

***Consumer Reports* Wields the Ax Again in November 2003 Issue**

Consumer Reports has done its usual hatchet job on long-term care insurance – with one gigantic difference: they used ME to help make their case! After spending hours with them, both in person and on the telephone and email, they quote me about a large rate increase that occurred on a block of business sold from 1984 through 1999, and don't mention all the things I told them that have happened to virtually prevent that ever happening again – namely, the NAIC LTCI Model Regulation of 2000. I feel used and violated to have been even an unwilling party to their scheme to accomplish their longstanding agenda concerning LTC insurance.

For those of you who are newer to our industry, you might not understand why Consumers Union is so intent on destroying long-term care insurance. They made it plain in earlier negative articles (May 1989 and 1991, October 1997), but it is disguised in this one. CU's overall agenda is to have a national long-term care program, ignoring the fact that the Comptroller General says we will be spending 75% of total Federal revenue by 2030, mainly for the big three entitlements we already have (Social Security, Medicare and Medicaid) -- and that projection doesn't include a Medicare drug benefit (General Accounting Office, GAO-02-544T, 3/21/02)

As I did after the similar debacle in October 1997, here is my response to this latest compilation of misrepresentations about the wonderful product we call long-term care insurance, and most of them are centered around the biggest myths about LTCI that we all fight – CR treats it like nursing home insurance for old folks. Here are the misrepresentations, ranked in order of "worst mistake":

Worst Mistake #1: Consider buying at around age 65 as you may not use it for 20, 30, or more years if at all....less than 1 percent under age 65 receive nursing home care.

Response: First, they ignore their own advice on p. 22 that one out of four 65-year-olds on average are declined. Most horrendous is they ignore the 4+ million people under 65 who are receiving long-term care outside of a nursing home!! These younger people are mostly at home with their families, and the lifestyle of the family is never the same after the accident, stroke or other debilitating condition that caused the LTC need (MS, Parkinson's disease, Lou Gehrig's disease, brain tumor, aneurysm, etc.)

It's true that less than 10% of nursing home patients are under 65, and the 159,000 figure in the article is correct. But try taking care of someone who is

partially paralyzed for 24 hours a day at home from an accident or stroke, as millions of families are struggling to do, and you will see very quickly what a horrible mistake it is to completely ignore these tragic situations.

Related Mistakes to Worst Mistake #1:

Buying young exposes you to large rate hikes. The really infuriating point here is they quoted ME to substantiate that advice by using the one point I gave them out of the hours I spent with them about a block of business that saw rates go from \$830 for a 93-year-old in 1987 to \$6,638 in 1999, resulting in a class action suit that was settled for \$8.2 million in November, 1999, after expenses. They didn't go into all the things that have happened since then to make rate hikes like this virtually impossible in the future with the NAIC LTCI Model Regulation of 2000, which carries stiff penalties for companies with patterns of inappropriate pricing and rate increases. This regulation, which has been passed in 24 states to date (CA, ID, OK, WI, PA, MN, IL, TX, SD, UT, KS, NC, OH, IA, FL, VA, KY, MO, MD, NH, AZ, NM; DC and MA are pending) also contains contingent nonforfeiture, another consumer protection benefit to help hold rates down.

Limited pay plans are available which guarantee no rate increases after the limited pay plan has expired, and a few companies also sell matching rate guarantees. This means if one buys a 10-pay plan, for example, with a 10-year rate guarantee, there will never be a rate increase.

Also, after citing C N A as a recent example of a rate increase, you'd think they would mention that C N A withdrew from the market this month, a fact they were bound to know when the article was written -- another example of not telling "the rest of the story".

Only buy at younger ages if you have a chronic condition – truly stupid advice! People with chronic conditions likely will not qualify, even at younger ages. In addition, this advice completely ignores the potential for accidents and strokes! My files are full of younger stories of people in their 20s and 30s who have sustained automobile or motorcycle accidents or have debilitating conditions that render them uninsurable and cost their families years of emotional and physical pain as they try to care for these young people. The 22-year-old son of the studio manager we used to do the employee education video for the Federal program was in an automobile accident last year, which paralyzed him exactly like Christopher Reeve. Not being married, his parents are dealing with this young man, most likely for the rest of his life. The 25-year-old motorcycle victim in one of our consumer videos woke up after 7 months in a coma, only to know everyone but his 23-year-old wife, who had to do EVERYTHING for him over the next three years.

It's not unusual for women to be diagnosed with MS in their 40's. Lou Gehrig's disease hits younger people frequently (how do you think it got its name?) And 1/3 of the people who have a stroke in the U.S. each year are under 65 (*U.S. News & World Report*, 3/15/99).

The point here is that the only time you can get long-term care insurance is when you don't need it. And unlike what *Consumer Reports* will tell you, the statistic that 40% of the people who need LTC are under 65 is true. Yes, many are mentally and developmentally challenged, but a large number were healthy individuals who became very unhealthy after a tragic accident or medical condition changed their lives (and the lives of their caregivers), forever. And yes, some are in nursing homes – like the 30-year-old construction worker I saw in East Tennessee this summer who fell off a scaffold and will be in a vegetative state the rest of his life...no way could his family take care of him at home.

They don't use the true cost of waiting. They show premiums for a 50, 60 and 70 year old without explaining that the longer you wait, the larger benefit you will have to buy due to inflation. The policy will cost more not only due to being older but also due to buying a larger benefit. The example I gave CR was:

- a 40 yr old paying \$685 for a \$120 DB to age 85 pays in \$30,825
- waiting til 50 means a \$220 DB/\$1,625 premium to age 85 = \$56,875
- waiting til 60 means a \$320 DB/\$3,100 premium to age 85 = \$77,500
- waiting til 70 means a \$420 DB/\$7,575 premium to age 85 = \$113,625

The above rates are preferred, but realistically the 70-year-old most likely couldn't qualify for preferred. Standard premium would be \$9,323 and by age 85, the person would pay in \$139,845.

By discussing only the length of stay for nursing home patients, CR totally ignores the caregiving time at home, in assisted living facilities, and even in adult day care. Several studies report the average caregiving time at home to be 4-5 years, all of which wouldn't trigger a claim for LTCI benefits, but the point is that an objective analysis can't ignore the caregiving time out of a nursing home. Unfortunately, Medicaid patients don't have many options for care outside of a nursing home, as Medicaid typically doesn't cover extended care like 8-12 hour shifts. Patients with LTC insurance do enjoy those types of choices as well as assisted living and adult day care, of course.

Worst Mistake #2 – There is nearly a 50% chance that a person will require 24-hour care in a skilled nursing facility.

Response: This is totally incorrect. The LifePlans, Inc. statistic that was published in a HIAA Buyer/NonBuyer survey is that there is greater than a 50% chance that we will require some type of long-term care in our lifetime. For most of us, it probably won't be nursing home care, as less than 20% of LTC occurs in a nursing home (Congressional Research Service, 6/01). Once again, the article is stuck on nursing home care.

Worst Mistake #3 – Consider a plan if you have no willing or available family member to take care of you.

Response: How many family members (or anyone else) can provide 24-hour care??? *Long-term care insurance may be the only thing that keeps someone out of a nursing home by providing the family with money to hire help so the primary caregiver gets enough rest to keep the care recipient at home.* Half of the people on claim with home care benefits say they would be in a facility if it weren't for their LTCI home care benefits (Cohen, Marc, Phd, et al – Dept of HHS and RWJ Foundation Home Care Research Initiative, 4/99). Also, employees whose family members have LTCI are twice as likely to stay in the workforce, because they have the money to hire caregivers while they are at work (MetLife Mature Market Institute, 3/01). Obviously the authors of this article have never been responsible for someone who needs long-term care or they would have some understanding of the demands on the caregiver's life. Almost 55% of severely disabled people have a spouse and children and still require formal care so the family just can't do it all (Spillman and Pezzin, The Urban Institute, 2000)

Related Mistakes to Worst Mistake #3:

Home care averages \$18 an hour and a policy with a \$181 benefit would only pay a portion of that.

First, the \$181 must be a typo as the benefit would be \$180 per day, and I know I'm no math whiz, but \$144 (\$18 x 8 hours) is LESS than \$180 per day, so what gives? Perhaps they are alluding to the older policies that paid home care at 50%, but I told them most newer policies also offer the same benefit level for home care as nursing home care and the 50% benefit is no longer the common choice.

Medicare pays home care for no more than 8 hours per day, or a maximum of 28 hours a week.

Had they done their research on Medicare, they would know that home care agencies have been under a prospective payment system since October 2000, and the average payment Medicare makes to a home health agency is \$2,691 for a 60 day episode of care. The payment amount is dependent on the diagnosis,

and can range from \$1,000 to almost \$6,000 but the average is about \$2,600. Home health agencies are providing approximately 22 visits during that 60-day episode of care and the average visit is less than two hours – hardly the extensive care cited in this article. (Source: “Medicare Home Health Care: Payments to Home Health Agencies are Considerably Higher than Costs”, General Accounting Office, May 2002).

Worst Mistake #4 – Don’t buy LTCI if your assets exceed \$1.5 million.

Response: A couple in their mid-50s will sustain a \$1.8 million impact on their estate over a 30 year period if only one of them needs five years of care in their mid-70s. This example uses the same starting cost of \$180 per day as the CR article uses and a 6% lost investment opportunity for pulling the money out of the estate and self-paying. I assumed the 5.8% inflation rate as predicted by the Centers for Medicare and Medicaid Services in *Health Affairs*, March/April 2002, p. 208. Even using a 5% inflation rate, the impact is \$1.5 million. If they have around-the-clock care as most affluent families want, the impact ranges from \$3 to \$3.5 million, depending on which inflation factor is used.

And the overall question is – do affluent people EVER PAY FULL PRICE FOR ANYTHING? Think about it – real estate, automobiles, jewelry, clothes? Then why should they be required to pay full price for long-term care?

Worst Mistake #5 – Policy features are misrepresented.

You must keep paying to keep the policy in force – this ignores the limited pay plans offered by most major policies, which says policies can be paid up in 5, 10, 15, 20 yrs or by age 65, depending on the policy.

Don’t buy at younger ages because new systems of care in the future won’t be covered by a policy purchased today – this ignores the “alternate plan of care” feature that is in many policies today. The article states that older policies didn’t pay for assisted living facilities, when in fact, some of them did through the alternate plan of care provision. This advice is less than intelligent, because it is like telling people to not buy health insurance because today’s policies won’t cover health care technology of the future. The better companies will find a way to keep the coverage contemporary, and the Office of Personnel Management has taken a public position that the Federal LTCI policy will be kept current.

Benefit triggers include walking as one of the Activities of Daily Living; make sure bathing is on the list and medical necessity is an alternate benefit trigger.

Ninety-two percent of policies sold at the end of 2002 were tax-qualified per LIMRA. Walking is not an ADL in a tax-qualified policy. All major companies are using all six ADLs, so therefore bathing is on the list. Medical necessity is only in a non-TQ policy, which represents a very small portion of the LTCI market today.

An indemnity plan only pays up to a specified amount so you could run out of money.

A reimbursement plan only pays up to a specified amount as well, and an indemnity plan can actually be more flexible as you receive the daily (or monthly) benefit regardless of the charge, which means you can build in extra for the drugs and supplies that most reimbursement plans do not cover.

Group plans may allow employees to pay premium with pre-tax dollars.

TQ plans do not allow any payment of premium with pre-tax dollars – this was specifically excluded in the Health Insurance Portability and Accountability Act of 1996, the legislation that governs long-term care insurance today.

The only nonforfeiture option mentioned was the shortened benefit period.

A few tax-qualified plans and several NTQ plans have a return of premium option, either less claims or regardless of claims. Most plans have the ROP at death; a few have it during the policyholder's lifetime, recognizing that a ROP during life on a TQ policy means a taxable event to the extent premiums were deducted.

Worst Mistake #6 – using Weiss ratings

Response: I've caught so many mistakes over the years by this rating service pertaining to LTC insurance and have never valued whatever opinion the service issues. And I'm not alone. This report came out in June 2003 concerning malpractice payouts:

WEISS 'STUDY' QUESTIONED – According to the PIAA, a trade association of over 50 physician and dentist owned and/or operated medical professional liability insurance companies, "Martin Weiss and his rating organization have engineered a report that is getting lots of media attention in spite of the fact that it is fatally flawed. Weiss says it found that from 1991 to 2002 the median malpractice payout rose 37.8% in states with caps, compared with a rise of 71.3% in states with no caps. While the use of median payment data shows that cap states fare better than others, it greatly understates the difference by

ignoring the spiraling rise in total claim payments caused by a greater proportion of large payments."

Related Mistakes to Worst Mistake #6:

Company scorings at the end of the article:

- 1) The daily benefit used is \$180 with the footnote that it represents \$150 plus 20 percent for extras, and yet most plans today are reimbursement plans that only pay room and board and won't pay the extras.
- 2) The John Hancock rates are way off. The correct standard (not preferred) rates are \$3,776 for the 65-year-old and \$5,725 for the 70-year-old, not \$5,486 and \$7,279 as the article states. CR reviewed California plans, which may have different rates, but should not have used CA rates when they don't apply to the rest of the country.
- 3) Points for covering adult day care and hospice. All comprehensive plans cover adult day care and hospice and have for many years.
- 4) Knowing that the Farmers plan is no longer sold, why would CR list it in the top three companies? Farmers does intend to introduce a new plan but it will be completely different from the old plan and won't be out in October as the article states.

SUMMARY: There were miscellaneous mistakes as well, such as with the Medicaid information on p. 22 but nothing that hurts overall as much as saying LTCI is a really bad deal for Americans.

I know from first-hand experience as a caregiver for my mother who passed away at age 54 with breast cancer after two years of caregiving at home that it is almost impossible to get through a meal without the patient calling your name. Patients with severe dementia require an average of 45 hours per week of care, according to a University of Michigan study (*Journal of General Internal Medicine*, 11/01)

This article shows zero awareness of the stress that families suffer every day with home caregiving and ignores all the statistics from think tanks like The Conference Board that project that elder care is almost ready to replace child care as the #1 dependent care need in America in the next few years. By 2008, almost 40% of the work force with an approximate age of 51, will be at the prime age for caring for their elderly family members (Census Bureau) and twelve percent of caregiving families use money allocated for college funds and 26% use money set aside for retirement (John Hancock study as reported in the *Journal of Financial Service Professionals*, 9/99).

This article – with its vast ignorance of positioning long-term care insurance as nursing home insurance for the elderly – threatens the dignity of the American family by robbing them of the money to hire help and insure the caregiver’s lifestyle, as well as provide quality care to the care recipient.

This article also threatens the stability of the American taxpayer if the baby boomers wind up on any type of public assistance. *Consumer Reports* has made no secret in the past about their agenda to have the government provide long-term care for all Americans. We can do that – just like Sweden – and have a 50% plus tax rate. Frankly, I don’t think Americans will tolerate that kind of taxation, and it is a huge disservice to our country and our overall economy to stay on that ridiculous bandwagon.

So *Consumer Reports*, will you PLEASE stick to washing machines???

*Phyllis Shelton is Author of **Long-Term Care: Your Financial Planning Guide**, Kensington Books, April 2003. She is also President of LTC Consultants, a Nashville-based company specializing in web-based (www.ltcuniversity.com) and live long-term care insurance training and marketing materials. Her organization has trained over 40,000 insurance agents and delivered 2,020 employee education meetings for the Federal Long-Term Care Insurance Program.*