AMERICAN ACADEMY of ACTUARIES

Issue Brief

The State of Long-Term Care Insurance—2025

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Key Points

- Long-term care insurance (LTCI) covers the costs of long-term care services and supports (LTSS), which can include skilled nursing, assisted living facility, and home-based care. While the coverage is not traditional health insurance, LTCI may be used both to cover care costs and protect beneficiaries' assets.
- The rapidly increasing number of older people in the United States will greatly increase the need for LTSS. There are several uncertainties facing the LTCI marketplace, including: state and federal public programs and their future impacts on LTCI markets; interest rates; COVID-19 impacts; and dementia research.
- In addition to traditional standalone LTCI products, "hybrid" products, which combine life or annuity products with LTCI coverage now play a significant role in the marketplace and may address concerns involving people who pay for but never use benefits. Another newer alternative, short-term care (STC), which offers up to 12 months of coverage, also appears to be on the rise.
- The rising cost of health care has resulted in multiple rounds of premium rate increases. Both insurers and regulators are working to improve communication to policyholders about these changes and available coverage options. Insurers are also strengthening their data analytics and policyholder engagement approaches to implement claim and pre-claim management strategies.

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Introduction

Long-term care insurance (LTCI) has been in existence for over 40 years. LTCI is elective insurance used to cover the costs of long-term care services and supports (LTSS), for example in skilled nursing care, assisted living facility care, and home-based care. While the coverage is not traditional health insurance, LTCI may be used to cover costs of care, which may be significant, as well as protecting existing assets. The need for LTSS, which is mostly utilized by older populations, has never been higher and continues to increase as the "baby boomer" generation,[1] which was estimated at 73 million[2] adults in 2020, ages. By 2030, everyone in the baby boomer generation will be over age 65, with the oldest in their mid-80s. Of those over age 65, some estimate that over 70% will need long term care services.[3]

LTCI benefits are generally triggered when insureds need substantial assistance with two or more activities of daily living (ADL) or have a severe cognitive impairment. The standard ADLs for triggering benefits include transferring, eating, bathing, continence, toileting, and dressing.

1 The "baby boomer" generation typically means those born between 1946 to 1964; see: U.S. Census, "By 2030, All Baby Boomers Will Be Age 65 or Older," December 2019.
2 Ibid.
3 Assistant Secretary for Planning and Evaluation (ASPE), "What Is the Lifetime Risk of Needing and Receiving Long-Term Services and Supports?," April 2019.

The largest spenders for LTSS include Medicaid (44%), Medicare (20%), Out-of-pocket (14%), and private insurance (8%).[4] This issue brief focuses on the private insurance portion of spending, i.e., LTCI. Individuals purchasing LTCI generally fall into two categories:

- those having assets to protect (for example, they would not qualify for Medicaid without reducing assets, but they do not have enough assets to feel comfortable self-insuring against this risk); or
- those who want to ensure available options at the time of claim (for example, options may be limited to them under Medicaid).

Some consumers may not purchase LTCI due to affordability issues or lack of awareness of LTCI products.

This issue brief highlights the current state of LTCI, focusing specifically on policy design, management of legacy (or inforce) blocks of business, and policyholder engagement. Potential areas for continued uncertainty in the industry are also considered.

Policy Design—Future Evolution

LTCI policy design has undergone significant changes over the past decades reflecting the maturation of a young product, in insurance terms, and the evolving landscape of the insurance industry. Understanding the historical context is necessary for grasping the motivations leading to today's LTCI products. While the most common features of LTCI product designs remain intact today—coverage elected at issue, reimbursement for eligible expenses, benefit 'pools' coupled with maximum daily limits, multiple inflation and care setting options, and benefits triggered by the insured being unable to perform a minimum of two of six ADLs—the earliest LTCI policies were geared towards nursing homes, which was the predominant form of care at the time. As consumer needs evolved, the products adopted comprehensive rich benefits at attractive prices, and the LTCI market expanded considerably. However, the assumptions underlying these generations of

4 Congressional Research Service, "Who Pays for Long-Term Services and Supports?," September 2023.

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products ultimately proved to be inadequate[5]. This has led to premium rate increases for consumers, losses for the companies in the marketplace, and even insolvency, in a few cases. The necessity of premium rate increases has led to de-risking LTCI products in several ways, which will be explained in detail later in this issue brief.

Existing public programs do not provide full financing for long-term care (LTC) needs unless someone meets the asset and income requirements of state Medicaid programs. To help fill that void, private LTCI provides financing for the LTC needs. This coverage has become especially important given the growing elderly population.

Benefit Richness

During the height of standalone LTCI sales—late 1990s/early 2000s—policies were designed to cover many types of services and facilities, and to offer a wide range of inflation options and long benefit periods, including plans with unlimited, or lifetime, benefit periods. These benefit-rich policies increased the risks companies were taking and were a significant contributor to the need for premium rate increases on inforce blocks. Today's LTCI policies are more likely to have leaner benefit levels and inflation protection. There is a constant effort to find the right balance of affordable premiums for the consumer and tolerable risk levels for the company.

Standalone vs. Alternative Products

Initially, LTCI was offered as a standalone product. This continues to be an available and viable solution to meet the need for LTCI services.

One alternative to standalone products is combination products, also known as "hybrid" or "linked" products, which combine life or annuity products with LTCI coverage. These products entered the scene after standalone LTCI, have gained popularity, and play an important role in today's LTCI marketplace. Combination products serve multiple purposes and can be attractive to consumers already familiar with life or annuity products who could benefit from LTCI coverage. By adding the certain benefits of life or annuity products, these products may directly address concerns with standalone products where a person might pay policy premiums but never use the benefit. New sales of combination products began to outpace standalone products around 2014, indicating a trend towards combination product sales relative to standalone.[6] Additional information on combination products can be found in the Academy issue brief, *Long-Term Care Insurance Products and Addressing the 'Use It or Lose It' Concern*.[7]

5 American Academy of Actuaries, "Understanding Premium Rate Increases on Private Long-Term Care Insurance Policyholders," June 2016.
6 American Academy of Actuaries, "Long-Term Care Insurance Products and Addressing the 'Use It or Lose It' Concern," February 2020.
7 Ibid.

As another newer alternative, short-term care (STC)—coverage of 12 months or less—appears to be on the rise. STC can be used to provide more cost-effective and streamlined benefits or potentially cover elimination periods of other coverages while, at the same time, providing a more attractive risk profile for LTC insurers than traditional policies with rich benefits.

Non-Participating vs. Participating

LTCI may be offered as participating or non-participating policies. Standalone LTCI was sold early on as a non-participating policy. When it became clear that the pricing assumptions were inadequate, the non-participating policies left companies with few alternatives outside of premium rate increases. Participating policies, offered by mutual companies, qualify for dividends, which provide an important risk-sharing mechanism between the company and the policyholder.

As the experience develops, dividends are expected to be paid; however, if experience is materially worse than assumed, mutual companies will have the additional lever of dividend actions to help minimize premium rate increases. This is one of the drivers of why today's standalone market is predominately filled with mutual companies that can offer participating policies.

> In a mutual company, policyholders may share in the experience through dividends. Dividends could be considered as leverage for rate increases. Policies that qualify for dividends are known as "participating policies."

Public Programs and Private Insurance

As the need for LTSS grows, public LTCI programs are developing in certain states and may become an important part of the solution for LTSS funding and/or coverage.[8] For example, Washington state has created a contributory LTSS insurance program,[9] and California and Minnesota are at different stages of LTSS program exploration.[10] In general, public programs provide coverage options and assistance for a broader group of people than private insurance; however, due to the expensive costs associated with public LTCI programs and LTSS, it is unlikely that public programs will be able to cover all the needs of individuals. Private insurance may become part of the solution by being tailored to fill in the coverage gaps of public programs, analogous to the Medicare Supplement market.

8 American Academy of Actuaries, "Long-Term Care Financing Reform Proposals That Involve Public Programs," July 2021.
9 WA Cares Fund, accessed January 28, 2025.
10 LTC News, "Multiple States Considering Implementing Long-Term Care Tax," accessed February 5, 2025.

Legacy Business/Inforce Management

Although many companies exited the standalone LTCI market in the early 2000s, companies still retain liabilities on their balance sheets for their legacy business. Because of the long-tail nature of LTCI, these liabilities will not be going away anytime soon, and companies must continue to manage their inforce blocks.

Premium Rate Actions

Inforce management of standalone LTCI policies has primarily been done through premium rate increase actions. Early premium rate increase actions generally sought smaller than necessary premium rate increases that would improve the finances for the block while being more manageable to the policyholder and more agreeable to state insurance regulators. As actual experience emerged worse than expected, the number and magnitude of premium rate increase requests in the industry grew. As time went on, significant variations in premium rate increase approvals across jurisdictions began to emerge due to different approaches taken by states in terms of rate review and/or caps imposed on premium increases.[11] Implementation of timely premium rate increases is important and as needed premium rate increases were reduced or delayed, larger increases were needed.[12]

Company premium rate increase efforts today focus on:

- Communications with regulators;
- Communications with policyholders; and
- Options for policyholders to reduce their LTCI benefits.

Communications between industry and regulators

As the need for larger premium rate increases manifested, companies identified the importance of communicating this need more clearly to regulators. Companies and regulators have transparent discussions about the finances of LTCI blocks and how adverse experience may be borne by the company and policyholders. When conveying the premium rate increase needed, there are often discussions around what circumstances would lead the company to file additional premium rate increases beyond the current request.

Regulators have also been communicating on rate increases and processes in more transparent ways. This includes more detail behind their premium rate increase review process. This may include one-on-one meetings between the company and the regulator, or as part of public National Association of Insurance Commissioners (NAIC) meetings.

11 LTCG, "NAIC LTC Data Call Workstream #6 Suggested Public Presentation," June 2021.
12 For a more thorough discussion on rate increases, please refer to the American Academy of Actuaries issue brief, "Understanding Premium Rate Increases on Private Long-term Care Insurance," June 2016.

There was much discussion at recent NAIC meetings around LTCI premium rate increase review approaches including the "Prospective Present Value Method" (e.g., Texas Method) and "Blended If-Knew Method" (e.g., Minnesota Method) for calculating justified premium rate increases.[13]

Beyond the "Prospective Present Value Method" and "Blended If-Knew Method," the Multistate Actuarial Review (MSA) framework was established.[14] One goal of the MSA process was to create a consistent framework for review of LTCI premium rate increase requests that applied across jurisdictions. While many companies continue to request premium rate increases to each state directly (rather than through the MSA process), the methods the MSA framework highlighted, the "Prospective Present Value Method" and "Blended If-Knew Method," have been incorporated by a growing number of states, i.e., many states now request calculations from these two methods to consider in their review process. Throughout 2024, regulators discussed refinements so that a single method may be developed and used to calculate a justified premium rate increase amount. The NAIC has chosen "the Blended If-Knew Method" as the single method for MSA reviews and is continuing discussions on other possible changes in 2025.[15]

Communications with policyholders

Communication with policyholders is critical in the face of premium rate increases and benefit reduction options, and more so with large or multiple increases year-over-year. Policyholder notification letters are now much more in-depth than in the past. In many cases, policyholders receive a table that illustrates their current premium and benefits alongside different benefit reduction options. This allows policyholders to more easily digest their options and see how the options impact their benefits and premium.

In situations where regulators approve premium rate increases as part of phase-ins, instead of requiring follow-up increases to be filed each year, companies can communicate the entire series of premium rate increases to policyholders so that they can make a more informed decision on whether to pay the increased premium, reduce their benefits to offset premium costs, or elect a nonforfeiture option.

The NAIC LTCI Reduced Benefit Options (EX) Subgroup adopted a checklist for premium increase communications that companies and regulators can use as a guide as they develop or review LTCI premium rate increase communication materials that are to be sent out to consumers.[16]

13 NAIC, "Long-Term Care Insurance Multistate Rate Review Framework," April 2022.
14 Ibid.
15 NAIC, "Long-Term Care Actuarial (B) Working Group," accessed January 28, 2025.
16 NAIC, "Checklist for Premium Increase Communications," November 2021.

Benefit Reduction Options

Standard benefit reduction options (RBOs) have always been available for policyholders. These may include reducing the daily benefit, reducing the benefit period, increasing the elimination period, adjusting inflation protection, or removing optional riders to mitigate premium increases.[17]

As part of management of inforce blocks, companies have become more innovative with benefit reduction options. Regulators and policyholders have generally looked favorably upon these innovations as they provide more options to policyholders. One of the earliest innovations involved "landing spots" where policyholders with inflation protection could choose a lower rate of inflation going forward in exchange for having their premium unchanged.[18] It is important to note, though, that these alternative RBOs oftentimes involve extracontractual offers that introduce the potential for adverse selection.

More recent alternative RBOs include:

- Stable premium option plans which allow policyholders to switch to a leaner benefit with a guaranteed premium rate for a long period of time (e.g., for life or 10 years);
- Policy buyouts which allow policyholders to forfeit their policy in exchange for a cash payment equal to premiums paid to-date, the amount of the reserve held for the policy, or some other metric associated with each policy;[19] and
- Coinsurance which allows policyholders to share in the cost of services in exchange for a lower premium rate, similar to traditional health insurance.[20]

Reinsurance Transactions

Another way companies manage their inforce blocks is through reinsurance transactions. A reinsurance transaction transfers the financial risk for an LTCI block to a third-party. Transactions can be structured in various ways to transfer all or a portion of the financial risk through coinsurance (a share of all of the insurance and asset risks), a portion of the risk (e.g., tail risk through stop-loss coverage), liability risk through modified coinsurance (a share of the insurance risk but not the asset risk), or specific liability risks through yearly renewable term (YRT) reinsurance (such as sharing morbidity risk alone).

17 See American Academy of Actuaries, "Value of Reduced Benefit Options in Long-Term Care Insurance Rate Increases," May 2022, for additional information on how reduced benefit options may be developed/valued.
18 Society of Actuaries, "Landing Spots: Offsetting Premium Increases Through Changes To Inflation Protection," December 2015.
19 Milliman, "Advantages, disadvantages and considerations for LTC policy buyouts," March 2020.
20 Society of Actuaries, "Coinsurance for Long-term Care: Another Viable Benefit Reduction Option for Rate Increases?" June 2022.

Policyholder Engagement

As mentioned above, there are limited opportunities for carriers to de-risk the sizeable blocks of LTCI inforce today. Companies are now looking beyond premium rate increases to other inforce management strategies such as claims management and pre-claim population management. To be successful, these strategies require a data analytics approach and a policyholder engagement initiative rooted in behavioral economics.

Behavioral economics combines psychology and economics to gain a better understanding of human behavior and decision making. This could be accomplished through the development of "nudges" to encourage policyholder engagement and to help policyholders make better decisions on their health and care.

To succeed, significant infrastructure needs to be developed for claims management and especially pre-claim population management. In many cases, decades may have passed between the time a policyholder was underwritten and the time they go on claim. Limited interactions take place and there is no incentive for policyholders to provide companies with additional information. Companies can bridge this information deficit by enriching their data using external datasets to enhance the policyholder view and segment the population. Companies can then analyze the results to create a policyholder engagement strategy for particular segments using the science of behavioral economics.[21]

Today there are several Insurtech vendors that provide services, technology, and interventions that carriers can bring to their claim or pre-claim population to attempt to influence the affordability of care.

The use of technology to drive innovation within insurance is known as "Insurtech." Examples of innovative technologies are artificial intelligence, big data analytics, blockchain, and machine learning.

21 The Academy's behavioral economics efforts include a Behavioral Economics Working Group, research projects, etc.

Two keys to optimizing policyholder engagement initiatives are:

1. Having a clear strategy for reaching out to appropriate policyholders at the right time and in the right way. Challenges for this include determining the best time for approaching the policyholder, i.e., pre-/post-claim, a certain attained age, etc., and how to identify the appropriate population to approach, i.e., the entire population, certain age groups, etc.
2. Establishing a framework to measure the results of the programs to ensure they have the desired impact. Challenges for this are largely driven by the delay that it takes for impacts to emerge.

Potential benefits of targeted policyholder engagement to companies, in addition to lower cost of care, are twofold:

1. Companies are able to assist healthy policyholders to "age in place" by developing a wellness strategy to prevent or delay claims. This can increase the policyholders' perceived value of their policies and provide the company with touchpoints outside of those related to premium notifications, premium rate increases, and paying claims.
2. Policyholder and claims analytics allow a carrier to better understand their population and develop a comprehensive policyholder outreach and management strategy to better predict and control costs.

Looking Ahead: Areas of Potential Uncertainty

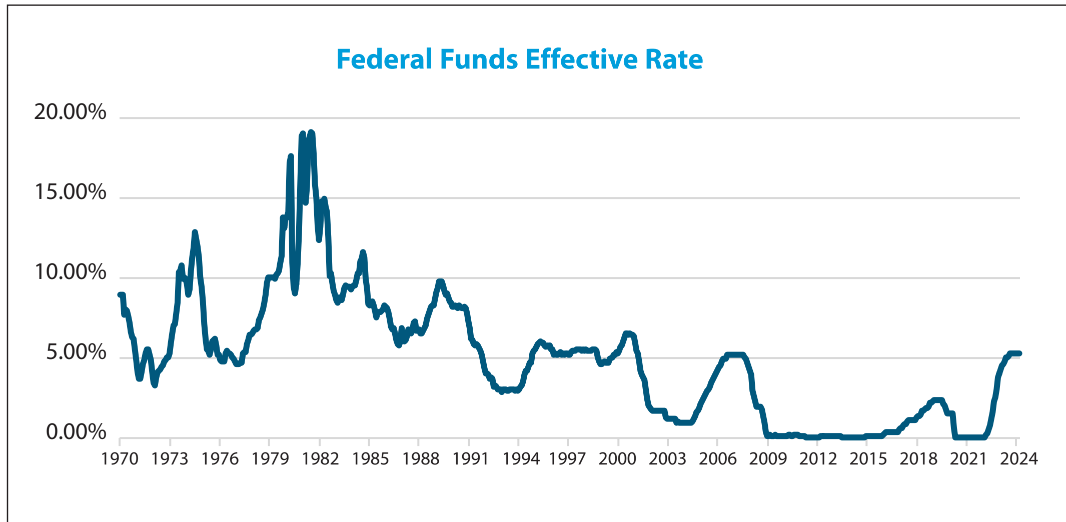
While the future is unknown, there are a few specific areas of potential uncertainty to highlight in regard to the LTCI industry: interest rates, COVID-19, and Alzheimer's research.

Interest rates

The recent increase in interest rates impacts both LTCI assets and liabilities. Higher earned rates on newly purchased assets are lifting portfolio rates, which is favorable. However, the increasing rates are also correlated with inflation and the future cost of care. The increasing future cost of care is expected to drive up the utilization of reimbursement policies, though the impact may be minimal for some blocks of business (for example, indemnity policies, where the benefit payment per occurrence is fixed).

The chart "Federal Funds Effective Rate" highlights how the federal funds effective rate has changed since the first policies were issued in the 1970s, including the most recent jump from nearly 0% in 2020 to today's rate just over 5%.[22]

22 Federal Reserve Bank of St. Louis, "Federal Funds Effective Rate," accessed on January 14, 2025.



COVID-19 impacts

It is not clear what the ultimate impact of COVID-19 will be on insurance carriers in the LTCI space. The higher mortality and lower incidence initially observed were generally favorable for LTCI carriers. The longer-term impacts of the pandemic are less clear:

- Did COVID-19 accelerate deaths of the likely LTCI claim population?
- Will an endemic COVID-19 result in material long-term impacts to mortality, incidence, and severity?
- What will be the impact of long-COVID, those who have lingering symptoms from their exposure to the virus?
- Will certain population cohorts be impacted more significantly than others?
- What are the related impacts to the economy that impact LTCI services—strain on health care workers, etc.?[23]

Alzheimer's research

Dementia claims continue to have a significant impact both in frequency but more particularly in severity as cognitive claims are generally of longer duration and require greater care intensity. Generally, cognitive claims are more costly on average than non-cognitive claims. Research into dementia, including Alzheimer's, may be significant. The Alzheimer's Association *2024 Alzheimer's Disease Facts and Figures* report states that 13.2% of people ages 75-84 and 33.4% of people ages 85 and older have Alzheimer's dementia.[24] The report also lists eight medications to treat the disease, including two which can slow disease progression for some.[25] Prescription drugs continue to be introduced to the market. A broad delay or minimization to the impact of dementia would be expected to have a meaningful impact on both the policyholder and the insurance company.

23 American Academy of Actuaries, "Impact of COVID-19 on Long-Term Care Insurance," January 2021. Note: the Academy is currently developing an updated issue brief on COVID-19's impacts on the LTCI market.
24 Alzheimer's Association, "2024 Alzheimer's Disease Facts and Figures," 2024.
25 Ibid.

This list is not meant to be comprehensive. For example, in addition to the three areas discussed above, potential impacts could come from wellness initiatives (mentioned in preceding section), AI tools, and/or pharmaceuticals such as weight-loss drugs.

Conclusion

As challenges have emerged and the need for LTCI continues, both for public programs and for private insurance, there has been significant engagement amongst stakeholders in looking to provide solutions going forward. Standalone policy designs continue to focus on streamlined benefits to keep premiums affordable and there has been a general shift towards combination products to address "use it or lose it" concerns of standalone policies.

For legacy business, many policies have had multiple rounds of premium rate increases. Today, both companies and regulators are focused on better communication and providing options for policyholders facing rate increases. Also, companies are strengthening their data analytics and policyholder engagement approaches to implement claim and pre-claim management strategies. Additional risk sharing mechanisms like mutual carriers' dividends and reinsurance transactions have and are being considered.

Given the increasing need of LTC and the uncertainties facing the marketplace—including interest rates, COVID-19 impacts, and dementia research—there is expected continued evolution in the LTCI marketplace.

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