TESTIMONY OF FROLLY BOYD

Good morning, Mr. Chairman and members of the Committee. Thank you for this opportunity to speak to you today. My name is Frolly Boyd. I am the senior vice president of Aetna Life Insurance Company's Group Insurance division based in Hartford, CT. It is my unit that is responsible for Aetna's long-term care insurance policies.

As one of the nation's oldest and largest providers of health and related group benefits, Aetna has taken a leadership role in long-term care insurance. Indeed, Aetna underwrote the nation's first employer-sponsored group long-term care insurance plan for the state of Alaska back in 1987.

In addition to representing Aetna, I am also here today on behalf of Americans for Long-Term Care Security (ALTCS). I serve on the board of ALTCS, a 34-member coalition of consumer and industry organizations that seeks to build public awareness about long-term care and advocates legislation to help Americans better prepare for their retirement security. Our membership includes such diverse interests from the National Alliance for Caregiving and the American Society of Aging to the Council of Affordable Health Insurance and Citizens for a Sound Economy. The complete membership list is attached.

Aetna and ALTCS believe that the government must continue to provide a safety net for the truly needy. At the same time, the government should also provide incentives for private sector solutions, such as long-term care insurance, so that individuals and families are encouraged to take personal responsibility for long-term care planning. Every American with private long-term care coverage today is one fewer citizen looking for government assistance tomorrow.

I am delighted that this Committee is addressing a critically important issue: how private long-term care insurance can help relieve the financial and emotional burden of long-term care faced by millions of aging Americans.

Drain on Medicaid

Congress needs to act now. With the baby boom generation preparing to retire, the cost of long-term care will place an intolerable strain on the Medicaid program unless alternative sources of financing can be found.

Contrary to popular belief, Medicare pays virtually nothing for long-term care services. Medicaid is the one and only government program providing long-term care coverage, and it pays for over two-thirds of all nursing home patients in the U.S. This has put a tremendous strain on state budgets. As the nation ages and the baby boomers start to retire, Medicaid spending on long-term care will further strain government budgets, mostly at the state level. Indeed, Medicaid's costs have increased dramatically in just the past year. This committee recently heard compelling testimony from the states on the severe strain Medicaid budgets are under from rising nursing home costs for long-term care.

It should be noted too that Medicaid is a means-tested public assistance program – initially designed for the poor in need of health coverage. But today, with the high cost of nursing home care and the widespread practice of transferring and sheltering assets to achieve Medicaid eligibility, the middle-class elderly end up in nursing homes paid for by Medicaid monies.

For America's 77 million baby boomers, paying future long-term care costs is their largest looming expense. In 2020, one out of every six Americans will be age 65 or older – roughly 20 million more seniors than today. Furthermore, by 2020, the number of Americans 85 and older – the people most likely to use long-term care – will double to seven million.

It's no secret that long-term care is very expensive. The average annual cost of a one-year nursing home stay is $55,000. In some areas of the country it's closer to $80,000. It costs almost $16,000 annually for daily visits by a home health care aide. Alarmingly, these expenses are projected to quadruple over the next 30 years – eroding hard-earned retirement nest eggs. This makes the financing of long-term care coverage both a health *and* retirement issue. How devastating it will be for a retiree to see his or her retirement nest egg drained overnight because of a long-term care need.

Medicaid will never be able to foot the bill for the millions of baby boomers that will need long-term care services in the near future. And, it shouldn't have to given the mission of Medicaid to assist the poor. Helping people pay for these services directly through quality insurance products should be part of our nation's answer to this crisis.

That is why Aetna and ALTCS strongly support the "Long-Term Care and Retirement Security Act of 2001," introduced by Senators Charles Grassley and Bob Graham (S.627) and co-sponsored by 23 other members of the Senate including seven members of this committee.

The bill would allow individuals an above-the-line federal income tax deduction for the premiums individuals pay to purchase long-term care policies. Additionally, it would provide for up to a $3,000 tax credit for family caregivers to help cover their long-term care expenses. It will also permit long-term care insurance coverage under employer-sponsored cafeteria plans and flexible spending account arrangements.

Benefits of S.627

While not a panacea, this legislation will provide some needed relief to the growing numbers of Americans who are overwhelmed by caring for their disabled parents and relatives, while encouraging many of those caregivers to begin preparing for their own long-term care needs.

Passage of this bill is important for several reasons:

- Tax incentives would make private long-term care insurance, both individual and group-based coverage, more affordable.
- The government would be promoting individual responsibility by encouraging Americans to fund their own future long-term care needs.
- Individuals buying private insurance would have less reason to spend-down their assets to make themselves eligible for Medicaid, thereby forcing government to pay for their long-term care needs.
- An expanded private long-term care insurance market would reduce Medicaid outlays, thus decreasing future costs to the federal and state governments.

Public Education Needed

Another important reason this legislation is needed: its very passage will generate publicity and help make the public more aware of the value and dramatic cost savings of pre-funding its long-term care risk through insurance. This kind of consumer education is critical. I can't stress enough that we need to do a better job in this area.

The new federal employee long-term care program will certainly go along way toward helping to educate Americans. However, these efforts need to be strengthened because the majority of Americans are unaware of their potentially devastating financial risk in this area.

One of the barriers to growth in the marketplace is consumers' misconception about who pays for long-term care and their lack of awareness about long-term care insurance. A recent survey found that only 25 percent of individuals age 55 and older think they or their family would be responsible for long-term care expenses. The underlying belief of many is that public programs or their own health insurance would provide the coverage they need. Younger baby-boomers have similar misconceptions. Unfortunately, this is hardly the truth.

In fact, most health insurance plans don't cover long-term care, and Medicare coverage is very limited. Medicare's skilled nursing facility benefit doesn't cover most nursing home care. And Medicare does not cover homemaker services. It doesn't pay for home health aides who provide personal care unless the individual is homebound and is also receiving skilled care such as nursing or therapy. Also, Medicare supplement insurance policies don't cover long-term care costs.

Individuals who do ***not*** purchase long-term care coverage prior to needing it may become uninsurable. Waiting until the need for coverage arises generally results in a situation where the individual no longer qualifies for long-term care insurance coverage. If they do qualify, costs may be too prohibitive to purchase a long-term care plan. It would be similar to trying to purchase auto insurance after you had a car crash.

Education should begin early, so that younger individuals understand the likelihood that they will need long-term care and can plan ahead while they have the resources to do so.

The cost of long-term care insurance is also cited as a reason why few consumers own a policy today. Many people assume insurance covering nursing home costs must be expensive. In reality, long-term care insurance policies can be quite affordable, especially when purchased at a younger age.

Compared to the prospect of wiping out a lifetime of savings to pay for long-term care bills - potentially running up to hundreds of thousands of dollars - insurance premiums are quite reasonable. How much someone pays for coverage depends in part on their age when they buy the policy. Long-term care policies are sold on a level premium basis. This means that the premium you pay stays the same for the life of the policy unless you voluntarily increase your coverage through an inflation protection provision in the policy.

Buying at a younger age locks in your premium. A 40-year-old, for example, might pay an annual premium amount of $259 for a standard group long-term care policy with a daily nursing home benefit amount of $200 (or $100 a day for at home care), and that annual premium rate would apply for the life of the policy. The same policy for a 50-year-old would cost $482 and for a 60-year old it would cost $1,136. Although a younger individual will pay premiums over a longer time, it is still less expensive to purchase the coverage at a younger age, instead of buying at an older age and paying higher premiums for fewer years. Assuming premiums are paid until age 75, a 40-year-old will pay $259 a year over 35 years totaling $9,065. A 60-year-old will pay $1,136 a year over 15 years totaling $17,040.

Surveys repeatedly show that lowering costs of long-term care insurance through tax incentives would spark growth in this market. Those who don't enroll in employer-sponsored long-term care plans overwhelmingly say they would be interested in enrolling if they could deduct premiums from their income taxes regardless of whether they itemize. I believe that the tax breaks contained in S.627 will dramatically increase the public's appetite for long-term care products.

Although the number of individuals purchasing long-term care policies – either individually or at work – is relatively low, the market is growing. This is particularly true with employer-sponsored plans that reach a large number of people efficiently during their working years when premiums are more affordable. Policies have also improved. Increasingly, insurers are offering comprehensive coverage with a wide range of benefit options and design flexibility. Today's policies cover a variety of services, providers and care settings such as both facility-based and home-based care. Driven by the aging boomers and a growing unmet need for retirement security, the market could really take off with the aid of the tax incentives contained in S.627.

Consumer Protections

The long-term care policies subject to the tax incentives under S.627 are currently covered by broad consumer protections that were enacted as part of HIPAA. S. 627 is important because it updates those protections, and adds some others, to reflect the most recent provisions of the NAIC Model Long-Term Care Act and Regulation. We strongly applaud and encourage legislative efforts to develop uniform consumer protection provisions so that the public can be assured that the benefits they expect will be paid on time, when needed, and without hassle.

To that end, Aetna and ALTCS support the consumer protections contained in The Health Insurance Portability and Accountability Act (HIPAA) of 1996, which provided certain limited tax advantages for policies that contained those protections. Some of the existing consumer protections that would be updated by S. 627 include:

- The offer of a nonforfeiture benefit – a policy provision that provides a paid-up benefit equal to the premiums if the policy is canceled or lapses;
- The offer of inflation protection – provides for increases in benefit levels to help pay for expected increases in the costs of long-term care services;
- A prohibition on limiting or excluding coverage for Alzheimer's and certain other illnesses;
- Minimum standards for home health and community care benefits;
- A 30-day free-look period in which consumers can cancel the policy after buying it and get their money back.

- Significantly expanded suitability standards, designed to help insurers and consumers determine the appropriateness of long-term care insurance purchases.

Some of these new consumer protection provisions added by S. 627, which Aetna and ATCS support, include:

- Required disclosures to consumers of rating practices;
- Provisions requiring contingent nonforfeiture benefits to be included in long-term care policies.

In conclusion, we believe that swift passage of this bill will help families struggling with the staggering costs of long-term care, and enable others to protect themselves by purchasing private coverage. As the baby boom generation ages into retirement, they must be encouraged to buy private insurance now to provide for their own eventual long-term care needs. Continued reliance on Medicaid and other public programs is not the answer. The tax relief embodied in S.627 will go a long way in providing aging Americans with retirement security.

Americans for Long Term Care Security
Coalition Members

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