

*Choosing a carrier to provide long-term care insurance—still a relatively young product—can be one of the most challenging benefits decisions a human resources professional makes. How the plan is structured and protected and making sure employees understand the plan present further challenges. The author explains the major mistakes many employers make and describes how to avoid them.*

# Long-Term Care Insurance:

## *The Four Biggest Mistakes Employers Make*

by Murray A. Gordon

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Long-term care insurance is like an iceberg. There's a lot going on below the tip. Of all the employee benefits a human resources (HR) person must navigate, long-term care insurance (LTCI) is perhaps the most challenging. Because of shifts in the LTCI industry, the complexity of the product and an ever-growing array of choices, a surprising number of employers find themselves with a plan that, for one reason or another, is a less-than-perfect fit. With LTCI, sometimes you don't realize you've taken a wrong turn until it's too late. Once you know what to look for, you can avoid common mistakes.

### **Mistake #1: Poor Carrier Choice**

Choosing the wrong LTCI carrier is by far the most critical mistake an employer can make. Remember, employees will most likely own their coverage for several decades before they actually use it. That means you need a carrier that's going to be there for the long haul.

Don't let name recognition fool you. Even if you know a carrier very well—even if it's your life or health insurance carrier—it might not be your best choice for LTCI.



Here's what you should know about the LTCI industry. Among the more than 100 LTCI carriers selling the product, only a handful play a leadership role in the market. Only a few key carriers are willing to invest in product development, crunch the numbers and actively set the trends—the true signs of leadership.

Relative to other forms of insurance, LTCI is still a young product and one with a very long “tail.” Typically, it takes several decades of coverage to produce a claim. The first LTCI policies were introduced in the 1970s. That's why, until recently, carriers didn't have enough claims experience on which to accurately base rates and underwriting protocols.

When the oldest LTCI policies started generating significant claims about ten years ago, it served as a wake-up call. Some carriers responded by exiting the LTCI marketplace. Most raised their rates, some dramatically. The smart ones rewrote their contracts based on their newfound knowledge. But not all carriers developed equal expertise, and your group deserves an expert. To identify one, look for the following three qualities.

### A Solid LTCI History

It doesn't matter how long a carrier has been in the insurance business; what matters is how long it has been in the LTCI business. How large are the carriers' books of LTCI business? How many groups do they cover? How much have they paid in claims? If you compare the statistics of several carriers, you can identify the leaders at a glance.

### Financial Strength and Stability

The easiest way to gauge a carrier's financial strength is to take a look at its industry ratings. Most people are familiar with the major rating services, such as A.M. Best and Moody's. Instead of consulting each rating service individually, check out Comdex, a composite index of four major rating services: A.M. Best, Standard & Poor's, Moody's and Fitch Ratings. In a moment, you can review the carriers' ratings, assets, reserves, etc. It's not another rating system, but a mathematical ranking of carriers' existing ratings and a time-saving shortcut. At the end of the day, you want a carrier with a Comdex ranking of 80 or above. If you don't have access to it, ask your broker for it.

### A Future Commitment to LTCI

One way to judge a carrier's commitment to the future is to look to its past. Find out if the carriers you're considering have ever exited the LTCI market. If they have—even just once—cross them off your list. If they've done it before, they may do so again—and that can be a nightmare for employers.

Here's what typically happens: An employer chooses a familiar carrier—say, its life or health insurance carrier—to write its LTCI plan. Then, sometime after the initial enrollment, the carrier announces that it is leaving the LTCI market. The carrier offers to retain coverage for employees who are already covered, but won't accept new hires.

Now what? The employer must find a second carrier to cover all future new hires. Now it will have to juggle two LTCI plans, which translates to double the work. Worse yet, because the population covered under the original plan is stagnating—remember, there are no new, young employees invigorating the pool—the group will age, experience will spiral downward and eventually rates will increase.

What's the solution? Find a new carrier, one that meets the criteria described above. Implement a new LTCI plan for new hires. At the same time, encourage your already insured employees to transfer to the new plan. Choose a carrier that will work hard to recruit them. For starters, make sure the carrier will offer coverage to these workers on a guaranteed issue basis. In addition, make sure it's willing to educate these employees by holding aggressive enrollment meetings. Yes, you will still have to administer two plans for a while, but at least you can feel good about your LTCI plan for the future.

### Mistake #2: A Weak Enrollment Plan

When you add a new coverage to your benefit program, it's a big deal. You want to make sure your employees understand it fully. And if it's a voluntary program, it's an even bigger deal. If enrollment is poor, the plan will fail. The reality these days is that most HR departments are stretched too thin to handle a new enrollment entirely on their own.

It's essential to align yourself with a carrier or broker who will handle the enrollment for you, in a thorough, hands-on manner. In other words, make sure you are receiving a truly turnkey program. This means asking for a step-by-step summary of the broker's enrollment plan before you commit. A good plan will include multiple components, including

- Announcement posters for your bulletin boards, cafeteria, etc.
- A series of detailed employee e-mails
- Letters mailed home (Spouses may be covered under voluntary LTCI plans, and they can also be influential regarding benefit purchasing decisions.)
- A series of in-person education/enrollment sessions conducted by the broker
- Webinars, if your group has employees in remote locations.

For all of this to happen, your broker really needs to understand LTCI. Because of the product's sophisticated nature, brokers often bring in an LTCI specialist to ensure things are handled correctly. This is a very good thing. For your enrollment to be successful, your employees need to truly understand the benefit. For this to happen, your spokesperson needs to be educated and passionate about LTCI.

### Mistake #3: Poor Plan Structure

One of LTCI's greatest advantages is that it offers employers so much flexibility. This is one of the few employee benefits that, in the eyes of the government, may be “discriminatory.” An employer may offer different LTCI benefits to different groups of employees, or even elect to cover only select employees.

Premium payment is flexible, too. You can pay 100% of premiums for whichever employees you want, pay no premiums whatsoever, or pay partial premiums and allow employees the option of purchasing additional coverage.

But many employers fail to take advantage of all of this flexibility. Before you choose a plan structure for your group, be sure to consider all of your options and how they would best serve you. Here are the most popular plan structures.

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## Carve-Out Plans

With these plans, you can “carve out” a group of employees who will receive employer-paid LTCI benefits. Yes, it is legal (not to mention tax-deductible). If your company has a philosophy of rewarding employees for years of service, or likes to reward its management team with meaningful executive perks, an LTCI carve-out is an excellent solution.

In addition, you can provide a carve-out plan for key employees while offering a voluntary or buy-up plan (see below) to the remainder of your workforce. This way, you can truly structure your LTCI plan to match your group’s benefit philosophy.

## Voluntary Plans

You can also offer LTCI on a completely voluntary basis. This is a cost-effective way of introducing LTCI, because your only investment is the time it takes to set up and maintain the plan.

An advantage of voluntary plans is that they can be offered to not only employees but to their spouses and extended family members, including parents, siblings and in-laws. (And even extended family members can enjoy a group premium discount.) If your company is committed to creating goodwill among employees and creating a “family-friendly” environment, consider this kind of voluntary plan.

Furthermore, you can offer voluntary LTCI to retirees—a rarity in today’s benefits world. If your company supports a large or close-knit retiree population, this might be a great strategy. In our experience, when LTCI is offered to retirees, the response is very positive and strong.

If you do offer a voluntary plan, make sure to incorporate these three steps:

1. Offer employees a choice of plans so they can choose the one that best fits their situation and budget.
2. Include a “basic” (low-benefit) plan in your selection. Making protection affordable boosts participation, ensuring the plan’s success.
3. Make sure your broker/specialist provides turnkey enrollment. As discussed earlier, the more detailed the enrollment process, ultimately

the higher plan participation will be.

## Partial Paid (Buy-Up) Plans

Too often, employers hone in on voluntary plans before weighing the pros and cons of offering a partial paid or buy-up plan. These plans can be very affordable for both employers and employees. As a result, they are often the most successful.

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Under this arrangement, the employer foots the bill for a modest core plan (say, \$100 in daily benefits, with a two- or three-year benefit duration), and employees can elect to purchase, or buy up, additional benefits.

Most employers don’t realize that a modest core plan may cost them as little as \$15 per month per employee, not to mention that these contributions are generally tax-deductible. Because employees can choose how much in additional benefits they want to buy up, workers find it affordable as well.

## Example: A Well-Designed Plan

Let’s take the Acme Company, a business with 100 employees, with 15 in management.

For its 15 management employees, Acme provides an employer-paid carve-out plan. The benefits are comprehensive: a \$200 daily benefit with five-year benefit duration.

For the remaining employees, Acme provides a core plan with buy-up option. Acme pays premiums for a modest core plan (say, a \$100 daily benefit with two-year benefit duration). Employees are of-

fered the opportunity of buying more coverage (say, increasing daily benefits in \$10 increments, up to \$300). During the enrollment period, employees are educated to help them make the best personal choice.

Finally, spouses, eligible extended family members and retirees are offered coverage on a purely voluntary basis, with a choice of the same plans along with additional options.

In this example, Acme takes advantage of LTCI’s flexibility to create a custom plan that works for its group—something every group should do.

## Mistake #4: Overlooking Inflation Protection

Most LTCI plans now offer an overwhelming array of add-on options. For this reason—combined with the fact that add-ons increase premiums—it’s tempting to dismiss these options out of hand. But one option deserves serious attention: inflation protection.

Remember, LTCI is a coverage that employees may own for 20 or 30 years before filing a claim. During that period, do you think health care costs will stay the same? Of course not. You know from your medical plan that health care inflation is a force to be reckoned with. Proof in point: In 1975, nursing facility care cost roughly \$20 per day. Today, that same care costs \$213 per day. By 2015, costs are expected to top \$290 per day. Without inflation protection, LTCI benefits can quickly become outdated.

Inflation protection ensures that the benefit an employee chooses today will make just as much sense down the road when he or she needs it. It works by automatically increasing benefits on each policy anniversary, keeping pace with inflation.

There are four basic inflation protection options:

1. Simple 5% annual increase
2. Compound 5% annual increase
3. CPI compound annual increase (adjusted according to increases in the Consumer Price Index)
4. Guaranteed purchase option (GPO), which gives insureds the option to increase benefits at policy anniversary.

Each option has advantages and disadvantages. For example, with simple and compound increases, the cost is spread over the life of the policy, so it’s predict-

able. With CPI adjustments, you know that your benefit increases will be meaningful, but you won't know what your premium increase will be. And, while GPO offers the most flexibility, any elected benefit increases are based on the insured's current age, which translates to higher rates.

Before you dismiss (or, for that matter, elect) inflation protection, find out what options are available and how it would impact your group's long-term benefits and premiums. It's a conversation well worth having.

When it comes to LTCI, many people fail to see beyond the tip of the iceberg. There's a right way and a wrong way to approach it, from choosing your carrier to choosing your plan elements. Plot your course with care and your group's LTCI will deliver the greatest long-term value. **B&C**

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**Murray A. Gordon** is a nationally recognized long-term care insurance expert, with 45 years in the insurance industry and 34 years as an LTCI specialist. One of the first to anticipate growing need for long-term care, he founded MAGA—an independent LTCI agency—in 1975. Gordon has worked with major carriers to pioneer today's innovative LTCI policies.

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