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AALTCI

**A SPECIAL REPORT ON**  
**Long-Term Care**  
**Insurance**  
**Protection**

**Real Data To Help You Plan**

What's Your Real Risk Of Needing Long-Term Care?  
How Long Do Claims Really Last?





## A FAILURE TO PLAN ... IS A PLAN FOR FAILURE

We are the first generations of Americans where living into our 80s, 90s and even 100s is common. As a result, we are the first generation where planning for long-term care is really a necessity.

If you've had an aging family member who needed care, you understand the issues – the emotional toll and the financial cost.

If you haven't witnessed long-term care personally, you may be wondering what this is all about.

This Special Report was created to provide the latest information on this important topic. It is designed to help in your understanding of the issue and to help in your planning process.

This guide examines:

*Who really needs long-term care?*

*Why is care needed?*

*Why long-term care no longer means nursing home care.*

*How long do long-term care claims last?*

*Plus, information we have found consumers often want to know.*



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After reading this guide, you'll likely

have more questions. How much does insurance protection cost?

What discounts and ways to save are available?

The member of the American Association for Long-Term Care Insurance who provided you with this guide can help get the information you need.

### The Risk After You Turn 65

Here are statistical chances the following events will happen after reaching age 65

(based on average remaining life expectancy)

	For Women	For Men
Major House Fire	2.6%	2.2%

Severe Car Accident	18.0%	15.5%
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Becoming ADL* Disabled or Cognitively Impaired	72.0%	44.0%
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(2002 data) \*Activities of Daily Living  
Data compiled by Milliman

*Having homeowner's and car insurance is part of sensible planning. Planning for the risk of needing long-term care makes sense too.*

### Why Waiting Is A Mistake

You must "health qualify" for long-term care insurance protection. When your health changes you will pay more or be unable to qualify entirely.

Percentage of Long-Term Care Insurance Applicants Who Are "Health Declined"

Age of Applicant	% Declined
Under Age 50	9.5%
50 to 59	14.0%
60 to 69	23.0%
70 to 79	45.0%
80 and Over	66.0%

### GOOD HEALTH DISCOUNTS

Insurers offer discounts to those who are in good health when applying for long-term care insurance. You do not lose the savings when your health changes.

**62.0% of applicants between ages 40 and 49 qualified; 46.0% of applicants between ages 50 and 59 qualified.**

Source: AALTCI, 2010 industry study.

### SPECIAL REPORT ACKNOWLEDGEMENT

The Association acknowledges two of the nation's leading long-term care insurance industry experts for conducting the exclusive claims study contained in this guide.



Dawn Helwig, FSA, MAAA  
Milliman, Inc., Chicago, IL

Consulting Actuary and a Principal specializing in senior products. Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries.



Deborah Grant, FSA, MAAA  
Milliman, Inc., Chicago, IL

Consulting Actuary and a Principal specializing in senior products. Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries.

## WHO NEEDS LONG-TERM CARE INSURANCE?

Most articles and brochures you read provide generalized information about long-term care – often using government statistics.

By including the significant segment of the population who rely on Medicaid (welfare) to pay for long-term care, government data and information really is not as relevant to people like you - who are planners - who have savings and assets to protect - who do not want to rely on whatever government programs may be available when you may ultimately need care.

The following information is, we believe, far more relevant. It looks at the over 8 million Americans who have purchased long-term care insurance and the 180,000 who received claim benefit payments in a last year.

### When Coverage Is Bought

Under Age 35	0.7%
Age 35 to 44	3.5%
Age 45 to 54	22.3%
Age 55 to 64	54.0%
Age 75 to 74	18.5%
Age 75 or older	1.0%

### When Claims Begin

Under Age 50	0.5%
Age 50 to 59	1.3%
Age 60 to 69	7.5%
Age 70 to 79	31.5%
Age 80 and over	59.2%

Source: 2010 LTCi Sourcebook, AALTCI

## Top Causes For A Long-Term Care Insurance Claim

	<i>Home Health Care</i>	<i>Skilled Nursing Home</i>
<b>By Claim Count</b>	Alzheimer's	Alzheimer's
<b>By Ave. Payment</b>	Stroke	Alzheimer's
<b>By Length Of Claim</b>	Nervous System	Alzheimer's
<b>Under Age 65</b>	Cancer	Nervous System
<b>Age 65 to 74</b>	Cancer	Alzheimer's
<b>75 or older</b>	Alzheimer's	Alzheimer's

## Percentage Of Long-Term Care Insurance Claims By Gender

	<i>Home Health Care</i>		<i>Skilled Nursing Home</i>	
<b>Alzheimer's Disease</b>	F (17%)	M (19%)	F (26%)	M (28%)
<b>Stroke</b>	F (10%)	M (15%)	F (12%)	M (15%)
<b>Arthritis</b>	F (18%)	M (8%)	F (11%)	M (5%)
<b>Cancer</b>	F (14%)	M (18%)	F (7%)	M (2%)
<b>Injury/Accident</b>	F (13%)	M (5%)	F (12%)	M (6%)

Source: Fifth Intercompany Report prepared by the Society of Actuaries, published November based on 6.5 million long-term care insurance policies and just over 172,000 claimants.



### There's No Place Like Home

Most long-term care takes place at home. Only a small percentage of care is provided in skilled nursing home facilities.

**Long-Term Care Claims Paid** for those with individual long-term care insurance policies.

Home Care	42.0%
Assisted Living	27.5%
Nursing Home	30.5%

### Average Cost of Care (2010)

Home Health Aide	\$21/hour
Assisted Living Community	\$3,100/month
Nursing Home Private Room	\$80,300/year
	\$162,000/2-years

Source: American Association for Long-Term Care Insurance, 2010 LTCi Sourcebook.

### Estimated Years of Long-Term Care Need After Turning Age 65

	Percent of People
More than 5 years	20%
2-5 years	20%
1-2 years	12%
1 year or less	17%
No years	31%

Based on projections for people turning 65.  
Source: P. Kemper



## WHAT'S YOUR REAL RISK?

The question people ask most often is “what’s my risk?”

It’s a valid question. But the fact is your real risk of needing long-term care at some point in your life is either going to be 0% or 100%.

Either you will need long-term care or you won’t. Averages merely show how many people out of every 100 have a need. Nice information to know; but no prediction of your individual real risk and need.

Your Risk Is Either  
**0% or 100%**

### PLANNING IS VITAL FOR WOMEN

Long-term care planning is especially important for women who are married or may be living alone.

Women have 10 times the chance (as men) of reaching age 85.

Women are twice as likely to be living alone at older ages.

Women are far more likely to go to a nursing home.

Women are more likely to suffer from Alzheimer’s disease.

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### WHAT INFORMATION IS HELPFUL

Once you understand that a risk exists, your two big decisions are; 1) *how do you want to deal with it ...* and, 2) if long-term care insurance is an option, *how much protection is appropriate.* The more protection you want ... the more coverage costs. **IMPORTANT NOTE:** An experienced long-term care insurance professional can help you take advantage of discounts and show you ways to maximize your coverage even when budgets are limited.

Since no one can predict your real risk the best we can do is provide information on what happens when someone with long-term care insurance has a claim.

Knowing how long claims last can help in the process of deciding how much coverage to consider.

One of the most significant ways to save on long-term care insurance is by purchasing a “less than unlimited (lifetime)” policy. The Milliman study on the following pages sought to see what someone who buys insurance is really going to need and use.

### WOMEN BENEFIT MORE

#### From Having Long-Term Care Insurance Protection

Percentage of All Claims Paid

Single Women 41%  
Married Women 25%

Single Men 12%  
Married Men 22%

#### Most Frequent Reasons Women Receive LTC Insurance Benefits

- Dementia
- Cancer
- Fractures
- Stroke
- Osteoarthritis
- COPD
- Congestive Heart Failure
- Spinal Stenosis
- Parkinson’s
- Hip Fracture / Replacement
- Knee Replacement

Source: Genworth Financial. Claimant Study.

### 4 REAL PEOPLE - REAL CLAIMS

#### Largest Long-Term Care Insurance Claims Surpass \$1-Million Mark

Some 130,000 policyholders received benefits in a year. Here are 4 of the largest claims.

#### COMPANY A:

Largest open claim: \$2 million (female)

Purchased policy at age 43, paying an annual premium of \$1,800.

Three years later claim began and has continued for 12 years (\$1.2 million in benefits already paid).

#### COMPANY B:

Largest open claim: \$1.02 million (female)

Purchased policy at age 72; paying an annual premium of \$12,766.

Three years later claim began and has continued for 9 years (\$1.02 million in benefits already paid) for her nursing home care.

#### COMPANY C:

Largest open claim: \$990,000 (female)

Purchased at age 57 (in 1992), paying an annual premium of \$1,215.

That same year she had an accident and has been on claim ever since (almost 15.7 years) proving “you just never know.”

#### COMPANY D:

Largest open claim: \$690,000 (male)

Purchased coverage at age 54, paying an annual premium of \$2,560.

Coverage was designed to pay benefits for 5 years. Two years later his claim began and has continued for almost 7 years.

Source: American Association for Long-Term Care Insurance, 2009 industry study.

# SPECIAL REPORT: LONG-TERM CARE CLAIMS

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REPORT



## Why are claims relevant?

“Too costly” is the number one reason many people give for not buying long-term care insurance.

When it comes to buying long-term care insurance, the more policy benefits you buy, the more you will likely pay. Thus, an “unlimited” or “lifetime” policy that has the potential to pay the most benefit will also be the most costly.

The Milliman study sought to see what someone who buys long-term care insurance is really going to need and use.

If one of the most significant ways to save is by buying “less than unlimited” coverage, is this really a prudent decision?

### The Potential To Save

Yearly cost savings that can be achieved by purchasing shorter-duration LTC coverage.

5 Year vs. Unlimited = 31% to 39% Savings

3 Year vs. Unlimited = 42% to 54% Savings

2 Year vs. Unlimited = 51% to 64% Savings

Source: AALTCI 2010 LTC Price Study

## LONG-TERM CARE INSURANCE PAYS

89,000 Americans receive  
yearly benefits – about  
**\$6.0 billion** in benefits  
annually – from their  
long-term care insurance policies.

Source: 2009 LTCI Sourcebook,  
American Association for Long-Term Care Insurance

## A Look At Long-Term Care Insurance Policyholders

The study, one of the largest to date, sought to determine not just what type of coverage individuals purchased but how their selected insurance protection related to actual claims.

Claims were identified as either open (still ongoing; 22%) or closed (benefits have ceased because of recovery, death or because the maximum benefit had been paid out; 78%).

Nearly 29% of the policies looked at were lifetime (unlimited) benefit period policies. This is important because claims on the lifetime benefit period give us the “truest” picture of a claim throughout its full length.

Historically, long-term care insurance industry data has been interpreted to say that only about one percent of claims last longer than five years.

The findings of this study do reveal that overall 4.5 percent of total claims (all benefit periods) indeed last 60+ months.

### Claims Study Data (All Companies Combined)

Benefit Period (years)	# Policies Inforce	# of Open Claimants	# of Closed Claimants
2 or less	176,636	6,379	48,268
3 - 4	662,736	11,691	30,374
5 - 6	258,337	4,797	14,101
7 - 20	83,575	621	1,019
Lifetime	492,799	7,390	12,874
Total	1,674,003	30,878	106,636

### Claims by Policyholders w/ Unltd. Benefit Periods

	Claim duration in months				No. of Claims
	0-4	5-35	36-47	48+	
Closed Claims	12.0%	6.3%	3.8%	1.9%	12,074
Open Claims	43.0%	26.2%	15.1%	8.7%	7,390
Total	23.3%	13.9%	7.9%	4.3%	20,264

From U.S. Department of Health and Human Services Report

“15% of home care recipients did not think they would be able to receive care at home if they did not have their (LTC insurance) policy... about the same for Assisted Living residents.”

“83% of claimants agree that having their long-term care insurance made it easier to obtain needed services.”

Source: Report for HHS / ASPE Office of Disability, Aging and Long-Term Care Policy

Tables A, B and C are based on data analyzed by Milliman for claims experience of four leading LTC insurers. Charts D, E, F and G are based on Milliman's 2009 Long-Term Care Cost Guidelines.



**SPECIAL REPORT**

## HOW LONG DO CLAIMS LAST?

### KEY STUDY CONCLUSIONS

The possibility of having a long-term care insurance claim that lasts longer than three or four years is relatively low.

**More than 3 years: 13.1 %**

**More than 4 years: 7.6 %**

**More than 5 years: 4.5 %**

However, if you are one of the individuals whose claim goes past the expected number of years of your policy, you can expect to need care for anywhere from two to six more years.

A 55-year-old who exhausts a 3-year LTCi policy can expect to need long-term care for another 3.7 years (Male) to 5.3 years (Female).

An 82-year-old who exhausts a 3-year LTCi policy can expect to need long-term care for another 1.9 years (Male) to 2.9 years (Female).

*Source: 2009-2010 Milliman claimant study.*

**The study found that 1 in 10 (10.9%) of 3-year policies actually paid benefits beyond the 36-month time period and only 8.0% actually exhausted their policy benefits.**

**Most long-term care insurance policies sold today actually provide a “pool of money” to pay benefits. They are generally referred to as ‘reimbursement’ policies. Your agent can explain.**

**Simply said, if you do not use all of the available benefit on a particular day, the dollars remain in your pool. As a result, a policy designated as a “2-year” or “3-year” Benefit Period may actually pay benefits beyond the stated time period. It’s referred to as ‘salvage’.**

As an example, the study found that one in 10 (10.9%) 3-year policies actually paid benefits beyond the 36-month time period.

The importance of this data is significant because it more clearly shows the true percentage of people whose claims last beyond the specific duration of their policy.

The total of the shaded section on Chart C shows the weighted average of both open and closed policies. Open claims are still a dynamic number and are likely still understated compared to what the final number will be.

#### % of Claims Lasting X or More Months by Benefit Period

Benefit Period	Claim Duration in Months			
	24+	36+	48+	60+
<2	1.4%	1.4%	0.2%	0.1%
2	14.0%	1.4%	0.4%	0.1%
3	25.0%	10.9%	1.4%	0.3%
4	23.9%	12.1%	6.0%	1.0%
5	15.9%	10.2%	6.1%	2.9%
6	30.0%	17.1%	8.3%	4.5%
7-20	30.5%	19.1%	10.9%	6.3%
Lifetime	23.3%	13.9%	7.9%	4.3%
Total	18.7%	8.0%	3.4%	1.4%
Shaded Average	23.5%	13.1%	7.6%	4.5%

#### If Coverage Ends ... How Much Longer Can The Claim Continue ?

The following are averages. It’s important to remember that on a prior page, we showed four real claimants whose claims lasted many years and where the total benefits paid have exceeded \$1 million for a single claimant.

That said, the study looked at four scenarios; a male or female who goes on claim at age 55. And, a male or female who goes on claim at age 82.

All industry data and the chart shows that women (at all ages) clearly tend to remain on claim for longer than men.

We sought to forecast what happens to the (very) small percentage of policy holders who buy a limited-pay policy, go on claim and exhaust the benefits of their policy.

As seen above, a female claimant who begins a long-term care claim at 82, has a 3-year benefit plan and exhausts the benefits of her policy will likely remain on claim for another 2.9 years. For purposes of this calculation, the value of ‘salvage’ (unused benefit dollars) were not included.

#### Years Of Service Remaining At End of Benefit Period

Policy Benefit Period	In Years			
	Male age 55	Female age 55	Male age 82	Female age 82
1	3.9	4.6	2.1	3.0
2	4.0	5.2	2.0	3.0
3	3.7	5.3	1.9	2.9
4	3.6	5.6	1.9	2.8
5	3.9	6.0	2.1	2.9
6	3.9	6.4	2.2	3.0
8	3.9	6.5	2.3	3.1

# CLAIMS DIFFERENCES BY AGE & SEX

SPECIAL REPORT



This report looks at the probability of an individual with long-term care insurance exhausting the benefits of a limited duration policy.

As Chart E shows, the longer the benefit period selected, the less chance of exhausting policy benefits. The age when a claim begins also determines the likelihood. Claims that begin at younger ages often last longer as they tend to result from accidents or conditions that are not life threatening.

To remain consistent with other examples explained, the study found that the percentage of claimants with a 3-year policy who can be expected to exhaust their benefits ranged from 22.4% (for claims starting at age 55) to 18.7% (for claims starting at age 82). The percentage is only 15.6% for claims starting at age 72.

Because women are more likely to experience longer claims, the likelihood that a woman will exhaust a limited duration policy is higher than that of a man. (Chart F)

The study looked at women and men who begin a long-term care claim at age 82 (a typical age when claims begin).

For our 3-year benefit period scenario, men had a 12.4% likelihood of exhausting the benefits of their policy. Women face almost twice the risk (23.5%).

Where care is provided also plays a factor in determining the risk of exhausting policy benefits (Chart G).

The probability of exhausting a 3-year benefit period for someone receiving Home Health Care is 2.5%. For someone receiving care in assisted living or a skilled nursing home, the probability is 26.1%.

**E**

**Effect of Age on Length Of Service**  
(Both sexes and all care situses, reimbursement model)

Modeled Probability of Person Exhausting Benefit Period

Benefit Period	Claimant Age				
	55	62	72	82	92
1	42.3%	41.7%	37.6%	43.1%	43.5%
2	32.1%	28.5%	23.9%	28.1%	28.3%
3	22.4%	19.3%	15.6%	16.7%	17.6%
4	15.5%	13.8%	10.7%	12.5%	10.4%
5	10.1%	9.8%	6.9%	7.8%	6.0%
6	7.6%	7.6%	4.8%	5.1%	3.6%
8	5.0%	4.7%	2.7%	2.4%	1.4%
10	3.3%	3.1%	1.6%	1.1%	0.6%

**F**

**Effect of Sex on Length of Service**  
(Age 82, all care situses, reimbursement model)

Modeled Probability of Person Exhausting Benefit Period

Benefit Period	Sex	
	Males	Females
1	37.5%	47.3%
2	21.1%	33.5%
3	12.4%	23.5%
4	7.4%	16.3%
5	4.3%	10.5%
6	2.7%	6.9%
8	1.2%	3.3%
10	0.5%	1.6%

**G**

**Effect of Location of Care on Length of Service**  
(Age 82, both sexes, reimbursement model)

Modeled Probability of Person Exhausting Benefit Period

Benefit Period	Location of Care	
	Nursing Home / Assisted Living	Home Health Care
1	55.0%	18.6%
2	37.7%	6.8%
3	26.1%	2.5%
4	17.4%	1.2%
5	10.8%	0.5%
6	7.1%	0.2%
8	3.1%	0.0%
10	1.5%	0.0%

## A FINAL WORD

Understanding the claims usage of those who have already purchased and are receiving benefits from their long-term care insurance protection can give you a more relevant picture of your real risk and need.

But in the end, long-term care planning is a personal matter.

How much protection do you want?

How much burden do you want to place on family members or loved ones?

How much cost are you willing to self-insure?

How much can you afford?

**ALWAYS TRUE:** When it comes to long-term care insurance, **some protection is always better than none.**

Thank you for taking the time to read this guide. We hope it has been beneficial to your planning process.

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**BECAUSE THINGS CAN  
CHANGE TOMORROW  
IT'S SMART TO ACT TODAY**

A long-term care insurance specialist or financial professional can answer your questions and help you obtain affordable protection.

*Please Contact Me For More Information*

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