much of the information will be in the form of a sales brochure, but in most states, some of the material that they provide is required by state law.

The NAIC model regulations require that agents provide: an outline of coverage, notice on rating and price adjusting practices, information on the consequences of replacing existing coverage, and a worksheet to determine the suitability of a purchase. In addition, applicants are to be provided a brief summary on what consumers need to know before buying long-term care insurance, a more extensive booklet on the nature of long-term care insurance, and contact information for the SHIPs in the state.

NAIC Information Infrastructure:
Two-Pronged Approach to Empowering the Consumer

Required Disclosures to the Buyer
- Outline of coverage
- Notice on rating practices
- Notice on consequences of replacement
- Personal worksheet to determine suitability of coverage

Buyer Education Material
- *Things You Should Know Before Your Buy Long-Term Care Insurance*
- *Shopper's Guide to Long-Term Care Insurance*
- Contact information for SHIPs

The most prominent element of the information packet is the "outline of coverage." The model regulation provides a template for a recommended format and the vast majority of states have adopted this format.[28] In these states, consumers receive the terms under which the company can change their premiums, the benefits provided by the policy, and policy limitations and exclusions.

A second element of the NAIC's information structure is a notice on the rating practices of the insurer. This notice was recently added to the NAIC model to inform potential purchasers about the possibility that their premiums might increase in the future. The notice on rating practices includes information on the premium rate, circumstances under which rates can and cannot increase, when rate adjustments would be effective, and the options available to the purchaser if the premium increases in the future. By May 2003, slightly less than half of all states, including California, Florida, Illinois and Pennsylvania, had adopted this rating disclosure requirement.[29]

In addition, the NAIC Model calls for two types of insurer disclosure. The first is the consequences to the applicant of replacing any existing coverage (as described earlier, this typically involves a financial loss to the consumer). The second is information to enable the consumer to determine the financial suitability of long-term care insurance. According to the NAIC, 45 states required these notices in 2001. If the consumer takes the time to use the worksheet, then this provides another opportunity for the applicant to consider how he or she will pay premiums in the future.

The suitability worksheet, however, does not provide a framework for consumers and agents to delve into other aspects of suitability. Concern has been raised that agents simply focus on providing as much in benefits as buyers can currently afford with little regard for which benefits would be better at meeting specific needs (e.g., a greater

[28] National Association of Insurance Commissioners. (2001). *NAIC's Compendium of State Laws on Insurance Topics*. Washington, DC: NAIC.
[29] Kofman, M & L. Thompson, (2004, March). *Consumer protection and long-term care insurance: Predictability of premiums*. Washington, DC: Georgetown University Long-Term Care Financing Project. Available at http://ltc.georgetown.edu.

home care benefit). Moreover, there is much more attention to current income and less attention to the factors that might affect the level of income in the future.[30] Moreover, there is no easy-to-use guide to inform decisions about which benefit provisions to keep and which to eliminate when potential clients indicate that the premium is too high.

Most states, in accordance with the NAIC model regulations, require insurers and agents to provide potential applicants with the contact information for the State's Health Information and Assistance Program (SHIP), a one-page summary sheet entitled, *Things You Should Know Before You Buy Long-Term Care Insurance,* and the NAIC-produced 62-page booklet entitled, *A Shopper's Guide to Long-Term Care Insurance*. According to the NAIC, in 2001, 40 states required insurers and agents to distribute this guide to potential applicants.

Some states have gone beyond this guide, publishing information for consumers on private long-term care insurance.[31] California, for example, has a side-by-side comparison of available long-term care insurance policies and their rates provided by each insurer in a standardized form. Colorado, Florida, Illinois, and Pennsylvania have additional publications as well. Pennsylvania provides samples of typical policies on its website. At one point, it had an online interactive tool to help consumers determine how much a policy with different features would cost in the state. Lately, however, the department has been unable to devote resources to keep the interactive tool updated.

While this information is helpful, the NAIC *Shopper's Guide* and other state materials illustrate the complexity of the products and decision-making process. A worksheet in the appendix of the NAIC's guide, for instance, provides a guidepost to the key factors that applicants should consider when making a decision. But it is

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[30] Lewis, S, J. Wilkin and M. Merlis, (2003, March), *Regulation of Private Long-Term Care Insurance: Implementation Experience and Key Issues*. The Henry J. Kaiser Family Foundation, p. 13.

[31] Lewis, Merlis, and Wilkin (2003), op. cite. p. 14.

necessarily long and technical and requires more than a basic level of verbal and math literacy. It requires, for example, a real understanding of technical terms (which are explained in the booklet) such as a "simple" versus a "compound" increase of benefits when evaluating inflation protection options under different policies. It also requires the use of math skills to compare policies that pay benefits on a different basis in order to complete the worksheet. As is pointed out on the worksheet, not all of the information can be found in the outline of coverage. Potential applicants will need to obtain additional information from the insurer or agent to fill out the worksheet.

None of this information, however, is designed to help consumers simplify differences between long-term care policy options. There are myriad options and tradeoffs between policy provisions that could be included in a policy. The difficulty in comparing policies is in large part why Colorado requires insurers to offer a basic and standard long-term care policy (they may offer other policies as well). This enables a consumer to compare premiums across insurers on an apples-to-apples basis. It is also why some consumer advocates and others suggest that there be standardization of terms, definitions, and conditions.[32] In addition to standardization of terms and definitions, however, consumers could benefit from a long-term care insurance rating system that rated policies in comparison to a benchmark policy.

State Health Insurance Assistance Programs. Many states require insurance agents to provide the contact information for the social service organization that serves as the state's focal point for health insurance counseling for Medicare beneficiaries. These programs, which may have a unique name in each state, are designated by Medicare

[32] Lewis, Merlis, and Wilkin (2003), op. cite., p. 15.

as the state's SHIP. Federal funds help to organize these networks to assist Medicare beneficiaries with Medicare, including helping people to understand their Medicare bills, understand their rights and the appeals process under Medicare, and whether or not and how to purchase supplemental Medigap insurance. The SHIPs recruit and train volunteers who then respond to inquiries made by beneficiaries. The vast majority of beneficiaries go to the SHIP for face-to-face assistance, but the SHIPs also provide assistance by telephone. We have been told that typically it takes two or three visits to resolve a particular situation. SHIPs also organize community educational forums as well as media briefings to reach out and help inform Medicare beneficiaries as well as to make their availability known.

More recently, many of these programs have started to help Medicare beneficiaries with decisions about long-term care insurance. We wanted to learn more about the experience SHIPs have with long-term care insurance and so we surveyed the SHIP directors.[33] Questions focused on their training for inquiries about long-term care issues. When the survey was sent to the SHIPs, they were being inundated with inquires about the new Medicare law, and the forthcoming prescription drug cards in particular. Nevertheless, 26 SHIPs in 25 states and the District of Columbia responded.[34]

The results suggest tremendous variation in the monthly inquires across the SHIPs, indicating variation in the way in which these organizations are known,

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[33] Since SHIPs are surveyed frequently, we decided that the best way to ensure a high response rate would be to go through the SHIP National Resource Center, an organization that represents SHIPs. Going this route meant that the leadership of the SHIP National Resource Center along with CMS approved the questions. Prior to submitting the survey to them, we tested it with two SHIP directors, sent it to another SHIP to test, and subsequently revised the survey twice. It was sent by email to all SHIP directors, and followed up with a few email reminders sent by the National Resource Center on our behalf. A copy of the survey is included in Appendix B of this report.

[34] These included: Alabama, Alaska, California, Colorado, District of Columbia, Florida, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, Nevada, New Hampshire, New Jersey, North Carolina, Oklahoma, Oregon, Pennsylvania, Rhode Island and Wisconsin.

perceived, and used across the country. Among the SHIPs that responded, total monthly inquiries ranged from 200 to 8,000 per month or 1,410 per month on average. About 6.5 percent were inquiries about long-term care insurance (See Table 2). The proportion of inquiries about long-term care varied across the reporting SHIPs from 1 to 13 percent.

Table 2

SHIP Inquires and Counselor Training for Long-Term Care

Question	**Average of Responses**	**Number of SHIPs Reporting "Yes"**	**Number of SHIPs Reporting "No"**
Overall monthly inquiries	1,412 per month*	--	--
Percent of inquiries about LTC insurance	6.5% per month	--	--
Is there counselor training about LTC insurance**	--	23	2
Number of hours of training	5.1 hours	--	--
Is the training ongoing		21	3
How frequent is the training***			
Annually		12	--
More frequent than annually		5	--
Less frequent than annually		2	--

* Three respondents did not provide estimates of their average number of inquiries
** One respondent did not answer this question
*** Two respondents reported that they provide ongoing training but did not report the frequency of this training

All but two of the programs said they offer assistance with long-term care insurance and provide training for their volunteers about long-term care insurance. Yet, volunteer training about long-term care or long-term care insurance was even more varied. In some states, one hour of training was all that was required before allowing a volunteer to help others, while in several states the cumulative training over the course of a year was substantial (in excess of 15 hours). Most states provided on-going training through out the year, but at least three states said that they did not do this.

SHIPs reported that most of the training was from SHIP staff in conjunction with written materials (See Table 3). Some of the SHIPs also brought in outside experts and some had training manuals and videos for the counselors to use. California is probably unique in that the State requires that insurance counselors be certified. In fact, long-term care insurance counselors must be certified in health insurance counseling for a year and then take 12 additional hours of training to become certified in long-term care insurance counseling.

We wondered where training materials originated for the SHIP Counselors. All of the reporting SHIPs used material from more than one source. Two states used material from all of the sources listed in the survey (industry, consumer groups, Medicaid, Medicare, and other public programs). Material from Federal agencies was widely used, followed by information from consumer groups, state Medicaid programs, and from the industry. But it was interesting to note that most of the programs used materials that they created themselves or obtained from other SHIPs.

Table 3
SHIP Trainers and Training Sources

Trainers Used	**Number of SHIPs Reporting "Yes"**
Internal staff	22
Outside experts	8
Readily available printed materials	24
Training manuals and videos	14
Sources of Educational Materials	
Industry	9
Consumer groups	11
Medicaid	10
Federal agencies	17
SHIP developed materials	20

Note: Some SHIPs reported using information provided by speakers at meetings, sample policies, or department of insurance staff to educate their counselors about long-term care insurance. Some SHIPs reported using educational materials provided by the state-specific departments of insurance, the SHIP Resource Center, or counselors or licensed insurance agents. None of these responses are mutually exclusive.

We also queried the SHIP Directors about the areas of inquiry covered in the training (See Table 4). Most SHIPs who responded to the survey said that they provided information about who sold long-term care insurance in the state and helped with questions about long-term care insurance policy benefit designs. SHIPs seemed reluctant to provide information to seniors about the affordability of long-term care insurance.

Table 4
Type of Information on Long-Term Care Provided by SHIPs

Areas in Which SHIPs Provide Counseling	Number of SHIPs Reporting "Yes"
Policy features	21
Affordability	18
Companies selling insurance	22

Note: Some SHIPs reported that they also provide counseling about state laws, market evolution, state government long-term care insurance partnership programs (if applicable), fraudulent sales practices, suitability, alternative financing options, the risks of needing long-term care, and Medicaid eligibility. Responses are not mutually exclusive.

We wondered whether the SHIPs had any internal quality improvement processes. Ten of the states said they had a process that regularly reviewed counselors' responses to long-term care insurance inquiries, but 13 did not have such a procedure (See Table 5). We then asked how comfortable SHIP directors were with their counselors discussing long-term care insurance. On a scale from 1 to 5, in which 1 is the least and 5 is the most comfortable, only six of the respondents rated their comfort level with counselors discussing long-term care insurance as 4 or 5. Interestingly, among the six states with the greatest level of comfort, only two said they regularly review counselor's responses. Most of the states with a quality assurance review process had comfort levels of 3 or less.

Table 5
Quality Improvement Process and Overall Comfort with the Assistance Provided

Question	Number of SHIPs Reporting "Yes"	Number of SHIPs Reporting "No"	States' overall comfort with the assistance provided, on a scale of 1 (no confidence) to 5 (very confident)				
			1	2	3	4	5
Are counselor's LTC insurance responses reviewed on a regular basis?*	10	13	-	-	-	-	-
How comfortable are you with the counselors discussing LTC insurance?	-	-	1	5	11	5	1

* Three respondents did not answer these sets of questions.

We also wondered if volunteer counselors were trained about Federally-supported Home Equity Conversion Mortgages (HECM), reverse mortgages that offer a way to finance long-term care needs, or Medicaid. Only 5 of the 26 states reported that they provide training about reverse mortgages and 18 said they provide training about Medicaid. The lack of training about reverse mortgages means that SHIPs may not immediately be able to provide the required counseling for the new program that links reverse mortgages to long-term care insurance. Given the importance of Medicaid in financing the health and long-term care needs of low-income seniors, the fact that some SHIPs do not engage in training is cause for concern.

The Long-Term Care Education of Insurance Agents

Insurance agents, as reported earlier, are an important source of consumer information about long-term care insurance. Nationwide, there are an estimated

700,000 persons licensed to sell long-term care insurance.[35] Some agents are "captive," representing a particular insurance company, but most are considered "independent", selling long-term care insurance for more than one company. However, most agents who sell long-term care insurance do not earn most of their commissions from the sale of long-term care insurance. That is, long-term care insurance is incidental to their business.

A minority of agents, however, earn most of their commissions from selling long-term care insurance. These "specialists" tend to work with financial planners and insurance agents who do not sell long-term care insurance. It is the financial planner who suggests to their clients that they get long-term care insurance and recommends talking to a specialist. The financial planner then shares in any commission earned by the long-term care insurance agent while still serving the client for non-long-term care insurance needs.

There are ample educational opportunities for agents to keep up with product and industry trends. There are national and regional conferences, continuing education programs, certificate programs, and internet-based correspondence courses. However, as indicated previously, due to the lack of regulation in most states, it is the agents' sense of professionalism that encourages them to become better educated about long-term care.

To help us understand the motivation for and content of agent education efforts, we spoke with agents and agent representatives.[36] We also obtained accreditation

[35] Estimates of the number and distribution of insurance agents are based on the opinions of several interviewees.
[36] We obtained referrals to agents through their trade association (Association of Health Insurance Advisors), with the result that we were provided with a handful of select, highly-regarded, well-known, and professionally active agents. We conducted structured interviews of more than 1 hour with each agent. We recognize that these agents have a stronger knowledge of the field than would a typical agent.

requirements, course outlines, and course materials from two accreditation programs in order to have a better sense of the types of education available to agents who seek accreditation in long-term care insurance sales.

Initial Training and Continuing Education. As noted earlier, few states require insurance agents to take courses on long-term care or long-term care insurance. However, everyone we interviewed felt that a broad and deep education on long-term care for agents was essential. The experienced agents with whom we spoke admitted that keeping up with industry and product trends is time consuming, yet necessary, for them to help their clients make the best choice. They noted that most companies are changing policies every 18 to 24 months and, with so much change among insurance carriers, it is virtually impossible for the occasional seller of long-term care insurance to keep up with the new policies -- let alone the new application forms. Some people we interviewed suggested that most agents are interested in finding the least expensive policy for their client, but at least one agent felt that the most important criterion should be finding a company that is likely to still be selling long-term care insurance policies 30 years from now. This agent argued that this requires keeping abreast of the industry as well as the provisions of the insurance policies.

We wondered how intensive and frequent the training should be, particularly for the agent who sells the occasional policy. Several interviewees suggested that states require a series of continuing education requirements over time so that an agent is regularly exposed to basic and more advanced training. One interviewee, however, expressed concern that too stringent a requirement would discourage those agents who do not specialize in long-term care insurance from writing any long-term care business at all. There was also concern raised as to what extent insurers would be willing to finance enhanced course requirements necessary for agents to become more expert in long-term care.

Another fundamental issue raised in these interviews was the construct of the instruction itself. As illustrated by the Pennsylvania Insurance Department's *Provider Guide for Continuing Education and Pre-Licensing Education*, most, if not all, states require that continuing education courses and instructors be approved. Moreover, it was noted that the content of the courses should be reviewed and updated on a regular basis. California, for example, is in the final stages of a long process to revise its course content requirements for insurance agents and has developed a detailed and in-depth course protocol.

We do not have any basis to assess the caliber of the instruction provided in the states. Some interviewees expressed concern about the quality of the content of home-based courses and the motivations of those who take these courses at home rather than in a classroom setting. They believed that states should be attentive to curriculum quality and the instructors' credentials in their continuing education infrastructure. Also, as the field changes, interviewees felt the course content should be reviewed and updated.

Certificate and Accreditation Programs. Agents who seek to be known as a specialist in long-term care insurance can pursue a certificate of study from a private organization. The Corporation for Long-Term Care Certification in Long-Term Care (CLTC) and the American Association for Long-Term Care Insurance's Long-Term Care Professional

(LTCP),[37] for example, are probably among the most prominent long-term care insurance designations and thus are relied on in this report to illustrate the nature of accreditation programs. For both of these designations, the courses are offered either on a self-study correspondence basis or in a classroom setting over two-days. In many states, the courses taken to fulfill the requirements of these designation programs can be used to fully or partially fulfill state continuing education requirements for licensure.[38]

A cursory review of the course outlines and course material of these certification programs suggests that they are comprehensive in how they teach agents about long-term care and the role of long-term care insurance as a part of retirement planning. They do not merely focus on the products themselves, or on just how to sell them, but the context in which these products are sold. In both instances, the courses cover the trends of the aging population, the range of long-term care services available, and the vehicles for financing long-term care, including Medicaid. The LTCP curriculum, for instance, discusses the role of caregiving, Medicare, Medicaid, reverse mortgages, and other insurance products. These courses also cover the history of long-term care insurance, its regulation, the various types of products and their elements.

Moreover, these programs teach agents how to assess an applicant's needs and tailor a policy to meet these needs. The CLTC program, for example, contains modules focused on what type of policy should be recommended, basic guidelines for ethical behavior, and how to accurately assess suitability.

We understand that enrollment in these credentialing programs has been increasing; so far, at least 15,000 agents have been credentialed. However, this is a small fraction of the number of agents presumed to be selling long-term care insurance.

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[37] This latter designation is administered in partnership with America's Health Insurance Plans, the health insurance industry's national trade organization.
[38] At least one person we talked to raised concerns about the value of correspondence classes.

The vast majority of long-term care insurance agents have had virtually no training other than about the features of a particular policy and how best to market that policy. Their knowledge about how to evaluate and explain the tradeoffs in policy options is likely to have been gained by experience while selling policies.

The Role of Long-Term Care Insurers. Long-term care insurers provide some product and market training, but do not directly provide broad training on long-term care. Insurers do, in some instances reimburse agents for the cost of certification programs. California, however, differs from other states in that it imposes broader standards on long-term care insurers. Under that state's law, insurers must submit to the insurance department twice a year a list of agents authorized to sell their product and ensure that those agents have actually completed state-required training requirements.

Several of the agents with whom we spoke are brokers for insurance companies. Brokers are critical in the distribution of long-term care insurance. Effectively, the broker is the wholesaler who works with the independent agent who is, in effect, the retailer. It is the broker who distributes the policy through their network of independent agents and it is the independent agent that depends on the broker for providing the application forms and to work with the insurer if there are issues to resolve for any applicant.

Brokers specialize in selling long-term care insurance and have a financial incentive in working with independent agents who affiliate with their company. In so doing, they are more apt to focus on long term-care and the importance of long-term care insurance. The type of relationship they have structured with independent agents, however, varies. On one end of the spectrum this relationship may involve serving as an on-going resource for the independent agents who affiliate with their organization. This might involve walking through sales presentations with the independent agents and helping them understand and explain product options. On the other end of the spectrum, the relationship may be limited to planning and hosting seminars and conferences on long-term care insurance.

Just as there is an abundance of information for consumers on long-term care insurance, there is an abundance of privately-sponsored education and training opportunities for agents. While we were informed that some of these are “faux certification programs” with more content about marketing insurance than the substance of long-term care, others appear to be quite substantive and meaningful. This education and training infrastructure could serve to meet or augment state continuing education requirements.

Conclusion and Recommendations

Our study suggests that there are major gaps in the information and educational efforts surrounding decisions to purchase long-term care insurance policies. First, through reviewing readily-available consumer guides, we found information abundant, but too general and in some cases even conflicting (e.g., different recommendations for how long the policy's coverage should last). Second, long-term care insurance agents provide additional information, typically to comply with state requirements. As noted earlier, both the NAIC and the states are aiming to improve the nature of the information provided to applicants so they can engage in an informed discussion with their agent. But while this can empower consumers, it empowers them at a relatively weak point in the process. When the agent is providing applicants state-required information, many applicants have effectively committed to purchasing a policy. A third source of information is SHIPs. Responses to the survey from SHIPs indicate that relatively few people turn to these programs for information on long-term care insurance, and that the level of training provided to volunteer counselors is not uniform and limited in most programs.

Our study also focused on the training and education of insurance agents, since they are named, after spouses, as the most important source of information on long-term care policies. From all indications, the confidence an applicant has in his or her insurance agent is likely to make a significant difference in whether or not a potential customer becomes a policy holder. Only a couple of states require education specific to long-term care for agents selling long-term care insurance. Private certificate and accreditation courses have emerged to help agents interested in specializing in this type of insurance product. The course content of these courses appears comprehensive.

However, it is hard to ignore the obvious: agents are in the business of selling policies and not all agents have the same values or expertise.

Improving information sources, expanding SHIPs' role in long-term care insurance education, and ensuring that agents who sell long-term care insurance are sufficiently educated will help raise the general base of information on which decisions are made. However, these changes may not be sufficient to empower the consumer to know how to critique the agent's advice or sort out policy options and plan choices. Simplifying or expanding the dissemination of brochures may not provide additional value, as brochures still require consumers to figure out their needs on their own. We conclude from these results that consumers need two additional tools. They need a mechanism to help them compare policies and they need an independent expert with whom to talk. To that end, we suggest attention in four areas.

Encouraging the development of measures to make it easier to compare policies. The complexity of long-term care insurance combined with the fact that most people will buy this product once (but pay premiums for the rest of their lives) suggests that consumers need summary measures that will enable them to compare one product with another in a meaningful way. Such measures have emerged for all kinds of products, such as mutual fund fees, loan costs, the yield on certificates of deposit, and the performance and duration of automobile tires. Careful studies should be able to identify a number of summary measures that could be developed for consumer use. The NAIC would be a logical organization to take on this challenge since, by its very structure, could forge a consensus with regulators, insurers, agent organizations, and consumer groups as to what the industry standard ought to be. In the absence of voluntary adoption of these measures, Federal tax laws could be used to encourage insurers to undertake the necessary calculations and report these measures in the documents defining the policy.

Expand the capacity of SHIPs to help all consumers with questions about long-term care insurance. Results from this study suggest that SHIPs already provide some, but could provide more, independent assistance to consumers of all ages considering long-term care insurance. Since SHIPs already exist to help Medicare beneficiaries with insurance issues, their capacity could be expanded to help persons of all ages with their questions about long-term care insurance. SHIPs are already in the community and many have been developing expertise in training volunteers to help people with long-term care insurance. With additional resources and direction, the SHIPs could become a much more effective source of information about long-term care insurance. Given the complexity of long-term care insurance, counselors should be trained to become and remain long-term care specialists. If this expertise were more widely advertised and made available, SHIPs could enlarge their mission and become a tremendous resource to help verify the information provided by long-term care insurance agents. Perhaps, this effort could be funded jointly by insurers, employers, as well as Federal, state and local governments.

Encouraging long-term care insurance agent educational standards. Until long-term care insurance becomes more common, agents are likely to continue to be among the most important influences in choosing a client's policy. Therefore, in addition to the disclosure requirements now set forth by the NAIC, agents intending to sell it should be required to learn about long-term care and long-term care insurance as a part of their licensing. In addition, they should be required to participate in periodic continuing education as a part of license renewals. Only a few states have initial and ongoing educational standards for agents. While this apparently is the next area the NAIC plans to address in its Model regulations and legislation, even aggressive recommendations by the NAIC will not guarantee that states will follow suit.

An alternative would be to link the education of agents who sell their long-term care insurance to the standards that allow an insurance policy to be tax qualified under Federal law. [39] In other words, there could be a de-facto Federal incentive to improve educational efforts since the absence of such education would mean a loss of a significant tax subsidy that individuals and insurers value. This would be a very indirect approach but, given the movement towards federally tax-qualified policies, such an action would affect a large number of insurers and agents. This may be politically difficult to enact, however, since some insurers and agents may prefer to see the onus of implementing and regulating long-term care insurance education in the hands of the state licensure boards rather than the Federal government.

Strengthening consumer counseling in the reverse mortgage/long-term care insurance program. Lastly, given what we have observed about the process of selling and buying long-term care insurance, the consumer implications of tying the purchase of long-term care insurance to a reverse mortgage are daunting. Buying a long-term care insurance policy is a substantial once-in-a-lifetime purchase, but obtaining a reverse mortgage to purchase long-term care insurance is an even larger one-time purchase, since it involves using the equity in the most significant asset most people own.

[39] See footnote 12 for a discussion of tax-qualified plans.

Contemplating using home equity to purchase long-term care insurance requires substantial knowledge of the housing market, long-term care, and long-term care insurance. Combining these products underscores the importance of not only requiring agents who sell long-term care insurance to understand these issues, but also providing consumers with the tools to evaluate alternative policies and independent sources of information. While SHIPs have been expanding their capacity to help older persons with questions about long-term care insurance, they have barely begun to develop the capacity to deal with reverse mortgages, generally, let alone using a reverse mortgage loan for the explicit purpose of purchasing a long-term care insurance policy. Efforts to link reverse mortgages and long-term care insurance should be coupled with educational requirements to ensure that SHIPs, insurance agents and others can provide the critical counseling to ensure that only those that could benefit participate.

Appendix

Survey Sent to State Health Insurance Assistance Programs

Name: ____

Email Address: _______________________________________

Title: ____

Affiliation: ____

Contact Number: ______________________________________

1. About how many total inquiries (regarding all subject matter) does the program receive per month? ___

2. Does the program receive inquiries about private long-term care insurance?

   ☐ Yes   If yes, about how many per month? ___
   ☐ No

3. Does the program provide its clients with private long-term care insurance counseling?

   ☐ Yes
   ☐ No   If no, please skip to Question 11.

4. Are counselors trained to provide information about private long-term care insurance?

   ☐ Yes   If yes, about how many hours of training on private long-term care insurance is required? ___
   ☐ No

5. Are established counselors trained about private long-term care insurance on an ongoing basis?

   ☐ Yes   If yes, how often? _______
   ☐ No

6. How are counselors educated about private long-term care insurance? (check all that apply)

   ☐ Seminars led by SHIP staff or established counselors
   ☐ Seminars led by experts or professionals
   ☐ Printed materials (i.e. pamphlets, fact sheets, or booklets)
   ☐ Training manuals and videos
   ☐ Other ____

7. From what sources do the educators and education materials come? (check all that apply)

   ☐ Industry sources (i.e. trade associations)
   ☐ Consumer groups (i.e. AARP)
   ☐ State Medicaid programs
   ☐ Other public programs
   ☐ Federal agencies (i.e. Centers for Medicare & Medicaid Services)
   ☐ Materials created by the SHIP program
   ☐ Other ____

8. What types of information about private long-term care insurance are counselors trained to provide? (check all that apply)

☐ Policy features
☐ Affordability
☐ A list of companies selling insurance
☐ Other ____

9. Are the counselors' responses to clients' inquiries about private long-term care insurance reviewed on a regular basis?
☐ Yes ☐ No

10. On a scale of 1 to 5, how comfortable are counselors discussing private long-term care insurance?

1	2	3	4	5
(not at all)				(completely)

11. What other financing options are counselors trained to discuss with clients? (check all that apply)
☐ Federally Insured Home Equity Conversion Mortgages (HECM)
☐ Medicaid
☐ Other____