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Good afternoon, Mr. Chairman and Members of the Committee. I am Samuel Morgante, the chairman of the Long-Term Care Committee of the Health Insurance Association of America (HIAA). As the nation's preeminent health insurance trade association, HIAA, based in Washington, D.C., is the industry's most influential advocate for the private, market-based health care system. HIAA's more than 250 member companies provide medical expense and supplemental insurance, as well as long-term care insurance and disability income protection, to more than 65 million Americans. HIAA develops and advocates federal and state policies which would build upon our health care system's quality, affordability, accessibility and responsiveness. I am also Vice President for Product Development and Government Relations of GE Capital Assurance Company.

On behalf of HIAA, I appreciate the opportunity to talk to you today about our role in helping baby boomers plan for their future retirement and long-term care needs. Currently, more than 100 companies provide long-term care insurance to over 5 million people. Quality private insurance coverage is offered through a variety of mechanisms, including individual and employer-sponsored arrangements and riders to life insurance plans.

Let me begin by summarizing the most important points of my testimony.

- Today's baby boomers face a looming crisis in their retirement years - the need for and lack of adequate planning for long-term care. While the current system is flawed, the financing of long-term care is complicated and requires a thoughtful solution, not a rush to judgment.

- Fiscal realities and national priorities make it irresponsible to place the financing burden primarily on the nation's taxpayers. All elements of society - individuals, policymakers, employers, and insurers must play a vital role.

- There is a growing and critical role for private insurance to provide a better means of financing long-term care for the vast majority of Americans who can afford to protect themselves. Continued growth of the market will alleviate reliance on scarce public dollars, enhance choice of long-term care services for those who may need them in the future and promote quality among providers of long-term care.

- The long-term care insurance market is growing and the products that are available today are affordable and of high quality.

- There is a continued role that the government can play in financing long-term care for those without adequate resources to protect themselves.

- There continues to be a critical government role, independent of financing care in education and research--to further our collective knowledge about who needs long-term care, what services should be provided and what the total costs to society will be.

To address these concerns, HIAA believes the following steps must be taken:

1. Encourage personal responsibility for financing long-term care through the expansion of the private long-term care insurance market;

Educate the public and policymakers about the risks and costs of long-term care. Without understanding the problem, the public cannot be expected to understand the appropriate solutions. It is critically important for the public and private sectors to do more in this area.

3.Improve the government's ability to target assistance to those most in need. The government must take full responsibility for providing care to those without the resources to do so.

4.Stimulate the private insurance market through enhancement of the tax status of long-term care insurance.

5.Encourage the delivery of adequate reimbursement for quality long-term care services; and

6.Support research and demonstrations related to the need for long-term care services and private and public sector partnerships in paying for long-term ca re.

This hearing is a very positive first step in accomplishing these objectives. The public and private sectors must take the time to make the necessary investment today in designing a financing arrangement that our elderly can live with today, our future retirees can live with tomorrow and our children can depend on in the next generation. Long-term care is an especially critical issue that today's baby boomers face. We commend the Committee for bringing this issue to the forefront and recognizing the important role that the private long-term care insurance market can play in solving our nation's long-term care dilemma.

Nature of the Problem

When we speak of "long-term care," we are describing a wide range of health and personal care services provided to individuals who have lost some or all capacity to function independently due to a chronic illness or condition and wh o are expected to require these services for an extended period of time. About 70 percent of the non-institutionalized elderly with long-term care needs receive all their help from family members and friends. However, 30 percent receive additional paid home care services and about 40 percent of all elderly will spend some time in a nursing home.

Long-term care is the major catastrophic health care expense faced by the elderly today and will definitely remain so for our retiring baby boomers. For the elderly who have out-of-pocket health care expenses of over $2,000 a year, an average of 80 percent is spent on nursing home care. With annual nursing home costs averaging $41,000 (increasing to about $100,000 in 1996 dollars by 2030), and easily double that amount in high cost areas, such expenses can indeed cause financial ruin. Instead of pooling risks, the current system places each household on its own and when household resources have been depleted, Medicaid becomes the payer of last resort. This approach combining out-of-pocket outlays and welfare features remediation and relief when prevention and planning should be the preferable approaches.

Today's situation, a population of approximately 8 million people, increasing to about 13 million in 2030, needing long-term care services and lack of preparation for this catastrophic event, calls for a thoughtful and deliberate approach. Today is not a time to consider a quick plunge into national broader solutions that fail to recognize how these financing and delivery issues affect costs and access to long-term care. HIAA supports a comprehensive approach to financing long-term care that utilizes the inherent strengths of both the private and public sectors in a more efficient and equitable manner than the essentially unintended system created today.

The Long-Term Care Dilemma for Baby Boomers

The baby boomers, roughly 76 million people born from 1946 through l964, have demonstrated an increased awareness of health care, social and financial issues at every stage of their lives. They put pressure on the school system during the 1950s and 60s. Their adolescence and entry into the workforce have slowed increases in the growth of wages in the 1970s and 80s. They became the "sandwich generation" when their parents aged and they began having children in the 1980s and 90s. When they retire in the 21st century, their huge numbers certainly will create a surge in the concern for adequate retirement and long-term care savings. And, as they become the "older elderly," most of them will experience chronic illness and need long-term care and the call for choice and quality long-term care services will be heightened. All these factors will increase the need for a solution to the nation's long-term care dilemma, which will likely be the most critical issue for the nation.

The financial well being of the retiring baby-boomers is cause for great concern. This concern is mainly due to three factors. The first factor is their sheer volume. The number of elderly people is expected to double from 35 million to 70 million by 2030, when the last of the baby boomers retire. When this happens, one in five Americans will be aged 65 or over. In addition, these elderly will have longer life expectancies and our society will witness the largest proportion of older elderly, those aged 85 and over. Secondly, the future financial status of social support programs, Social Security, Medicare and Medicaid, cannot be expected to sustain the retirement and long-term care demands of the baby boomers. Finally and most importantly, although many baby boomers are viewed to have saved enough for their retirement, it is clear that they have not yet sufficiently prepared financially for their future long-term care needs. The long-term care burden cannot be expected to remain in the hands of individuals, through out-of-pocket payments, depletion of retirement savings, and reliance on government programs.

The Private Long-Term Care Insurance Market Today

The insurance industry is justifiably proud of the role it has played in the evolution of the largest private insurance system in the world. Now, we are entering the next logical phase of this evolution. Advances in medical technology and general health are increasing the life span of the elderly, but they are also increasing the number of people who will need treatment for chronic illness. At the same time, rising income, particularly among the current elderly and future baby boomer retirees, makes insurance against the costs of long-term care more affordable. Long-term care insurance must now be folded into this country's extensive private health insurance system.

The market is developing rapidly, as evidenced by the number of companies developing long-term care insurance products, the number of individuals covered and the variety of products available to the public today. By December 31, 1996, over 100 companies have sold close to 5 million long-term care insurance policies. The number of policies purchased increased by more than 600,000 in 1996 alone, and the market has grown an average of 22 percent between 1987 and 1996. These insurance policies include individual, group association, employer-sponsored and riders to life insurance policies that accelerate the death benefit for long-term care.

The majority of long-term care insurers continue to sell policies in the individual market. As of the end of 1996, approximately 80 percent of the 4.96 million long-term care insurance policies had been sold through the individual and group association markets. However, about one-third of the 1996 long-term care insurance carriers sold policies in either the employer-sponsored or life insurance markets, up from 14 percent in 1988. These two markets also represented 20 percent of all long-term care policies sold as of 1996, up from less than 3 percent in 1988.

Although all three markets experienced growth in 1996, the majority of growth, about 79 percent, can be attributed to the individual and group association markets. The total premium volume for the individual and group association policies sold in 1996 alone was about $750 million. The employer-sponsored market enhanced this growth by contributing close to 20 percent of the sales in 1996. At the close of 1996, over 650,000 policies had been sold through 1,532 employers. Although the growth in the long-term care life insurance rider market was minimal in 1996, it continues to account for about 7 percent of the entire long-term care insurance market, with over 340,000 policies sold cumulatively as of the end of 1996.

As in previous years, the long-term care insurance market remained highly concentrated among a relatively small number of sellers. Twelve sellers represent approximately 80 percent of all individual and group association policies sold in 1996. HIAA conducted an in-depth look at the top sellers' latest policies and found that insurers offer policies with a wide range of benefit options and design flexibility at moderately priced premiums. Key findings follow:

- All companies offer plans which cover nursing home, home health care, adult day care, respite care and alternate care services. Hospice care was specifically covered by 10 insurers and a separate assisted living facility benefit was offered by 10 of the top sellers.

- Other common benefits include: care coordination or case management services, homemaker or chore services, restoration of benefits, bed reservation reimbursements, medical equipment coverage, spousal discounts, survivorship benefits and caregiver training.

- Benefit eligibility criteria used are deficiency in performing Activities of DailyLiving (ADLS) and determination of cognitive impairment.

- All plans are guaranteed renewable, have a 30-day free look period, cover Alzheimer's disease, have a waiver of premium provision, offer unlimited or lifetime nursing home maximum periods.

- Whereas in previous years, most companies used a 6-month preexisting condition limitation, 9 of the 12 sellers now waive their preexisting condition limitation as long as pertinent medical conditions are disclosed at the time of application.

- Age limits for purchasing are also expanding. Companies now offer individual policies to people as young as 18 and as old as 99 years.

- All plans offer the NAIC Model Act and Regulation inflation protection requirement of benefits increasing at an annual 5 percent compounded rate, funded with a level premium.

- All companies offer plans that have a nonforfeiture benefit, with a shortenedbenefit period or a return of premium, as the most common types.

In addition to examining each top seller's policy provisions and marketing materials, we also reviewed the premiums they offered for their most recent policy. Premiums for long-term care insurance policies varied widely depending on multiple factors, including entry-age of the policyholder and benefit designs chosen. HIAA analysis reveals that the average premiums reported by the leading sellers have been decreasing over time. The average premiums in 1996 decreased an average of 5 percent when compared to the average premiums for the leading sellers in 1995. This is a strong indication that market competition and insurers' increasing confidence with their pricing and anticipated claims experience have kept premiums stable, if not more affordable. In addition, given the tremendous changes in long-term care insurance policy design (i.e., elimination of prior hospitalization requirements, expansion of available benefits, coverage of additional sites and levels of long-term care), buyers are now clearly receiving more benefits for their premium dollar.

The Employer-Sponsored Long-Term Care Insurance Market

The growth in employer-sponsored plans is particularly promising. Employer plans offer the opportunity to reach a large number of people efficiently during their working years when premiums are more affordable. Coverage in the workplace offers the additional advantage of employers selecting the best plan at the best price for their employees. Enrollment experience shows that the average age of the employee electing this coverage is 43. This is strong evidence that with education and availability, younger people can and will purchase long-term care protection. Most of these plans offer coverage to the elderly as well by including retired employees and their spouses and parents of the employee or employee's spouse.

By the end of 1996, 1,532 employers were offering a long-term care insurance. plan to their employees and retirees. There were over 500 employer-sponsored plans introduced in 1995 and 1996. Most of these plans were employee pay-all plans. However, at least 432 of these employers paid part or the entire employee premium for long-term care insurance. The majority of these employers were very small firms (under 100 employees), and were insured by one insurance company. Among the employee pay-all plans, employee participation rates varied widely by insurer and employer. The average percent of active employees participating in this coverage per employer group is about 6 percent.

Since June 1990, many small employers (1-500 employees) have started offering long-term care insurance to their employees. This number has increased from 58 in 1990 to over 600 in 1996. This group represents over 60 percent of all employers offering long-term care coverage to their employees and/or retirees. There have also been substantial increases in the number of medium-sized and large-sized employers who offer long-term care coverage.

Challenges to the Long-Term Care Insurance Market

Incentives for the purchase of long-term care insurance were included in the recent passage of the Health Insurance Portability and Accountability Act of 1996 (HIPAA). A new federal focus on streamlining public expenditures and encouraging individual responsibility has emerged. HIPAA's long-term care provisions have improved the political climate for private long-term care insurance. Nevertheless, HIPAA is not a panacea and will not, by itself, achieve the optimum public-private partnership for long-term care financing. HIAA believes that several factors could hasten the development of private long-term care insurance and strengthen its ability to respond to the baby boomer's demand and need for long-term care protection.

Educating the Public is Essential -- The need for better consumer education is the responsibility of both the private and public sectors. It is virtually impossible to sell a product to someone who already believes they have it or they will never need it. However, this is where we often find ourselves with long-term care insurance. Education should begin early, so that working age people understand their risks for long-term care and can plan for their potential long-term care needs while they have the income to do so.

Over the last several years, the insurance industry has made an extensive effort to inform the public about long-term care and its potential costs. Since 1987, when the HIAA long-term care consumer guide was first published, over two million copies have been distributed. (A copy of the most recent *HIAA*

Guide to Long-Term Care Insurance is attached.) It is clear the public wants information on this subject. HIAA remains willing to work with all levels of government to further similar consumer communication and education efforts.

A dilemma, just as critical, is the lack of knowledge of the policymakers themselves. There is also a need for continuing education in this area.

Public Expenditures Should be Targeted - HIAA also recognizes that the private sector alone cannot realistically meet society's entire need. There will always be a significant need for public sector involvement. For those unable to finance their own long-term care services, a "safety net" program of public assistance must continue to be provided. This is true especially for the current generation of elderly and disabled individuals, who have not had the time, product availability or financial resources to provide effectively for themselves. In this regard, HIAA supports initiatives to improve the current long-term care public assistance programs and research and demonstrations on innovative needs-based public long-term care programs.

We recognize that such innovations could be costly. However, we believe that their benefits are significant and that it is the responsibility of the public sector to target its assistance to those most in need. Funding of these improvements could be partially offset through mandatory estate recoveries of recipients after their death and the death of a surviving spouse. Additional revenues could also be generated from further strengthening and strictly enforcing the transfer of assets rules so that individuals could not give away property in order to qualify for Medicaid.

Expansion of Long-Term Care Insurance Coverage Should be Encouraged--While several tax clarifications passed in HIPAA, we believe that other equally important tax-related changes, at both the federal and state levels, could make long-term care insurance more affordable to a greater number of people. The expansion of this market will have the parallel effect of reducing future costs to the federal and state governments by reducing Medicaid outlays.

Federal and state governments have an important role in encouraging the growth of private long-term care insurance market. This could be achieved by enhancing tax provisions for long-term care insurance. Encouraging additional tax provisions for these products would reduce the cost of long-term care insurance for many Americans, would increase their appeal to employees and employers. and would increase public confidence in this relatively new private insurance coverage. Further, enhancement of tax incentives for the purchase of long-term care insurance would demonstrate the government's support for and its commitment to the private long-term care insurance industry as a major means of helping Americans fund for future long-term care needs. It also reinforces the message to the public about individual responsibility.

These efforts will lead to an increase in the portion of the population who seek to protect themselves against catastrophic long-term care expenses. Some examples of specific actions that could be taken are to:

- Enhance the deduction for long-term care insurance premiums, suchthat premium dollars are not subject to a percentage of income;

- Permit the tax-free use of IRA and 401 (k) funds for purchases of long-term care insurance;

- Permit the premiums to be paid through cafeteria plans and flexible spending accounts;

- Provide a tax subsidy for the purchase of long-term care insurance; and

- Encourage state tax incentives for the purchase of long-term care insurance.

These tax incentives would largely benefit two groups: those who did not have the opportunity to purchase such coverage when they were younger and the premiums were lower and as a result, now face the greatest affordability problems because of their age; and those younger adults, our current baby boomers, who need incentives or mechanisms to fit providing for their own long-term care protection into their current multiple priorities (e.g., mortgage and children's college tuition) and financial and retirement planning. Further, the educational effects of such tax incentives could far outweigh its monetary value by educating consumers about an important issue and as a result, would help to change attitudes as well.

Encouragement of Delivering Quality Long-Term Care Services and Focus on Research Affecting Long-Term Care Use and Costs is Critical - Rather than spend tax dollars to provide long-term care to those who can afford to protect themselves, HIAA believes it is a higher priority to devote public expenditures toward encouraging the delivery of quality long-term care services. Reimbursement policy under public programs must be adequate to ensure high quality patient care and deter cost-shifting to private paying patients.

Public expenditures should also focus on research affecting long-term care use and costs, and support of budget-neutral demonstrations involving public-private financing partnerships. In addition, more resources are needed in basic and applied biomedical aging research to facilitate the management of chronic disease and disability. Treatments which ameliorate or control conditions such as Alzheimer's disease, incontinence, and osteoporosis will greatly enhance the quality of an older person's life and significantly reduce or delay the need for costly long-term care services.

Another priority for additional public spending on long-term care would be the monitoring of genetic studies. These studies could help in learning more about the aging process and how to reduce or delay the impact of aging on service delivery. Applying lessons learned from these efforts could improve the ability of future long-term care insurance products to meet the needs of consumers. However, it is essential that such studies not impede development and growth of the market and that insurers continue to have access to and consider any relevant medical information for insurance purposes. Like all insurance, long-term care insurance will only remain affordable if adverse selection can be minimized.

The federal government must also continue its important function of collecting and organizing data through national surveys and share this information with the public in a useful and timely manner. Financial support of such research and demonstration efforts is fairly minimal when compared to the tremendous benefits they will reap over the long haul.

Summary and Conclusions

We all agree that solving the nation's long-term care problem is vitally important. The flexibility and versatility that private long-term care insurance offers baby boomers and their families make it the preferred approach to pre-funding the catastrophic long-term care costs many Americans. In addition, private insurance also provides maximum flexibility to present and future informal caregivers. Many of us have experienced or will soon experience, either needing or providing long-term care for our loved ones. Over time, HIAA fully believes that private long-term care insurance will give millions of people an opportunity to be financially independent throughout their retirement years. Recognition of the private long-term care insurance market in this hearing is a solid step in this direction.

Given this promising start, HIAA believes its would be a mistake to minimize the role of private insurance in designing a comprehensive national policy for long-term care. Instead, the public and private sectors must combine their efforts and knowledge to create a solution that will benefit most Americans today and in the future. This investment will pay off many times over as you and I grow older and it will help us avoid placing an insupportable tax burden on our children.

Thank you Mr. Chairman and Members of the Committee. We look forward to working with you to provide further assistance in this area.