Long-Term Care Insurance Plans at Work

Are your clients used to accessing insurance products at their place of employment? Do you work in the employee benefits market? Are you a mouthpiece for the employer to help employees understand what benefits are being provided and the high cost over and above wages that the employer pays on their behalf?

Although the Affordable Care Act (ACA) is increasing the divorce rate between health insurance and one’s place of employment—with some estimating that three-quarters of employers will no longer offer health insurance within a decade[[1]](#endnote-1)—long-term care insurance remains a worksite benefit which glues employers and employees together.

Over the last few years, the worksite market for LTCI has undergone major shifts—after a period of generous underwriting and relaxed participation requirements driven by stiff competition, followed by a dramatic reconsideration where carriers pulled back as if with one voice. Still, opportunities exist for the benefit broker, multi-life specialist, or even casual LTCI producer to create a worksite plan that confers every advantage he would’ve found ten years ago.

# What Is Available?

Worksite plans generally fall into two categories, depending on who pays the premiums: voluntary (employee-pay) and employer-pay. In the latter case, carriers will typically ask whether the employer is going to pay all the premium, just some, or a set amount per employee or per policy. There are any number of factors which historically contribute to a greater participation and more successful enrollment, but one of the most influential is simply the difference between voluntary and employer-pay. Carriers are well aware of this and their criteria for employer participation reflect the difference. A voluntary plan will typically require a much larger workforce, and many more participants than an employer-paid plan.

More and more carriers are now evolving away from what we think of a multi-life (requiring a census, home office approval, a true enrollment period, and underwriting concessions) in favor of something much more streamlined: a simple discount. In this way, everything old is new again, since this was how many such programs first began. Simply put, any group of X-many employees with the same employer (or association, credit union, trade group, in some cases) might qualify for a simple 5 percent discount. The producer may or may not pay for this out of his commissions.

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What we think of as true group insurance—master contracts and policy certificates, guaranteed insurability, portability, covering hundreds of lives—is largely a relic these days. In fact, there’s only one carrier left in this market still writing new groups. For this reason, we won’t cover true group in this edition.

In today’s business climate, the employer-employee relationship is about more than a paycheck. How many of your clients have gone without raises or had their paychecks tied to the cost-of-living for the last couple of years? As employers have battled budgets to keep their businesses afloat during a protracted period of consumer inactivity, a trade-off between real dollar increases and offering voluntary benefit opportunities has been taking place.

# The Graying of America

Another dynamic is at work here: the aging of the workforce. “Spanning the globe” (as the late ABC Sports announcer Jim McKay used to say), business owners everywhere (and countries, for that matter) are dealing with a large segment of the population that is simply getting old. When the numbers hit their current levels, ignoring this fact is no longer an option.

In today’s aging America, employees are being broadsided by any number of elder-care issues that must be addressed. This can’t help but spill over into workplace concerns for employers—from the aging of the employee population itself to employees caring for aging family members outside of work. When this cuts into productivity, as it has now done, employers make adjustments.

In response, a growing number of companies now provide basic elder-care benefits, from a referral service that helps employees find caregiving help and legal services, to extended leaves of absence and access to case managers and home health workers.[[2]](#endnote-2) And, from a practical standpoint, they see the value of offering worksite long-term care insurance that can be deducted from payroll for the employee’s convenience.

# Reasons Employees Purchase Worksite Long-Term Care Insurance

Why would an employee buy insurance through work? It’s not simply because it’s there. Often employees find it easier to pay for insurance if the premiums are being deducted from their paychecks. More important, coverage provided through an employer may be an employee’s only exposure to, awareness of, and protection from this risk.

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Many employees never see an insurance agent. They might call their local State Farm office for auto insurance and homeowners’ coverage, but there are few agents who directly call on individuals today. It’s not very cost-effective for them to do so, and a number of safeguards regarding the unauthorized solicitation of individuals are now in place. Financial advisors often prefer to reach individuals through their places of employment.

Word that a long-term care product is being offered at the next open enrollment opportunity will appeal to employees interested in how insurance addresses this risk. Yet very few people seriously consider this option when it is presented. Why is it that consumers find it easy to discuss planning for *retirement*, but not planning for *long-term care expenses* that they will likely have to pay for during retirement?[[3]](#endnote-3)

In part, many employees assume they are already covered for a long-term care event. How else to explain survey after survey that indicates that more than 30 percent of respondents say they own long-term care insurance, while the hard facts tell us that currently only 10 percent of Americans who *should* buy long-term care coverage have done so?

Employers often help employees establish a retirement fund—most likely a 401(k) plan—and even contribute to it. If they then offer employees an opportunity to purchase a product that can help *safeguard* those vital funds, shouldn’t they be interested? Keep this in mind the next time you discuss employee benefit packages with an employer client.

But, you might ask, aren’t employees mostly younger and far from a time when they might need long-term care assistance? Even though most people associate long-term care needs with advanced age, this does not coincide with reality. Of those who access long-term care medical resources in this country, 42 percent are under the age of sixty-five, a fact that should be shared with employer and employee alike.[[4]](#endnote-4)

# The Younger Generation Steps Up

When presented with the opportunity to purchase long-term care insurance at the worksite, younger people respond. About 24 percent of those who buy long-term care insurance through an employer-sponsored plan are between the ages of thirty-five and fourty-four; another 36 percent are between ages forty-five and fifty-four.[[5]](#endnote-5)

Why buy long-term care coverage while young? There are several reasons.

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1. Premium cost. Every year you wait to add this protection to your portfolio costs you money. Fifteen years ago, a particular individual could purchase coverage at age forty-three for less than $800 annually. Today, it is still the same price. Purchasing the same policy today, it would cost more than $2,000 annually. The money saved from not having the policy for fifteen years is quickly spent. The younger you are, the less money you will ultimately spend to cover this risk.

2. Qualification. Your money pays the premium, but your health buys the policy. In other words, you must health-qualify to obtain long-term care coverage by answering some medical questions. The younger you are, the easier it is not only to qualify, but to do so at preferred rates, saving you more money.

3. Younger people need long-term care, too. As noted above, nearly half of long-term care services are delivered to people under age sixty-five. I have a friend who had a stroke at age forty-one; although her disability insurance helped pay basic expenses like the mortgage, car payment, food, utilities, etc., there was not enough money to cover the ongoing physical and speech therapy she needed. A long-term care insurance policy would have been quite handy at that time and would have added to the disability insurance coverage.

4. Coverage is portable. With rare exceptions, the insurance you buy at work for this risk is portable, meaning you can take it with you should you leave an employer. The coverage remains the same, and if there is a discount for buying it at work, you can typically keep that as well.

# Who Qualifies?

A worksite long-term care insurance plan can be offered to everyone or it can distinguish among classes of employees. The Internal Revenue Code gives employers the chance to single out key people who meet certain criteria (e.g., years of service, job title, income or some combination) and either cover *only* them or cover them *differently* from other employees. You may be more familiar with the term *employee carve-out* or *executive carve-out*.

In such cases, if employers pay the premium for a tax-qualified long-term care insurance policy on behalf of an employee, the outlay is tax deductible (and often is not considered taxable income to the employee). Employers can select who is covered (as noted above), and there are premium options to pay the policy off even before an employee retires.[[6]](#endnote-6) That’s a great perk to recruit and retain a key employee.

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# The Employer Perspective

From an employer standpoint, the loss of an employee because of a long-term disability is a traumatic event. Coverage that helps that employee financially is good for everybody. But, regarding long-term care risk, it’s not just the employee that employers should be worried about. How vulnerable are employees to being needed if a spouse or other family member suddenly requires long-term help? Will they be pressed into service? Can they do it, practically speaking? It may mean taking leave from work—often without pay—and the time frame for caregiving may be open ended.

When an employee is lost from work because of someone else’s long-term care need (*absenteeism*), it affects the employer in virtually the same way as if the employee personally needed care due to a disabling event. That individual is still absent from the workplace, and the employer must cope with the loss of productivity. Of course, the employee may still come in, but not work as effectively, since their time is preoccupied with caregiving demands while on the job (*presenteeism*).

The following are some of today’s caregiving ramifications which can be mitigated by an employer-sponsored long-term care insurance plan:

* Caregiver challenges affect the employees through all sorts of informal workplace adjustments (including dealing with the crisis, coming in late to work and leaving early, taking unexpected days off and having to make-up work).
* Key personnel have to make formal workplace adjustments to cope with caregiving (including taking a leave of absence, using sick or vacation days, reducing from full- to part-time, retiring early or even quitting).
* 65 percent of caregivers reported missing some work, while 53 percent reported losing income.[[7]](#endnote-7)
* Caregivers spend an average of $8,000 of their own money when providing care, and 60 percent had to cut back on their own discretionary spending while caregiving.[[8]](#endnote-8)

Witness the last great worksite benefit: offering the plan to extended family members.

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# It’s all in the Family

That is why worksite long-term care plans are often extended to spouses, partners or other family members (parents, in-laws, grandparents, siblings, etc.) during enrollment periods. For employers, it may be just as important to see that an employee’s mother takes out a long-term care insurance policy as for the employee to purchase one. If long-term care insurance is offered, one can often do both from the workplace.

Family members who are given access to this product offering will have to answer medical questions. But they often benefit from any discounted rates that employers typically receive. Family members can be billed individually or their premium can be deducted from the employee’s paycheck.

Covering family members helps the employee as well as the employer. Should a long-term care need arise for one of them, it is less likely that person will have to abandon work to provide care. The employee can still play a role, but it should not affect that person’s time in the workplace. The employer is also pleased because the employee won’t be missing any valuable work time—a result that might not have occurred but for a family member’s ability to buy coverage through the offering at their place of employment.

A recent case study reflects what can happen during a worksite enrollment:[[9]](#endnote-9)

 **Small Regional Bank with 97 Employees**

 Voluntary Enrollment Results = 80 Applications
(38 Employees + 23 Spouses + 19 Additional Family Members)

 Employee Participation = 39 percent (38 / 97)

This is an excellent result today!

# Long-Term Care Coverage Today

What does an employee long-term care offering usually look like?

It wouldn’t be unusual to present three plan choices to employees (and family members) at specified rates. When working with dozens—or hundreds—of prospects, simplification of the menu is key. After all, if you run individual quotes, you defeat the value of multi-life. Options are often arranged in a good, better, best scenario, where premiums are higher for each succeeding choice. This allows the employee to balance premium outlay with a reasonable insurance plan to cover risk.

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Here’s an example:

*Plan 1*: Up to $6,000/month of coverage (employee chooses from $1,000–$6,000 in increments of $1,000), ninety-day elimination period, four-year benefit period, no inflation or GPO inflation option

*Plan 2*: Same as above, except it includes a 5 percent simple-increase cost-of-living option

*Plan 3*: Same as above, except it includes a 5 percent compound cost-of-living option

Insurers also can offer employees a choice-of-benefit period of three, four, or five years, for example. As the financial advisor on this case, you would work with each employee to select the best protection at an affordable price.

In the past, it wouldn’t have been uncommon for a certain amount of coverage to be offered guaranteed issue (no medical questions), but this market has disappeared. Today we occasionally find modified guaranteed issue under certain scenarios, and more commonly simplified issue or abbreviated application, although these terms mean different things to different carriers. No matter what terms are used, we can summarize the risk profile in Table 4.1.

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| Table 4.1. Comparison of Worksite Underwriting |
| Worksite Underwriting | Underwriting Tools | Participation Requirements | Benefits Allowed |
| Modified Guaranteed Issue | Fewest | Most | Fewest |
| Simplified Issue | Few | More | Few |
| Abbreviated Application | Short application, but All Tools | Few | More |
| Full Underwriting | All | None | All |

Long-Term Care Insurance Plans at Work

More and more employers are bringing long-term care insurance into their employee benefit portfolios, because of its tax advantages, discounted premiums, family member offerings, and relaxed underwriting guidelines. This is your opportunity to raise the question with your employer clients.

Youth is being served in the long-term care insurance market. Take advantage of this opportunity!

1. “Employer Health Plans Fading Fast,” LifeHealthPro, 3/11/14. http://www.lifehealthpro.com/2014/03/11/employer-health-plans-fading-fast [↑](#endnote-ref-1)
2. M. P. McQueen, “Employers Expand Elder-Care Benefits,” Wall Street Journal, July 27, 2006. [↑](#endnote-ref-2)
3. Paul Hogan, “Consumer Misconceptions Abound about Funding Long-Term Care,” Life Insurance Selling (December 2009): 24–8. [↑](#endnote-ref-3)
4. Kaiser Commission on Medicaid Facts, “Medicaid and Long-Term Care Services and Supports,” Medicaid and the Uninsured (March 2011): 1. [↑](#endnote-ref-4)
5. Robert L. Whiddon, “A Tale of Two LTC Buys,” Employee Benefit Adviser (August 2009): 61. [↑](#endnote-ref-5)
6. McLean Robbins, “Employers Are Underserved when It Comes to Executive Carve Out LTC,” Employee Benefit Adviser (December 2007): 46. [↑](#endnote-ref-6)
7. “A Way Forward: Highlights from Beyond Dollars 2013”. Genworth Financial, 10/09/13. Form # 157453CW. [↑](#endnote-ref-7)
8. Ibid. [↑](#endnote-ref-8)
9. Phyllis Shelton, “Wake Up and Smell the Coffee!” Advisor Today (April 2010): 26. [↑](#endnote-ref-9)