

**TESTIMONY
LONG TERM CARE PARTNERSHIPS**

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Thank you for giving myself and the Pennsylvania Association of Health Underwriters (PAHU) an opportunity to testify today.

For the record, my name is Rob Cohen. I serve as Regional Sales director of LTC Global/ACSI Long Term Care, Inc. For most of my professional life I have focused on meeting the long-term care needs of Pennsylvanians through the purchase of private sector long-term care insurance, or LTCi. I have insurance company experience as well as insurance producer experience and designed long-term care products for one of the nation's premier insurers in this field.

The association on whose behalf I testify is the Pennsylvania Association of Health Underwriters, an association whose members are insurance producer specialists in health insurance and employee benefits. I am also an active member of the Long-Term Care Guild, an association near Philadelphia dedicated to educating the public on the need to consider long-term care insurance.

As I mentioned before, my passion is long-term care insurance. Today I will present a view of the marketplace with a particular eye on the recent LTC Partnership.

Where the Long-Term Care Insurance Market is Now

It is important to look at the total long-term care insurance market before zeroing in on the Partnership.

The long-term care market does not match the need. With perhaps seven percent of the potential market, it is important to analyze why there aren't more people signed up in long-term care insurance programs. The market growth has been sluggish to say the least although the Federal Government decision to include LTCi as part of the federal employee benefit system did provide a boost in numbers.

The number of employers offering plans has increased slightly but it is estimated that roughly two-percent of companies offer plans with meaningful funding (even \$200 or so) towards premium cost. Most companies that concern themselves with long-term care insurance simply offer it as a stand-alone option, an individual versus a group option.

The issue is partly tax treatment. Individual employees with tax-qualified plans can include the LTCi premium towards the 7.5% of Adjusted Gross Revenue threshold on their Schedule A but if one does not reach the 7.5% of income, the premium does not provide any advantage. Similarly, from the employer vantage, only C corporations receive full benefits of tax deductibility without income to employees. S-corps and sole proprietorships have clear limits and employees receive no tax deductibility since, if they can get LTCi they are likely to be too healthy to have meaningful medical expenses.

The question is what the state can do. Federal income tax advantages can only be done at the national level and one item to consider is for the General Assembly to at least pass a resolution asking the U.S. Congress to change law allowing for above the line deductibility of a LTCi premium.

The other idea is a possible tax credit for businesses that offer (and help subsidize) long-term care insurance for their employees. Rep. Scott Petri (R-Bucks) has a bill in to do that and perhaps the Senate could also consider such a measure. Unless I am mistaken, New York may have such a tax credit and I am told that it has helped the market up there. Of course, during these difficult times, the question of how to pay for the tax credit will come up. My answer is to balance that cost with the understanding that each private sector long-term care policy means less potential cost to Medicaid and ultimately savings for the taxpayer.

Consumer education is obviously also critical.

Obstacles to Market Penetration

There are several obstacles to greater market penetration by private sector long-term care insurance plans.

- When you are younger and healthier, you don't see the need for it. It's a lot like people not buying Flood Insurance when the sun shines. When someone is at risk of a flood or the water is rising up the driveway, then they want to buy but by then, it's too late. In the long-term care context, why would an insurance company offer a LTCi policy to someone with dementia, knowing that there is a guaranteed claim? To make the product less costly, you need younger, healthier people.
- This is not an easy product to sell because it is complex and requires repeated visits and a lot of time. It's not like selling someone a term life policy. This is involved with activities of daily living triggers, Medicaid issues, etc.
- Cost is another barrier. A younger healthier person may simply not have the cash flow to purchase a discretionary product like this. Also, some provisions in a LTCi policy such as inflation protection may be essential but if they drive up the premium past a certain point, a person may decide that it's just too expensive.
- One development that may help somewhat is the Health Savings Account which can be used to pay for LTCi premiums.
- Some may not know that the product exists.
- There is a perception that Medicaid will be there so why purchase a private sector policy. Some have called long-term care insurance the Middle Class Entitlement Program because some anticipate Medicaid meeting that need. They may not realize that there is a shortage of facility beds and that Medicaid long-term care may mean going to a location not of one's choosing. They may not appreciate the rigors of the Medicaid 'spend-down' process.

In addition, there is federal legislation called CLASS that indicate the existence or illusion of comprehensive home care benefits from Medicaid in certain states without true 'means testing' This gives some prospects an opportunity to sit on the fence and put off consideration of issues that will prompt a buying decision.

The Partnership

As you know, the Long-Term Care Partnership existed in four states (California, Indiana, New York, and Connecticut) until the Omnibus Budget Reconciliation Act of 1993 when concerns about Medicaid estate recovery prompted Congress to not allow any more. Specifically, those states' experience showed that out of over 100,000 policies in force, fewer than 200 went on to exhaust the benefit and having the subscriber end up on Medicaid for long-term care. It is a success story.

Also as you know, thanks to the national leadership of two former Pennsylvania Senators Allyson Schwartz and John Peterson of different political persuasions, the U.S. Congress passed the Deficit Reduction Act which allowed states like Pennsylvania to petition the Centers for a Medicaid waiver. This waiver was granted so that Pennsylvanians may now shelter some of their assets from Medicaid spend-down so as to be able to purchase a private sector long-term care insurance policy which pays for their long-term care needs first. When those benefits are exhausted, then Medicaid might step in.

The Partnership goal is to reduce the growth in Medicaid and to encourage personal responsibility for people with means to decide for themselves what care they want rather than become wards of the state.

The Partnership Market Now

Please understand that a new product takes time to penetrate people's awareness. The Partnership will take time to find its role in the market. Still, there are some observations I can make now.

- There have been few requests to convert an existing policy to a Partnership policy. That may be lack of understanding or fear that premiums will increase if they make a change. Frankly, I think people are scared right now to make changes like this because of the economic uncertainty.
- The message from the public sector about Partnerships has been ineffective because the message is unclear. “Own Your Future” had great intentions but insufficient thought was given to the message. If the thrust was to convince people to consider long-term care Partnerships as an option, it failed. The message was unfocused. Perhaps the state should have brought some insurance agents in and have them help design a marketing approach.
- Still, the marketing/education effort has helped a bit. Private insurers do mention the Partnership in mailings and ads and people sometimes make a link between the government outreach and private sector solicitation. Not much but some.
- I do not think that interest shown in Partnerships represents those people who were going to buy LTCi anyway. I think Partnerships are stimulating new interest, just not enough.
- One major problem is the lack of Partnership products in the PA market now. While the Insurance Department should be appreciated for its cautious approach in approving products in PA, perhaps these Partnership products could be fast-tracked. An insurance company is not going to devote marketing resources for Partnerships if they do not have a product to sell. Government outreach cannot do the job alone. But the Department can unleash the marketing talent of the insurance industry by getting products out there more quickly.
- As an aside, PA is a state within the Interstate Insurance Compact. This means that a long-term care Partnership product already approved in another Compact state should be automatically approved for sale in our state. I haven’t seen any of those despite the enabling legislation. Perhaps the Department could shed some light on why so few Partnership products are available. If they are not getting applications from insurers, shame on us. If there are applications that are slow to process, perhaps research could identify problems and solve them.

The Role of Education

Consumers need to be educated about long-term care insurance and about the Partnership. As mentioned before, I believe that the message was muddled during the “Own your Own Future” campaign. While I would never say that long-term care insurance or Partnerships are right for everyone, I would have liked the public sector effort to have been a little more directed at this option. Language, for example, could have issued a call to action where decisions must be made for one to provide for a financial future and personal responsibility. Insurance should have been stressed as a viable way to achieve that security. Long-term care insurance is not for everyone but when accounting for variables such as health, family history, and desired retirement lifestyle, it can be very important.

The action item in the campaign should have been to encourage citizens to sit down with someone knowledgeable—a licensed insurance expert who can help a person compare options and reach his or her own decision. The message should be that the time to meet is now when the person is younger and healthier, not when the person is older and frail.

The message should also be about more than the financial consideration even those are critical. It is a decision involving what is going on in society where kids move on and simple aren't there to take care of mom or dad. Long-term care insurance and the Partnership represent a way for the kids to have some peace of mind and perhaps some security from parents not being forced to liquidate assets on their path to welfare.

Persuading someone to make a decision as important as long-term care insurance does not happen with a billboard or a glossy mail campaign, no matter how catchy the slogan is. It is a retail person to person connection that makes the sale. What the outreach does is to establish a concept and a perception of need or want. The agent is the one to make the system work by convincing someone to make the decision to be insured.

Opposition to the Agent from the Government

There is a belief shared by many insurance agents that the state bureaucracy simply does not like us. PAHU has commented every time the Department of Aging updates its State Plan on how to best meet needs of the elderly. Each time we ask Aging to consider insurance agents as partners in the goal of helping seniors with retirement/financial issues including long-term care insurance. While it is nice to be given a courteous hearing, ultimately nothing ever happens that shows the insurance agents who want to help that their efforts are wanted or valued.

Not every agent is driven by thirst for commission. Most agents I know believe in helping people become or stay self sufficient. In the long-term care field, there has to be a calling because selling long-term care insurance is not easy. It takes time to educate. While this time is compensated when there is a sale, the motive is deeper than that. Agents truly care deeply about their clients.

What this means is that Aging is overlooking an obvious resource. APPRISE is one resource even though most APPRISE volunteers may not have had the training to help consumers evaluate their possible need for LTCi. Let us work together since we share a common goal.

One way to address this might be to appoint an insurance agent to the Long-Term Care Council. At least there would be a formal outlet for agents to help the Department of Aging. Hopefully, the government can overcome what we see as its fear that agents will unscrupulously influence and sell instead of simply providing advice in a Department of Aging setting. Using agents makes even more sense now since traditional Aging outreach monies may be reduced with the budget deficit Pennsylvania has to deal with.

Conclusion

Partnerships are a positive approach to solving two problems.

First is the fiscal problem that comes with an exploding Medicaid long-term care budget. A Partnership policy is a hedge against expenditure of tax dollars for those who can choose to take care of themselves by purchasing this insurance product.

Second is an emphasis on a person taking responsibility for the future instead of waiting on someone else to take of them.

I believe that the Partnership market is in its infancy but with proper education and outreach by both the insurance industry and the government, it will certainly grow. Please let know how we can be a resource to help.

Thank you again for giving me the chance to testify.