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Before the

Senate Special Committee on Aging Hearing on

Offering Retirement Security to the Federal Family:
A New Long-Term Care Insurance Initiative

April 10, 2002

INTRODUCTION

Good morning, Mr. Chairman and distinguished members of the Committee. My name is Bertram Scott. I am testifying today as the Executive Vice President TIAA-CREF and President, TIAA-CREF Life Insurance Company. I am pleased to respond to the Committee's request for background on private long-term care insurance in today's marketplace. My statement will provide you with a historical and factual context as you examine the new Federal long-term care initiative. I will approach my discussion of private long-term care insurance through TIAA-CREF's perspective of retirement security and asset protection. We believe that long-term care insurance provides a viable and affordable means towards accomplishing retirement security goals and that an above-the-line tax deduction would provide an incentive to purchase long-term care insurance.

We were encouraged when Congress established the Federal long-term care insurance program and in so doing made significant progress in promoting retirement security for the Federal workforce, their families, and retirees. We believe that a successful Federal program will serve several purposes. It will provide additional retirement security for the Federal "family" while serving as example to private employers to encourage them to make long-term care insurance available to their employees. More importantly, it will change public perceptions about the government's role in paying for long-term care and the need for individuals to take personal responsibility for long-term care expenses.

In addition to examining the new Federal program, the Committee has heard from a wide range of witnesses on the increasing financial burdens of long-term care. Recently, Governors expressed their concerns over the increasing drain that long-term care expenses have placed on state resources through the Medicaid system. We applaud your efforts to bring public attention to this national dilemma and join you in supporting legislation that help alleviate this burden by providing incentives for individuals to purchase long-term care insurance through their employers or individually.

About TIAA-CREF

Before I continue, I want to describe where my organization fits into the long-term care insurance market. TIAA-CREF is a leading, national provider of financial services and is the premier pension system for people employed in education and research in the U.S. The system serves over two million participants at 12,000 institutions. TIAA-CREF is also a leading, national financial services organization offering an array of financial products including long-term care insurance. Starting in 1991, TIAA started marketing individually underwritten long-term care (LTC) insurance to participants and employers on a direct marketing basis. TIAA-CREF does not employ commissioned agents or brokers to sell long-term care insurance. Instead, we have a call center staffed with licensed insurance consultants, paid on a salaried basis, to counsel customers on long-term care. Since April 2000, TIAA-CREF Life Insurance Company, a wholly owned subsidiary of TIAA, has been offering long-term care insurance to the general public as well. We primarily sell individual policies with over 80 percent of our policies sold directly to our participants and the general public. Almost all the remaining policies are sold through employer-sponsored plans, with a tiny percentage sold through traditional group policies.

OVERVIEW

Today I will present a comprehensive examination of long-term care insurance products, the industry and the needs it addresses. The topics I will cover include:

- The role that long-term care insurance plays in helping to ensure retirement security and preservation of assets.
- The current state of the long-term care insurance market – a basic primer on long-term care insurance.
- Trends in individual and employer policy markets and the demographics of both.
- What steps need to be taken to grow the market and increase participation
- The role of the States in providing protections and a safety net through Medicaid.
- How the new Federal long-term care program will increase awareness of the need for long-term care insurance and ultimately increase participation.
- The role of HIPAA and NAIC in providing increased protections for consumers.

BACKGROUND

Today, many of our country's elderly are in need of long-term care services. Long-term care is defined as a broad range of services provided to people who need extended care and have lost the capacity to care for themselves as a result of a chronic illness, disability, or cognitive impairment. Long-term care services range from the need for personal care - assistance with daily activities such as bathing, dressing, eating, transferring, and continence - to skilled care – such as care provided by a nurse or physical therapist. Individuals can receive their care in a wide variety of settings, which include nursing homes, assisted living and Alzheimer facilities, adult day health care and in the home.

Most long-term care services are paid for out-of-pocket or provided informally by family members or friends. Medicaid also pays for a significant portion of long-term care for low-income individuals. Unfortunately, many people are misinformed about the qualification requirements and limitations in coverage. With staggering costs that average $153 per day (according to a recent study by MetLife's Mature Market Institute) for nursing home care; the result can be the depletion of hard-earned retirement assets and other investments to pay for care.

The Role Long-Term Care Insurance Plays in Helping to Ensure Retirement Security and Preservation of Assets

One of the greatest risks to an individual's retirement savings is the unanticipated cost of long-term care. Unfortunately, many people underestimate the cost of care, and are often enlightened when the issue hits close to home. According to the U.S. Department of Labor, the national average cost of part-time basic home care today ranges from $12,000 to $16,000 a year, and is estimated to increase to as much as $68,000 a year in thirty years. Nursing home care, which averages $56,000 a year, is expected to cost as much as $190,000 in thirty years. Unfortunately, most Americans have not prepared themselves for the costs of long-term care; with less than 10% of the elderly population owning long-term care insurance, and even fewer among younger people. It is evident that with the high cost of long-term care services, being unprepared poses a real threat to an individual's financial security in retirement.

Long-term care insurance is a product designed to help consumers afford the astronomical cost of care, while offering them a greater choice of providers and services. Ultimately it serves to help protect retirement assets, achieve increased financial independence, and peace of mind.

As the world's largest and oldest private pension company, our focus has always been to provide our customers with the financial tools to plan for a secure retirement. We believe that retirement planning involves more than just asset accumulation - it also includes the protection and preservation of those assets. As part of our discussions with participants, we feel significant consideration should be made on the impact of unexpected health care expenses on retirement assets and income. Individuals confronted with a chronic illness or injury may be compromising their financial security in retirement by not planning ahead for this major expense.

Long-term care insurance represents an integral component in one's overall retirement plan, and TIAA-CREF and the long-term care industry has been committed to educating our customers on the importance of factoring this coverage as part of the retirement planning process.

ACLI Long-Term Care Study Links Purchase of Long-term Care Insurance to Retirement Planning

A 2001 study conducted by ACLI concludes that long-term care insurance is playing an increasingly important role in retirement planning. It cites that 70% of policy owners say that preparing for long-term care expenses is a very important part of retirement planning. Of that group, less affluent policy owners are more likely to say that planning for long-term care is very important to retirement planning more than are those with substantial resources (77% versus 66%, respectively). They also use long-term care insurance to reduce the risk of impoverishment and promote independence in retirement while those with more substantial resources primarily use long-term care insurance to protect their retirement assets.

Long-term care planning is an important link to retirement security, particularly for those under age 65. The ACLI study showed a clear trend that more individuals are purchasing long-term care insurance at a younger age and prior to retirement. Younger owners are motivated to purchase long-term care insurance as a part of a larger financial plan to maintain their current lifestyle while older buyers respond more directly to their perception of an imminent need for health care. Younger buyers also were more likely to cite personal experiences with long-term care and encouragement from others as factors motivating their purchase than those over age 65.

Women are more financially independent today and making greater strides in closing the financial gap with men. However, many women may not have enough saved for retirement. This has significant financial implications for women as they have longer life expectancies than men and are at a greater risk of needing long-term care. Planning ahead with long-term care insurance can help relieve the financial burdens associated with a prolonged illness and minimize any need to draw down money from retirement savings**.**

In fact, according to ACLI, women are more likely than men to say that long-term care insurance is important in retirement (74% versus 64%, respectively). Women also are more likely to purchase a policy in order to promote their independence, while men view long-term care insurance as a way to protect assets.

Medicaid is a viable alternative to purchasing long-term care insurance for low-income individuals. However, many couples facing this situation can undoubtedly leave the healthy spouse behind (often the woman) with little assets to rely on when all savings are depleted to qualify for benefits.

Source: 2001 ACLI Study: *Making the Retirement Connection: The Growing Importance of Long-Term Care Insurance in Retirement*.

Long-Term Care Insurance Primer: Who buys it and when should it be purchased?

Who Buys Long-Term Care Insurance?

Based on recent buyer and non-buyers studies conducted on long-term care insurance by TIAA-CREF and HIAA, individuals purchasing long-term care insurance have substantially higher average incomes and assets than buyers a decade ago. HIAA reports that buyers had a median income of 42,500 in 2000, an increase in the average income of almost 60% over the past 10 years. Seventy percent of buyers had liquid assets of more than $100,000; up from 40% of buyers that purchased long-term care insurance 10 years ago. TIAA-CREF studies reveal that our buyers have higher average incomes and assets than the industry, as reported by HIAA, with average incomes of $67,000 and average assets of just over $200,000.

The average age for a buyer has declined over the years from 69 to 67 according to HIAA. For TIAA-CREF, the average age purchaser is lower at 63 years old, and may be attributable to the fact that about 15% of our individually underwritten policies are sold on an employer-sponsored basis.

Based on TIAA-CREF and HIAA, slightly more females tend to purchase long-term care insurance (54% vs. 46% as reported by TIAA-CREF). The HIAA study found that most buyers had attended college. Lastly, most buyers are married, probably due to the availability of additional discounts.

Opinions about Long-Term Care and Attitudes Toward Long-Term Care Insurance

TIAA-CREF and HIAA studies demonstrate similar trends among buyers and non-buyers with respect to their attitudes on long-term care and long-term care insurance. Most buyers do not think the government will pay for long-term care services. Buyers were more likely than non-product buyers to have experienced the need for home care or in a nursing facility for more than three months, but usually for a parent, relative or close friend. Compared to non-buyers, buyers were twice as likely to anticipate the need for some extended care lasting 6 months or more. Two-thirds of buyers and non-buyers felt that they themselves would have to bear the cost of long-term care coverage of over six months by tapping into their income or savings or selling some of their assets. Non-buyers were more likely to think that Medicare, Medicaid or their Medigap policy would cover such costs. For non-buyers, the key deterrent to purchasing long-term care insurance is the cost of the premiums, and only one-third of non-buyers surveyed knew that these premiums might be deductible on their federal income taxes.

Trends in Product Purchase

Long-term care insurance coverage has evolved significantly over the past 10 years, with insurers offering more comprehensive coverage and fewer restrictions. More policies today cover both institutional and home care, with average daily benefits for nursing home and home care increasing by 28% and 36% respectively over the past 5 years (HIAA, 2001).

There's also been a growing trend towards the purchase of compound inflation protection, mostly among younger purchasers, as more attention is placed on the need to offset against the increasing cost of care.

Average annual premiums for long-term care insurance have risen over the past 5 years with increasing about 11% from 1995 and 2000 from $1,505 to $1,677, according to HIAA. With policies today offering more value for the dollar and richer coverage, it is clear that policies today are a better buy than they were 5 or 10 years ago.

Typical Long-Term Care Insurance Purchase Scenarios

The following case studies represent a few different profiles of "typical" LTC purchasers in our marketplace. All examples purchased a $150/day benefit, which is the current national average for nursing home care. They have all elected the maximum home health care benefit that provides coverage equal to the nursing home benefit – 100% home health care. For comparative purposes they all elected the inflation option that allows them to buy additional coverage each year. Assets do not include personal residence.

Case Studies:

Case 1 – Linda age 45 is single with $150,000 in her pension plan. Her employer is sponsoring long-term care insurance. Taking advantage of her young age, she has elected the maximum benefit period – unlimited – that will pay for care until death and the shortest elimination period (or deductible) of 30 days.

First year Annual Premium Total is $745.56 (monthly premium payroll deduction is $62.13)

Case 2 – John age 55 with more than $500,000 in assets, has a father with Alzheimer's disease. John elected the longest duration period – unlimited - and the most common elimination period – 90 days. The premium is paid from earned income.

First year Annual Premium is $1,035

Case 3 – Susan age 60 with over $200,000 in assets, whose mother requires care at home, has elected a long duration period – 7 years – and a shorter elimination period – 30 days. The premium is paid from earned income now and will be from retirement income after she retires in two years.

First year Annual Premium is $1,425

Case 4 – Roger age 70 with over $300,000 in assets elected the most common duration sold – 5 years and a 90-day elimination period. His wife Anne also age 70 has the same policy and they each receive a 10% spousal discount available when both are insured. The premiums are paid from their retirement income.

First year Annual Premium is $2,065.50 for each policy

Case 5 – Betty age 75 is a widow has $100,000 in assets with children living nearby. She has elected a short duration – 3 years - that exceeds the average stay in a nursing home and a 30-day elimination period. The premium is paid from her investment income.

First year Annual Premium is $3,660

Note: Annual premiums will increase each year the policyholder elects inflation additions. The cost for this option is based on the amount of additional coverage and age. No additional underwriting is required.

Source: TIAA-CREF Life Insurance Company, 2002.

Due to the increasingly diverse market for long-term care insurance, the industry is responding by developing policies with a greater variety of choices for coverage. Owners with personal experiences of unanticipated long-term care expenses tend to prefer policies with longer duration benefits (higher dollar amount available to be used over longer periods of time). Women tend to select shorter elimination periods than men (lower deductible amount). Younger policy owners select policies with more extensive coverage than older buyers. For example, those under age 65 select longer benefit durations than buyers aged 65 and more. Less affluent policy owners typically choose shorter elimination periods while those with greater resources intend to self-fund a larger portion of their long-term care costs.

Understanding the Buy/Non-buy Decision

People are buying long-term care insurance for many reasons. Protecting assets continues to be the most frequent reason followed by the tax benefit. The current tax benefit allows deduction of premium if medical expenses exceed 7.5% of adjusted gross income. Most buyers do not have sufficient medical expenses to benefit from the current deduction. The decision to buy is arrived at several ways. Most know someone who has bought a policy. The addition of spousal discounts by most carriers has increased the number of couples both owning policies to 82 percent from 61 percent in 1995 according to HIAA. In addition to insurance agents, children, spouses, family and increasingly financial planners are assisting in the buying decision.

Cost continues to be the reason most individuals cite for not buying long-term care insurance. The agent training and marketing efforts over the last decade have significantly reduced the number of non-buyers who stated they were not able to buy long-term care insurance because it was too confusing from 87 percent in 1990 to 46 percent in 2000. TIAA-CREF Life in customer surveys has consistently received high marks for the clarity of its marketing materials and the knowledge of its counselors in its call centers – two important factors in our sales success as a direct marketing company. The long-care insurance industry's ongoing effort to support high standards in product design and marketing has resulted in a significant increase in consumer confidence.

Tax Deductibility

The current tax advantages of tax-qualified long-term care insurance policies are not perceived as providing benefits to most buyers. Because the number of taxpayers who itemize their medical expenses is low, the number of long-term care policyholders who exceed the 7.5% of adjusted gross income threshold is small and therefore few are able to take advantage of the current below the line tax deduction.

Attitudes Toward the Role of Government

Many individuals mistakenly believe that Medicare and Medicaid will provide for long-term care costs when in reality, less than ten percent of nursing home costs will be paid by Medicare (U.S. Department of Labor, 2000). A person needs to have at least a three-day stay in a hospital before Medicare will then cover the first 20 days of skilled nursing care in a nursing home. After that, a person must pay a co-pay for each day and the coverage expires completely after 100 days.

Medicaid is the largest source of funding for long-term care, but the individual needs to "spend down" his/her assets and meet income guidelines to be eligible. The government has a three-year look back period where it requires individuals to report any asset transfers to individuals prior to applying for Medicaid, and it has a five-year look-back period for transfers to an irrevocable trust.

The federal government made long-term care expenses deductible from federal income taxes, provided the expenses exceeded 7.5% of adjusted gross income, through the 1996 Health Insurance Portability and Accountability Act. The law also included a portion of long-term care insurance premiums as expenses for this computation. The government sent a clear signal that with this law individuals need to become more self-reliant in providing for his or her own long-term care needs.

The industry believes that the government can do more to encourage individual action by passing an above-the-line deduction for long-term care insurance premiums and expenses as proposed in President Bush's Fiscal Year 2003 budget and in the bipartisan Senate bill S. 627 supported by Chairman Breaux.

Source: *Long-term Care Insurance -- The Forgotten Planning Tool*, Keith R. Davenport, Associate Director of Education, TIAA-CREF Institute, 2001.

When Should You Purchase Long-Term Care Insurance?

Long-Term Care Insurance: To Buy or Not to Buy?

"Paying for long-term care is a sleeping issue for Americans, but they are beginning to wake up," says Anne Wener, executive director of United Seniors Health Council. A recent study by MetLife's Mature Market Institute reports the average cost of a nursing home stay is $153/day for a private room or almost $56,000/year, and assisted living and home care costs are to some extent lower. Werner noted that 67 percent of Americans say the cost of long-term care is the greatest threat to their standard of living, while only 35 percent have done any planning for it, according to a survey by the National Council on the Aging, and only six million have purchased long-term care insurance.

As part of the industry's broad education initiative, the United Seniors Health Council publishes a consumer guidebook, Long-Term Care Planning: A Dollar and Sense Guide. It was updated in 2001 and provides the advice consumers need before buying a policy.

The book recommends that consumers consider buying long-term care insurance only if they:

- Own assets of at least $75,000 (excluding home and automobile);
- Have annual retirement income of at least $25,000 - $35,000;
- Can pay premiums without adversely affecting lifestyle; and
- Can absorb possible premium increases without financial difficulty.

An important element in planning for retirement is deciding when to purchase long-term care insurance. Based on data from the Department of Labor, the average age of LTC insurance buyers is age 64 (individual policies) and age 43 (group policies). Clearly, when individuals are given exposure to and education on LTC insurance products through employer-sponsored plans (not necessarily group plans), they are more likely to purchase LTC insurance. However, there are other factors:

- Your health and family health history.
- Your estimated retirement age and retirement income.

Insurance costs also are an important factor in determining when to buy insurance. Cost differentials over a 20 or 30 year period between the total premiums paid if purchase at 45 versus 55 or 65 are helpful in making the decision. Premiums will be lower and it will be easier to qualify for coverage at a younger age and that should be weighed against higher premiums over a shorter time period if purchased at an older age.

Source: *The United Seniors Health Council (formerly United Seniors Health Cooperative) is a non-profit organization that has been publishing unbiased consumer information since 1986. Information obtained from www.unitedseniorshealth.org.*

TIAA Products and the Marketplace

Teachers Insurance and Annuity Association (TIAA) started marketing individually underwritten long-term care (LTC) insurance to the education and research community in 1991 with what was then a very innovative feature "comprehensive long-term care" that provided nursing home and home care that drew from one pool of money. Up until that time carriers offered nursing home insurance with a home health care rider, each with its own pool of money. You could use up your home health care benefit and not be able to access the balance of the benefits in your policy unless you went into a nursing home.

Over the years, LTC policies have evolved to offer more comprehensive, less restrictive coverage. Our home care coverage was enhanced offering a 100% benefit option that recognized the individual's desire to remain in the home as long as possible. It became easier to qualify for benefits when the number of activities of daily living (dressing, bathing, transferring, etc.) was reduced from three to two to qualify for reimbursement for care received in a nursing home. In response to consumer demand a new type of facility was being built**,** and our policies started to cover care received in assisted living facilities. As consumers became more aware of the risks of dementias such as Alzheimer's and other conditions that resulted in very long periods of care at home and in facilities, our coverage offerings were enhanced to include an unlimited benefit.

While long-term care insurance has always addressed the needs of individuals, it has increasingly been important to recognize the special needs of couples. In recognition of the different risks of couples that take care of each other we offered a 10% premium discount when both were issued LTC insurance coverage. We also offer couples the ability to share each other's benefits from two policies, creating in a sense a single large pool of money that they each draw upon to pay for LTC needs. Financial circumstances may change at the death of a spouse, and for those who elect our survivor waiver of premium benefit, we waive the premium of the surviving spouse. Today, we continue to offer comprehensive and affordable coverage that allows customers the freedom to design coverage that best suits their needs and budgets.

TIAA-CREF Life markets long-term care insurance on a direct basis to its participants and offers the product to employers on a sponsorship basis. We take an educational approach in helping our customers understand the need and risks associated with long-term care, and the importance of planning ahead with long-term care insurance. We communicate the value of long-term insurance and it's role in retirement planning through direct mail, articles and retirement planning seminars.

Since April 2000 TIAA-CREF Life Insurance Company, a wholly owned subsidiary of TIAA, has been offering long-term care insurance to the general public. TIAA and TIAA-CREF Life is currently ranked by LIMRA as 15th among Long-Term Care Insurance carriers in Total Premium and is the only carrier in the Top 15 that does not utilize commissioned agents and brokers to sell their long-term care products.

Trends in Employer and Individual Policy Markets: Demographics and Growth of LTC Policies

Industry Trends

Long-term care insurance is one of the fasting growing insurance products today. The number of policies sold has doubled over the past five years to 7 million, and the market grew an average of 21% per year over the last 10 years. However, overall few Americans have taken the step to protect against the great risk that long-term care poses to their financial security.

Despite a largely untapped market for long-term care insurance, industry experts are taking a cautious yet optimistic view on the outlook for this product. In part, because of the ongoing challenge for insurers to develop adequately priced and profitable products as well as improve product distribution and expand the communication effort to consumers. Regulatory changes, that often vary by state, represents another hurdle for insurers and often delay their ability to go out to market with new product developments in a timely fashion. However, experts predict that with longer life spans and the aging of the baby boomer generation, we can expect to see moderate to strong growth in the long-term care insurance market. The introduction of the Federal Program on Long-Term Care is expected to help increase public awareness on the need for long-term care insurance.

More and more employers are offering long-term care insurance as an employee benefit, with over 3,000 employers (according to the Department of Labor) making it available to employees, retirees, their spouses and parents. Unfortunately, participation rates are lower than expected in this segment of the market. Increased employer support and active promotion may provide the most optimal opportunity to expand coverage in the employer market.

The ACLI prepared a study* in 2001 on the link between retirement planning and long-term care education. Generally, the study found that when employers provided potential enrollees with education about long-term care policies, and not just general information, employees were much more likely to enroll in the group coverage. Those who considered only group long-term care tended to be younger, with more moderate resources, and less confident about their retirement plans. The group insurance plan fills a gap for employees under 60 who otherwise would not consider this type of insurance.

Employees cited education by their employer as a major factor for motivating them to enroll (51%). Of those who were very likely to purchase a policy, 74% were educated about long-term care planning. The report also found that 50% of those enrollees in group insurance were partially motivated to do so by their employer paying some of the premium, and 36% of those who would be interested in enrolling would be further encouraged by government support through tax deductions for premiums.

The report concluded that employer-sponsored education about long-term care led employees to consider it as an integral part of their retirement planning. It also stated that a key difference between long-term care education and retirement planning education was that employees received long-term care education only during the original offering of a group plan while retirement education was continuous.

Source: *Long-Term Care Insurance at Work: The Retirement Link and Employee Perspectives, ACLI, 2001.*

What Will It Take To Grow The Market And Increase Participation?

Industry Outlook

Long-Term Care Industry leaders surveyed by LIMRA in 2001 were cautiously optimistic about the future growth of long-term care insurance. Government tax incentives would help grow sales along with the aging population particularly the baby boomers. The ability to penetrate the employer-sponsored market would be assisted by tax incentives for business owners and their employees if they could purchase long-term care insurance on a pre-tax basis according to a U.S. Chamber of Commerce survey of its members. The majority of Americans are still looking to the government for solutions according to a recent Harris poll. Eighty five percent want tax incentives for long-term care insurance while 90 percent want tax benefits for informal caregivers.

The impact of the baby boomers is expected to double the number of elderly over the next 30 years and doubling or quadrupling the number needing long-term care services according to William J. Scanlon, Director of Health Financing and Public Health Issues. The same changes are occurring in the workplace. As the average age of the worker has increases from 35 years old in 1980 to a projected 41 years old in 2005, workers will continue to experience increasing levels of eldercare issues for their parents, grandparents and spouses. This increased awareness of long-term care issues and the overall aging of the workforce make the need for long-term care insurance more visible to the employer and employee alike. While employers are not looking to finance long-term care insurance, they are in increasing numbers offering it to the employees as an employee pay-all benefit. LIMRA recently reported that 9 percent of midsize and large employers offer long-term care insurance and 23 percent are considering offering it in the next two years.

What will it take to increase market penetration?

For its part, the industry needs to begin expanding its marketing strategy to reach a new audience for long-term care insurance. Employer-sponsored plans will only succeed if insurers can convince younger buyers and single persons of the importance of long-term care insurance coverage. This will also require a shift in operations on behalf of the sales group of insurers to that of educators so as to help the consumer identify what his or her needs are and how to best provide for them. Analysts predict that the potential for growth is greatest in the group-discounted products that individual employees will get through their employer**.** Increased participation in the employer market can be realized through more active employer support and promotion on the value of long-term care insurance. By integrating long-term care insurance into their retirement planning programs, employers can help spur sales among younger age workers.

Companies will need to develop communication materials to help reach this new target audience. Over the years, one of the barriers to growth in this marketplace has been the lack of awareness among consumers of the need for long-term care insurance and the lack of emphasis placed on the product by industry, the media, and the government as to its importance. All sectors need to work together to build awareness.

The Internet offers opportunities to market directly to consumers on a one-on-one basis. Still, most potential buyers over the Internet often are confused by the complexity of a product and often require more face-to-face explanations of benefits and personalized coverage. Industry should work to promote its employer-sponsored products through interactive modules that assist the buyer in understanding the need for long-term care insurance, the product features, and how to best personalize coverage for their particular needs. Insurers should offer simpler product designs and integrate the Internet site with marketing promotions, a local educational resource, and tech-center support availability.

Government tax incentives also play a significant role in encouraging the growth of individual and employer-sponsored sales for long-term care insurance. In addition to an above-the-line deduction, tax incentives that allow employers to include a reduction in long-term care insurance policies in cafeteria plans and flexible-spending accounts may increase employer interest in offering long-term care insurance as a voluntary employee benefit.

Source: *Long-Term Care Insurance: Industry Trends and Outlook, LIMRA International, 2001.*

What is the role of HIPAA and NAIC in providing increased protections for long-term care insurance consumers?

The life insurance industry and the National Association of Insurance Commissioners (NAIC) are committed to maintaining consumer confidence in this vital product line and believe that the long-term care model regulation creates a high level of consumer protection and rate stability. All states and the District of Columbia have adopted some version of the Model into their own laws and regulations. Since 1986, the NAIC has revised, updated, and strengthened its initial Long-Term Care Insurance Models as well.

Private long-term care insurance has become an integral part of a person’s retirement planning. One step taken by the federal government to convey the importance of future planning was passing the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The law contained language that gave favorable tax treatment to qualified long-term care insurance policies. We believe Congress can further build on that success by providing for an above-the-line deduction for long-term care insurance premiums, allowing cafeteria plans and flexible spending accounts to include long-term care insurance, and a tax credit for individuals and their caregivers.

Consumer protections

For more than 15 years, the NAIC, along with consumer and industry groups, has worked diligently to ensure that strong consumer protections were part of the NAIC Long-Term Care Insurance Model Act and Regulation. In addition, the HIPAA requires that any long-term care policy meet the consumer protection requirements found in the NAIC model act in order to qualify for the tax break. Some of the more important protections include:

- A non-forfeiture benefit equal in value to premiums paid to date in the event of a lapse or cancellation.
- A provision that requires a company to offer a reduction in benefits option if premiums increase to a certain level (based on a table of increases); to convert the policy to a paid-up status with a shorter benefit period; or allow the customer to pay the increased premium.
- An offer of inflation protection against increasing costs of long-term care.
- A prohibitions against excluding coverage for Alzheimer's, policy cancellation due to deteriorating health, or increasing premiums due to advancing age.
- An option that a designated individual other than the beneficiary receive notice of policy termination due to nonpayment of a premium and the reinstatement of the policy if it is due to cognitive impairment or loss of functional capacity.
- A 30-day free-look period.

Rate Stability

The NAIC has adopted new consumer protection provisions to address premium rate increases for long-term care insurance. The restrictions on increases seek to ensure that the premium rates companies offer customers will be sufficient for the life of the policy and therefore preclude the chance of unjustified and unnecessary rate increases. These protections include:

- Providing that if the state insurance commissioner determines a rate increase to be unnecessary he can require the company to either reduce the premiums or increase the benefits to the customer accordingly.
- An authorization for state insurance commissioners to ban a company from the marketplace for up to five years if the Commissioner determines that a company repeatedly filed inadequate premium rates.
- A requirement that all rate filings come with an actuarial certification that no rate increases are anticipated, with the approving actuary subject to existing standards of professional conduct.
- Disclosure requirements asking that companies provide consumers with a rate increase history to inform consumers of any past company practices.

The ACLI supports this initiative and is confident that once the rate stability measure is adopted by states, consumers will have an added layer of confidence in the reliability of their long-term care products.

The majority of the market has not experienced rate increases on the product line but the ACLI recognizes that there has been situations where rate increases in some states occurred with state regulators unable to properly evaluate the legitimacy of such increases. We are happy to say over 17 states have either proposed or adopted the rate/stability provision to date.

The average termination or lapse rate has declined in recent years. ACLI's analysis shows that in the individual market, two percent of policyholders voluntarily lapsed or replaced their policies in 1997 versus six percent in 1992. Group terminations fell to seven percent in 1997 from eight and one half percent in 1995. Companies are offering policyholders the opportunity to examine the policy, returning the premium if the buyer decides within a specified time-period to terminate the policy. They also are allowing consumers to reinstate coverage if there is a policy lapse due to cognitive impairment.

The insurance industry, in conjunction with the NAIC, believes it has met the challenges of protecting consumers from improper premium rate increases in the long-term care insurance market. The next step is for states to continue to adopt the model provisions.

Summary

TIAA-CREF along with other companies are active participants in the long-term care insurance market. However, we recognize that in order to provide long-term care coverage for a greater percentage of our population, the public needs more incentives from the Federal government. Those incentives can take a number of forms including an above-the-line tax deduction for long-term care insurance and tax credit for long-term care provided at home.

We believe that the success of the new Federal long-term care program will make a significant contribution beyond its target audience – the Federal workforce. By reaching out to 20 million eligible workers, retirees, and their families, it also will educate the public and raise awareness of long-term care costs. It will highlight the financial burdens that our states are already facing in long-term care costs paid by Medicaid. And, it serves to reinforce the message that individuals must take responsibility to protect themselves from the high cost of long-term care services.

Private industry is excited and encouraged by the launch of the program and will look to build on its successes. We are optimistic that as public awareness grows, so will demand for long-term care insurance. As a result, more employers will be encouraged to take a role in providing long-term care insurance, either through employer-provided or individual programs.

Through this informal partnership, private long-term care insurance carriers and employers can follow the example set by the Federal government:

- Educate the public on the high costs of long-term care services.
- Educate lawmakers on the benefits of long-term care insurance.
- Encourage the passage of tax incentives to purchase long-term care insurance
- Correct consumer misperceptions about Medicaid and Medicare coverage.
- Protect state Medicaid systems – and the low-income population it serves – by making long-term care insurance available to a large segment of the population.

We appreciate the opportunity to testify today and look forward to working with the Committee in the future to encourage all Americans to plan for their retirement security. Our hope is that they will have the necessary tools – such as long-term care insurance – and the important incentives – above-the-line tax deduction – to safeguard their retirement assets.