

Pennsylvania State Senate

Banking and Insurance Committee

Public Hearing on the Long Term Care Partnership Program

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INTRODUCTION

Chairman White and Members of the Committee, thank you giving me the opportunity to testify at today's hearing.

My name is Rodney Perkins. I am Senior Government Relations Manager of Genworth Financial's Long Term Care insurance business. Genworth Financial is a Richmond, Virginia-based company which provides retirement income, life, long term care, and mortgage insurance products to more than 15 million customers in 25 countries. Our organization helped to pioneer long term care insurance back in 1974, and today we are the largest, most experienced, long term care insurance provider in the country.

We currently provide service to over 1.3 million policyholders and pay approximately \$3 million per day in long term care benefits. Over the last 34 years Genworth has paid a combined total of \$5.6 billion in claims benefits. We are very proud of this fact as this coverage has saved thousands of families an enormous financial and emotional toll.

Long term care insurance is vital to help protect individuals and their families from the staggering cost of long term care, and a critical means to help shift the burden of paying for this care from individuals and state Medicaid budgets to private industry. Two-thirds of people over the age of 65 will need long term care in their lifetimes, but many Americans have not proactively planned for this possibility. The cost of long term care continues to rise at a time when many American families have seen the value of their homes and investments dwindle as a result of the current economic downturn. Now more than ever it is important that families and their trusted advisors evaluate the options and begin to map out a financial security strategy to cover the growing cost of this vital care. It is equally important for states to support initiatives such as the long term care partnership program that help their residents prepare and plan for their future care.

My testimony will build upon the testimony provided by Sam Marshall of the Insurance Federation of Pennsylvania, and will focus on the important role of long term care insurance and developments in this marketplace, the long term care partnership programs, and other programs and incentives designed to help Pennsylvanians prepare and take responsibility for their long term care.

IMPORTANCE OF LONG TERM CARE INSURANCE

Long term care insurance is important for four reasons: 1) It generally provides peace of mind in a time of shifting and uncertain economic burdens. 2) It represents a critical part of a sound retirement plan – protecting assets and preserving funding sources for future family needs. In certain cases on the more severe claims, it can prevent the need to access Medicaid funds. 3) It can serve to increase the number of care options available to policyholders and their families. 4) Care coordination and other information resources provide value beyond the payment of financial benefits.

Long term care insurance covers expenses for home health care, nursing homes, and assisted living facilities when a policyholder is chronically ill, as defined by the federal HIPAA (Health Insurance Portability and Accountability Act) statute. Specifically, a policyholder is chronically ill when they either need assistance with two or more activities of daily living (such as bathing,

dressing, and feeding themselves) or they need assistance because of severe cognitive impairment, such as Alzheimer's disease.

40% of our claimants file claims based on cognitive impairment, the majority associated with Alzheimer's disease.

Many people often link long term care insurance with nursing homes, but this is outdated thinking. Long term care insurance has evolved from nursing home coverage in the 1970's and 80's to providing care across all settings today. In fact, 75% of our initial claims are filed for services in the policyholder's home.

In addition, today's long term care insurance products offer care coordination services to develop plans of care for policyholders and help in finding caregivers. For our customers, the policy is not just about avoiding the devastating expense of long term care needs, but also about having access to quality care and information.

WHO PAYS FOR LONG TERM CARE

The cost of long term care can be devastating to families. In Genworth's 2009 Cost of Care Survey, we found the average cost for just one year of care in a private nursing home room to be \$74,208. In PA, that cost jumps to \$88,563. Here in Harrisburg, the cost is \$89,790.

There are only a few options available to individuals to pay for their long term care: 1) Private pay (self-insuring), 2) Government entitlement programs (Medicare and Medicaid), and 3) Long Term Care Insurance.

Self-insurance may be an option for some, but given the high cost of long term care, many Americans have not saved enough to cover the average cost of care.

Medicare is not intended to cover the majority of long term care expenses. Benefits may be available for home health care, but only if certain conditions are met. Medicare may pay up to 100 days of care in a skilled nursing facility, but only when skilled care is needed, and only at a rate of 100% for the first 20 days, after which a co-pay is required.

In order to qualify for government assistance through Medicaid, individuals must spend down their assets to very low levels and meet other restrictions on income. Spending down to Medicaid eligibility isn't necessarily a seamless transition, and oftentimes adult siblings or the children of adults who need care find themselves spending their own savings, college tuition accounts for their kids, or even borrowing home equity to pay for their family member's care until they arrive at nursing home care through Medicaid. Medicaid continues to be the largest payor of long term care, with long term care services comprising the majority of many state Medicaid budgets.

Some individuals have the misperception that their private health insurance will pay for long term care services. Long term care is not covered by other kinds of insurance, including HMOs, health or long-term disability insurance. Only long-term care insurance covers day-to-day personal care assistance for everyday activities like bathing and dressing.

Therefore, private long term care insurance remains the best option for many individuals.

THE LONG TERM CARE PARTNERSHIP PROGRAM

Congress took action to help Americans plan and prepare for their long-term care needs with the passage of the Deficit Reduction Act in 2006. Through this legislation, restrictions were lifted and now all states can adopt a Long-Term Care Insurance Partnership Program. As Sam Marshall indicated in his testimony, the Pennsylvania Partnership Program was established with an effective date of July 1, 2007. To date, 29 other states (in addition to the original four partnerships) have filed state Medicaid plan amendments with Health and Human Services to establish partnership programs. The Partnerships will allow consumers in these states to purchase a long-term care insurance policy the benefits of which, once utilized, provide a dollar-for-dollar asset disregard for determining Medicaid eligibility. These individuals will be able to retain more of their personal assets and still be able to qualify for Medicaid in the unlikely event they still need Medicaid assistance.

I would like to share my company's experience with the partnership programs. Genworth has been a participant in the original four partnership programs since they were established in the early 1990's (CT, NY, IN, and CA), and we are currently selling partnership-qualified coverage in ten states with operational partnerships under the new Deficit Reduction Act provisions. We have filed certifications of our policies in Pennsylvania and are awaiting approval to begin offering partnership coverage in the Commonwealth.

The partnerships have met their goal of increasing the number of individuals with private long term care insurance. It has been our experience that the availability of partnership-qualified policies increases sales by approximately 10% over what they would have been in the absence of the partnership program. For our ten newest partnership states, approximately 90% of new sales are partnership-qualified policies. In one study performed in conjunction with the Robert Wood Johnson Foundation, it was found that more than 30 percent of policyholders reported that they would not have purchased long-term care insurance without the Partnership program.

We believe the partnerships have also met the goal of taking much of the financial burden off state Medicaid agencies by shifting the risk to private long term care insurance carriers. Less than 1% of our over 150,000 partnership policies have had the policy benefits exhausted, meaning that the insurance coverage purchased by these individuals was sufficient to meet their long term care needs, and the policyholders did not need to subsequently turn to state Medicaid systems to fund their care. The existing partnership states are able to demonstrate significant Medicaid savings as a result of these programs. For example, in the Connecticut Partnership's most recent annual report, the state projects a 6.8% annual savings to Medicaid per year by 2016-2020, equivalent to approximately \$160 million annually in 2008 dollars.

Another important aspect of the partnership program is consumer protection. Under the requirements of the Deficit Reduction Act, coverage being offered as partnership-qualified must contain numerous consumer protections based on the National Association of Insurance Commissioners (NAIC) Model Act and Regulation. The coverage must contain inflation protection based on the age of the purchaser. The agents selling these products must go through rigorous training, and consumers must receive detailed disclosures about the coverage and how it relates to Medicaid.

EDUCATION AND AWARENESS

One of the most effective things state governments can do to increase the number of their citizens who consider private long term care insurance is education and awareness.

As Sam Marshall testified, Pennsylvania made great strides in this area by recently participating in the HHS "Own Your Future Campaign." Under this program, the federal government made resources available to generate mailings to Pennsylvania households with residents age 45 to 65, providing them an opportunity to receive more information about long term care issues. Close to 20% of those receiving the mailing responded via reply card that they wanted more information. During the time of these government mailings, we at Genworth saw an increase in response rates to our own company mailings to Pennsylvania residents and an increase in the number of residents purchasing long term care insurance.

As Sam Marshall indicated, we would also encourage Pennsylvania to continue to look for opportunities to educate state residents about the need to prepare and plan for their long term care, including continued promotion of the Partnership Program.

TAX INCENTIVES

Currently approximately 30 states have some form of tax incentive (credit or deduction) for the payment of long term care insurance premiums. Our experience has been that the existence of these incentives do increase the number of long term care insurance sales in the state. Not only does the credit or deduction itself provide an incentive, but the inclusion of a line item on the state tax form also raises awareness about long term care insurance. I encourage Pennsylvania to join the states currently offering these tax incentives.

MARKET TRENDS

As I indicated earlier, most long term care insurance being sold today is "comprehensive," covering care not only in traditional facilities such as nursing homes, but also in assisted living facilities, adult day care facilities, and care received in the home.

Another growing trend is sales made on a "group" basis (vs. individual sales), and the continued reduction in age of the typical purchaser. The average issue age for the typical long term care insurance purchaser in 1990 was 68. By 2007, the average issue age for such a purchaser had dropped to 57. The average issue age for the typical group purchaser in 2007 was 47.

Because of the growth prospect in the group market, we encourage Pennsylvania to ensure that partnership-qualified coverage is available to working Pennsylvanians who wish to purchase long term care insurance on this basis.

THE LONG TERM CARE WORKFORCE

In addition to programs that provide incentives for more Pennsylvanians to consider long term care insurance, I strongly encourage you to also examine issues related to the Commonwealth's caregiver workforce.

In 2008 Genworth Financial conducted a study and issued a report entitled, "A Workforce to Care for Our Aging." We found that while America continues to grapple with ever-increasing health care costs, there is a looming gap between the number of people who are projected to need long term care services and the number of workers available to provide care and services. As it pertains to paid caregiving, this gap is the direct result of significant challenges to recruit and retain a sufficient and sustainable long term care workforce. In addition, unpaid family caregivers – on the other end of the spectrum and who account for the largest portion of long term care providers in the nation – are also under severe and growing stress. This gap has the potential to negatively impact Americans and the health care system in two ways; 1) The costs of health care may rise significantly as the workforce supply diminishes, and 2) The quality and availability of care may decrease, placing added pressures on family members and friends to care for loved ones. A number of studies have concluded that up to 200,000 workers must be recruited into the long term care workforce each year to keep up with the demand of the Boomer population.

The turnover rate for paraprofessional long term care workers in the U.S. is disproportionately high – 13 to 18 percent higher than the overall labor force and 20 percent higher than other service workers. This is due to a wide range of issues including low wages, lack of access to quality training and continuing education opportunities, lack of benefits such as health insurance, and generally lower worker satisfaction. Some states have begun to address these issues by considering solutions such as subsidies and incentives to help these workers obtain health insurance coverage. I encourage Pennsylvania to also consider programs to help ensure the adequate recruitment and retention of these workers.

CONCLUSION

With your adoption of a long term care partnership program, participation in the Own Your Future Campaign, and other state efforts, Pennsylvania is a leader among states in helping your citizens prepare and plan for their future long term care. I encourage you to continue efforts such as these.

I would be happy to address any questions you may have.

Thank you.