Who Buys Long-Term Care Insurance in 2000?

A Decade of Study of Buyers and Nonbuyers

Executive Summary

The purpose of this study, which builds on work completed in 1990 and 1995, is to identify who buys long-term care insurance and to understand what motivates them to do so. We compare findings to a sample of nonbuyers and other Americans age 55 and over. We also track how purchase decisions have changed over the past decade. An examination of such changes can help policymakers and the insurance industry better understand marketplace opportunities and barriers. Such an inquiry can also contribute to the debate about the consumer protection tax deductibility and regulation of long-term care policies, as well as about whether (and how) this insurance can help solve the increasingly complex puzzle of long-term care financing. Twelve companies participated in this study, representing more than 80 percent of total sales in 1999. These companies contributed a sample of 2,728 buyers, 638 nonbuyers, and design information on 5,407 policies. In addition, 500 individuals age 55 and over were surveyed from the general population.

Findings

Sociodemographic Characteristics

- The average age of individual buyers has declined from 69 years to 67 years. Perhaps the greatest change relates to the under-65 age group. A third of all individual long-term care policies sold are purchased by people younger than 65.

- Both buyers and nonbuyers are wealthier than their counterparts in the general population, are more likely to be married, and are far more likely to be college educated.

- The major demographic differences between buyers and nonbuyers are that the latter tend to be somewhat older, are less likely to be employed, and are less wealthy than buyers of long-term care insurance. This represents a change from earlier surveys, which revealed few demographic differences between buyers and nonbuyers.

- The average income and asset level of buyers has increased substantially over the past decade. Whereas in 1990 and 1995 about 60 percent of buyers had incomes less than $35,000, by the year 2000 this figure had declined to 36 percent. This dramatic change in the wealth profile of buyers throughout the decade is attributable to more "younger elders" buying the product, a substantial boost in retirement savings over the past five years due to the stock market, and agents avoiding sales to individuals with less than $20,000 annual income.

Attitudes Toward Long-Term Care and Insurance

- Many of the attitudinal trends present in 1990 and 1995 persist in 2000.

- Being a "planner"—one who believes that it is important to plan for the possibility of needing services—is associated with the purchase of long-term care insurance. Consistently, buyers have been almost twice as likely as nonbuyers to strongly agree with the statement "it is important to plan now for the possibility of needing long-term care services."

- Buyers tend to worry less about paying for long-term care services and are much more likely to view long-term care insurance products as adequate than are nonbuyers.

- Nonbuyers continue to be more than twice as likely as buyers to agree with the statement "the government will pay for most of the costs of long-term care if services are ever needed." It is therefore not surprising that these individuals do not buy policies. They believe the government will pay for any care that they may need in the future.

- Individuals age 55 and over from the general population were most likely to believe that the government will pay for long-term care or that such services will be covered by other health insurance.

- Buyers typically perceive the risk of needing nursing home services to be higher than do nonbuyers.

Trends in Product Purchase

- Coverage is much more comprehensive today than it was just a few years ago. The proportion of dual-coverage policies (i.e., those that cover both institutional care and home care) grew from 37 percent in 1990 to 77 percent in 2000.

- Over the past five years, the average daily nursing home benefit has increased by 28 percent, which is higher than the rate of inflation.

- The difference between the daily benefit paid in institutional settings and that paid in home care settings has narrowed significantly. The average daily benefit for home care has grown by 36 percent over the five-year period.

- There is also a growing trend toward the purchase of compound inflation protection. This trend probably reflects the increase in younger buyers, who are more likely to need inflation protection.

- Average annual premiums have increased 11 percent between 1995 and 2000, from \$1,505 to \$1,677. Given the more comprehensive nature of policies, one would have expected average policy premiums to increase by more than 20 percent. Clearly, long-term care insurance is a better buy today than it was five or 10 years ago, and consumers are receiving more value for the premium dollar.

- Data suggest that "nursing home only" policies appeal to buyers who are older, have lower incomes, and fewer assets, are more likely to be single and female, and are less likely to be working.

Understanding the Buy/Nonbuy Decision

- Individuals are buying long-term care insurance to meet multiple objectives. About one in three respondents indicated that protecting their assets and estate was the single most important reason for purchase. This is roughly the same proportion as observed in 1995.

- About 45 percent indicated that the tax benefit was an important motivator. However, 34 percent said it was not important, and 21 percent did not even know about the tax change.

- For most buyers (85 percent) this is their first purchase of long-term care insurance. Only 15 percent were either replacing a previous policy (11 percent) or adding to an existing policy (4 percent). Most (62 percent) know someone else with a policy.

- Among married couples, 82 percent have a policy for each spouse; this compares to 61 percent in 1995.

- For the most part, people do not decide to purchase long-term care insurance on their own. In addition to the insurance agent, others (spouses, children, relatives, and financial planners) contribute to the discussion.

- Two out of three buyers cited spouses and agents as having the most influence on the decision to purchase long-term care insurance. Only rarely do children take an active role in the purchase decision.

- The agent's recommendation and the insurer's reputation are the reasons most often cited for the purchase of a particular company's policy.

- The overwhelming majority of buyers and nonbuyers alike felt that the agent was knowledgeable, adept at the available coverage options, and a good listener. They also believed that the agent recommended the policy best suited to their needs.

- As in 1990 and in 1995, nonbuyers said that cost was the most significant barrier to purchase.

- In 1990, 87 percent of nonbuyers indicated that they did not buy long-term care insurance because it was too confusing, and they could not determine which policy was right for them. By 2000, this figure had dropped almost in half—to 46 percent.

- In 2000, there is more confidence about the integrity of insurance companies that provide long-term care insurance. Among nonbuyers, 44 percent didn't believe that companies would pay benefits as stated in the policy; at the beginning of the decade, this figure was 71 percent.

- More than three in four current nonbuyers would be more interested in buying a policy if they could deduct premiums from their taxes, if they thought the government would provide stop-loss coverage once their private insurance benefits ran out, or if they felt premiums would remain stable over time.

- Between 14 percent and 17 percent of nonbuyers would, under the right circumstances, be willing to pay the premium level for policies being sold to their age group.

Tax Deductibility

- Most buyers (62 percent) did not know whether or not they had a tax-qualified policy. In addition, about one in five buyers did not know of the potential tax benefit associated with the purchase of long-term care insurance. An explanation for this confusion may be that many companies only offer tax-qualified policies only to potential policyholders. Therefore, whether one's policy is tax-qualified or not would not be a focal point of the agent at the time of sale.

- Nonbuyers were three times more likely to be unaware that, under certain conditions, premiums are tax deductible.

Attitudes Toward the Role of Government

- Most Americans age 55 and over do not believe that the government will pay for most long-term care services within the next 10 years. There is also a consensus that individuals will have to assume greater responsibility for their long-term care needs. This attitude has remained fairly stable between 1995 and 2000.

- Most individuals age 55 and over do not believe it is the responsibility of the federal government to pay for the long-term care needs of everyone without regard to personal resources.

- Roughly one in three Americans over age 55 believes that the single most important action government could take is to offer tax incentives for the purchase of private insurance policies. One out of four believes that individuals should be offered the option of buying a government-sponsored long-term care insurance plan. This finding suggests somewhat more support for private insurance contracts than for a government-sponsored plan.

- More than three in five individuals age 55 and over are aware of companies that offer long-term care insurance. Just five years ago, that proportion was closer to two in five. Moreover, slightly less than half have been approached to buy insurance or have considered buying it, about twice as many as five years ago.

Results from this study clearly show just how dynamic the market is for long-term care insurance. The products selling on the market offer comprehensive benefits to meet the needs of disabled individuals in both institutional and community settings. Moreover, consumers are receiving better value for their premium dollar than they were just a few years ago. Data suggest that there is a great deal of untapped market potential. Given the favorable public policy environment, the tremendous improvements in product design, and the growing interest in long-term care insurance among Americans age 55 and over, the market for long-term care insurance will continue to grow. Over time, this insurance will play a more meaningful role in meeting and financing the long-term care needs of elderly Americans.