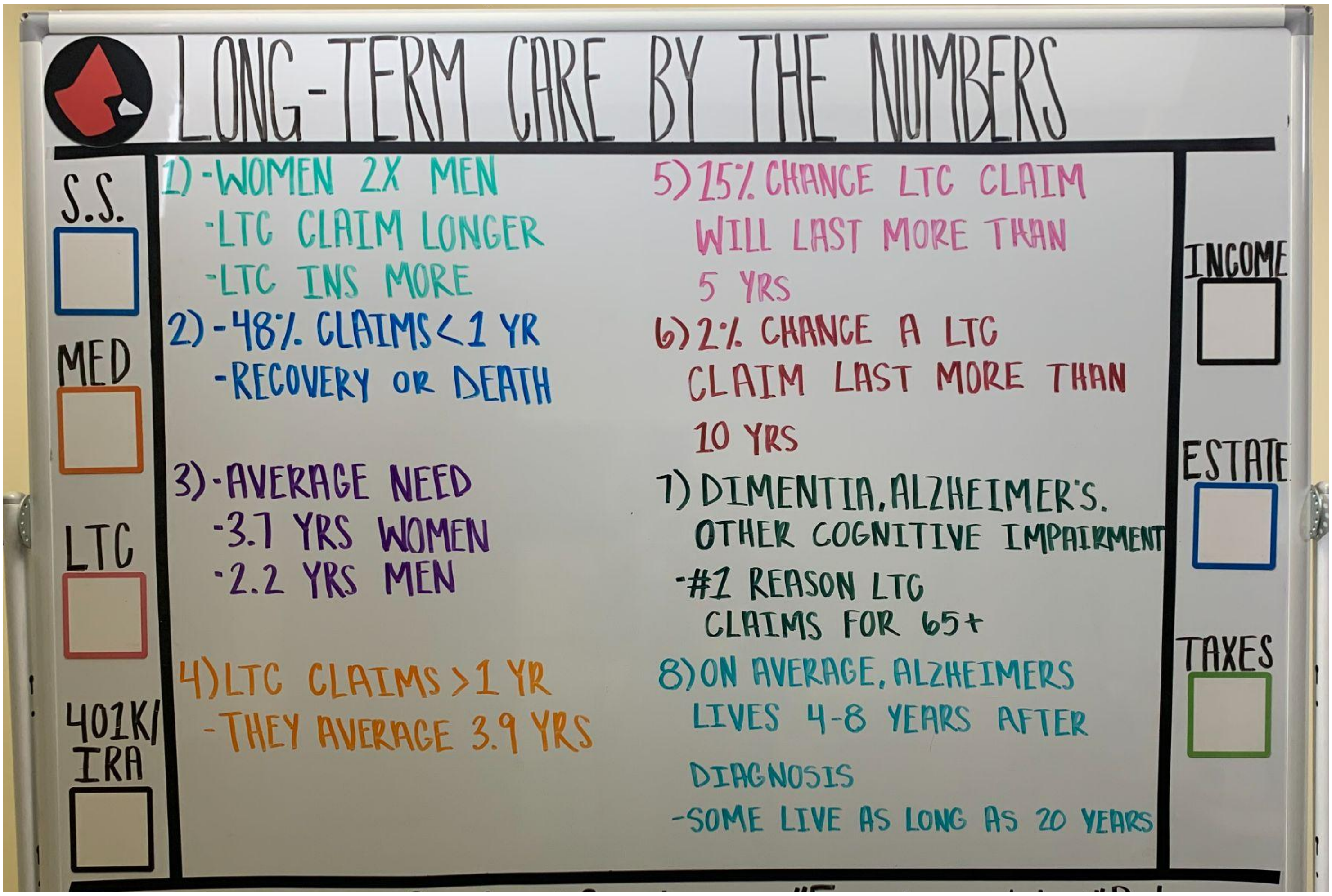
CARDINAL ADVISORS

Long-Term Care By The Numbers

In our video entitled “Long-Term Care by the Numbers” Hans and Tom use the accompanying document to discuss this aspect of Long-Term Care.



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STATISTICS

Can They Add Value to Long-Term Care Planning?

By Shawn Britt, CLU, CLTC

The number one question I have been asked over my nearly 30-year career in long-term care (LTC) is: "What is the average LTC claim?" Financial professionals, insurance agents, and consumers are trying to determine how much LTC insurance is needed, and the necessary benefit period.

The reality is, however, there is no such thing as an average LTC claim, because there are so many variables. There are considerations that can help guide individuals in planning their LTC coverage, but none of these considerations is a guarantee that the outcome for any one specific individual or couple will be similar to the *average*.

Are the statistics credible?

Statistics come primarily from studies and surveys, some recent, and others, decades old. One concern with studies and surveys is the methodology used—is it biased, targeted, or unclear to the reader? That is not to say that any of these studies we rely upon are incorrect, but it does mean the methodology may not apply to the person reading the statistics who then tries to apply it to their unique situation. And studies are not conducted as often as you might think, so we may see the same statistics regurgitated for years; or an old study re-analyzed in a different way, creating different conclusions.

Analyzing 8 Commonly Used Stats

Below is a sample of commonly reported statistics. Some are likely to be accurate, regardless of a study's methodology. Other statistics could be problematic due to a lack of understanding of the statistics on the reader's part when trying to use the information in the LTC planning process. We will break these down one by one.

1. **Women are twice as likely to file an LTCi policy claim.**[1] We can be comfortable with this statistic. Actuaries price LTC coverage higher for women based on verified data of a similar nature: more women will go on LTC claim—and for a longer period of time —than men.

2. **48% of claims will end in the first year, either by death or recovery.**[2] This statistic at face value is difficult to misinterpret. However, keep in mind that some of those who recover could go back on claim, whether for the same

condition as before, or with a different qualifier. That means the period of time the policy is used could be longer for some people.

3 **The average need for care is 3.7 years for women and 2.2 years for men.**[3] This is a good example of a statistic that has been around since at least 2006. It has been repeated again and again to this day. But what was the definition of care in the original study? As it turns out, these figures apply to a person who had lost at least one ADL or four IADLs. Neither of those definitions qualify for a LTCi claim.

This statistic is useless for choosing a LTCi benefit period.

4 **LTC claims that exceed one year will average 3.9 years.**[4] This statistic may hold a little more water for planning. All claims in this statistic are in benefit payment mode at the one-year mark, and LTC claims qualifications have been met. It does not, however, make a distinction for men vs. women.

5 **There is a 15% chance a claim will last more than 5 years.**[5] This is a statistic that varies among sources. Generally, you will see numbers from 15% to 20%. But do they mean all claims including Medicaid claims, or just LTC insurance claims? Most of the sources using this statistic do not offer such clarification. This is important to know as Medicaid triggers for a claim are considered by some to be easier to qualify for. This is often true when the condition is related to physical impairments compared to LTC insurance that uses the HIPAA qualifiers.

6 **There is a 2% chance that an LTCi claim will last more than 10 years.**[7] This is an example of how reading the study closely changes the numbers. The above statistic refers to private pay and insurance paid LTC. However, using the same government study from Health and Human Services, when Medicaid patients are included, the number of individuals exceeding a 10-year claim rises to 5%.

7 **Dementia, Alzheimer's Disease and other cognitive impairments are the number one reason for LTC claims for people aged 65 and older.** Side effects from cancer treatments are the number one cause for LTCi claims that last less than one year.[7] This is likely accurate, since the reason for a claim should not be affected by the way the claim is being paid, meaning privately paid with insurance, or with Medicaid.

8 **On average, a person with Alzheimer's lives four to eight years *after diagnosis*, but can live as long as 20 years, depending on other factors.**[8] I have presented this statistic exactly as it is worded in the 2023 "Stages of Alzheimer's" article from the Alzheimer's Association, 2023. Unfortunately, I have seen this statistic misrepresented in numerous ways. The most common spin is to allow the reader to assume that an LTCi claim can be successfully filed at diagnosis. This is not necessarily true. Often times a family may notice their loved one "slipping" and take them to the doctor for an assessment of their medical condition.

To quote the article, "In the early stage of Alzheimer's, a person may function independently. He or she may still drive, work, and be part of social activities." A diagnosis of dementia or Alzheimer's happening in the early stages of the disease may leave the patient in a "watch and see" mode that is not considered "severe" in terms of qualifying for an LTCi claim for many years. For that reason, an Alzheimer's LTC insurance claim will often be for less time than a "diagnosis to death" period of time.

What does this all really mean in LTC planning?

Some statistics are useful, but nothing guarantees that even the more reliable statistics will apply specifically to an individual or couple planning LTC coverage. Another consideration is that we are no longer looking at our grandfather's/father's LTCi policy. Today's solutions also include LTC riders on financial products that can expand planning.

Before we continue discussing how statistics can skew our decision-making, let us look at why *priorities should be considered first*, and how the new wider range of products can address this.

What is the first priority?

If an individual or couple is under-insured for the life insurance needed to help financially protect their family from an untimely death, then that should be their first priority. Fortunately, many carriers offer an LTCi rider than can be added to permanent life insurance. This would allow the policy owner to accelerate and collect the death benefit should the insured suffer a qualifying LTC event. Such a combination can help provide the family with the protection they need now, while being able to transition the policy later into LTC benefits if and when those are needed. Best of all, the death benefit pays in full whether LTC is needed or not. And some policies offer riders to guarantee the premium.

But what about individuals or couples whose primary concern is having LTC protection? This is where traditional LTCi policies and linked benefit policies on life insurance or annuities can supply more robust LTCi coverage, including inflation options. Which type of policy is best will depend on budgetary concerns, features, and any desire for premium and benefit guarantees.

Are there unique LTCi solutions for couples?

The good news today is the LTCi coverage for couples has expanded. Currently, there are choices offered by major insurance carriers such as:

- Shared care rider on traditional LTC insurance purchased by two people.
- Joint life linked benefit LTC coverage with a shared benefit pool paying reimbursement benefits
- Joint life linked benefit LTCi coverage with a shared benefit pool paying cash indemnity benefits

These options are particularly beneficial to couples who do not have a need for a return of premium or a death benefit upon the first death. In addition, the couple has the flexibility to buy a solution that takes some of the guesswork out of how much coverage to purchase for each person since the benefits can be shared.

How long should the LTCi benefit period last? Do statistics provide any help?

One of the most confusing parts of planning LTCi is deciding on a benefit period. And this is where individuals and couples look to statistics for "average claims." In addition, the question comes up as to whether lifetime benefits are necessary or worth the added expense. There will be some consumers who need that peace of mind, particularly if they have experience with a loved one who had a very extended LTC event.

Lifetime LTCi benefits are more expensive than a defined benefit period. Therefore, doing a "value analysis" is one effective way to help make a decision on the benefit period instead of using statistics that may or may not apply to a particular situation. The idea is to compare value and see what makes the most sense to a specific individual or couple.

People generally buy LTCi with one of two initial considerations: 1) how much can they afford to spend, or 2) what amount of benefit they want the policy to cover and its cost.

To avoid potential "sticker shock," starting with the affordability approach can make a lot of sense. The idea is to insure the shortfall, not the entire care expense. And ultimately, any amount of LTCi coverage is better than no coverage.

Let's look at a general example where we compare two linked benefit LTCi policies for a female aged 60. One policy will pay by reimbursement but have lifetime LTC benefits. The other will pay cash indemnity benefits, but will exhaust the benefits after seven years.

- Both policies will have 3% compound inflation.
- The claim will begin in the 20th policy year.
- Both policies will be funded with $10,000 annually for 10 years.
- We will also assume that monthly LTC expenses are always the maximum amount the reimbursement policy pays per month, so that no part of the monthly LTCi benefit is left unclaimed in the reimbursement policy, and there are no out of pocket expenses incurred.

In year 20, when LTC benefits begin, the reimbursement policy will pay $3,450 per month (going up each year with inflation), while the cash indemnity seven-year benefit will pay $7,450 per month (also rising each year with inflation), more than double what the reimbursement lifetime policy would pay.

The claim would have to last more than 15 years before the lifetime benefits paid out more than the seven-year cash indemnity policy. With the cash indemnity policy, the full benefit amount can be received, and there is money left over each month that can be saved for LTC expenses that exceed seven years or be left to heirs.

Of course, this is just an example. Policy type, different ages, gender, tobacco status, etc., can change the outcome. Comparing value with the concerns or lack of concerns an individual couple may have can help pin down the benefit period that feels comfortable.

Summary

There is no such thing as an average claim, and claims statistics have limited value. Only a rare few insureds will have LTCi claims that extend past 10 years, and many insureds will have claims that last less than one year. The intent of LTC insurance is to provide funds to pay for care that extends past a period of time that would be uncomfortable to self-fund, such as claims going longer than six months or a year. Fortunately, the LTCi industry has an expansive suite of policies to choose from that can accommodate most concerns individuals or couples may have in planning for long-term care.

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