

# Employer-Sponsored Long-Term Care Insurance: Best Practices for Increasing Sponsorship

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*Issue Brief*

- Behind the enthusiasm of policymakers for long-term care (LTC) insurance is the belief that increased ownership of private LTC insurance will reduce the government's future liability for financing the nation's LTC needs, currently projected by the Congressional Budget Office to increase by 2.6 percent annually between 2000 and 2040. Some observers say that sustained economic growth could keep these increased expenditures at the same share of total GDP; others argue that current federal expenditure trends will become unsustainable without large tax increases.
- The potential of the employer-sponsored group LTC market to stave off a national LTC financing crisis has recently started to receive popular notice in the news media. However, for the potential of the group LTC market to be realized, there must be widespread employer sponsorship of group LTC plans and significant participation levels among eligible employees in these plans.
- The present analysis of industry data estimates the LTC plan sponsorship rate for all U.S. employers with 10 or more employees at 0.2 percent. The sponsorship rate among large employers is significantly higher (8.7 percent). The greatest growth opportunities are projected to lie in the smaller employer market, because it is enormous and virtually untapped.
- Nonsponsors cite a variety of barriers to employer sponsorship of LTC plans. For many nonsponsors, the most important obstacles are the intrinsic characteristics of their work forces: employees are too young, transient, part-time, and/or low-income to be suitable for LTC insurance. For many others, lack of awareness and low priority are the primary obstacles. Because group LTC insurance has been widely available for only 10 years, many benefits managers view it as "too new and untested."
- Prior to the passage of the Health Insurance Portability and Accountability Act (HIPAA), in August 1996, the tax treatment of long-term care insurance premiums was unclear because Congress had not addressed the issue and the Internal Revenue Service had not issued clear guidance. In essence, HIPAA served to clarify the tax status of LTC insurance and establish product criteria for tax qualification.
- The interventions contained in HIPAA appear to have been insufficient to stimulate coverage growth rates that will meaningfully reduce the future burden on government financing of LTC.
- Although employment-based LTC insurance appears to be the best mechanism for mass expansion of coverage at affordable rates, the data suggest that employer sponsorship of LTC plans is relatively rare, especially among smaller employers, and that sponsorship rates may not dramatically increase without significant investments in employer education and new incentives.

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## Introduction

care (LTC) issue onto the national agenda. Increased life expectancy and the aging of the baby boom generation is leading to a rise in the number of Americans who will need long-term care. At the same time, geographic dispersion of families, increased labor force participation of women, and higher divorce rates will continue to erode family-based caregiving networks. These factors are expected to increase demand for formal (i.e., paid out-of-pocket) long-term care services, thereby creating a need for long-term care financing mechanisms.

Policymakers have increasingly focused on the issue of long-term care financing.<sup>1</sup> Several bills have recently been introduced in Congress to promote the purchase of private LTC insurance by offering LTC insurance to federal employees (H.R. 110, H.R. 602, S. 36, S. 57); allowing reimbursement of LTC insurance premiums through flexible spending accounts (H.R. 161), individual retirement accounts (IRAs) (H.R. 188), or 401(k)s (H.R. 275); offering tax deductibility of LTC insurance premiums (H.R. 1261, S. 35); or expressing the sense of the Congress promoting coverage of individuals under LTC insurance (H. Con. Res. 8, S. Con. Res. 22). Additionally, 19 states have enacted legislation liberaliz-

A constellation of demographic and social trends has steadily moved the long-term

ing the state tax treatment of LTC insurance, with many other state legislatures actively considering such bills (see appendices).

Behind the enthusiasm of policymakers for LTC insurance is the belief that increased ownership of private LTC insurance will reduce the government's future liability for financing the nation's LTC needs,<sup>2</sup> currently projected by the Congressional Budget Office to increase by 2.6 percent annually between 2000 and 2040 (inflation adjusted), from \$123 billion in 2000 to \$346 billion in 2040 (in 2000 dollars).<sup>3</sup> Despite arguments from some observers that sustained economic growth could keep these increased expenditures at the same share of total Gross Domestic Product (GDP),<sup>4</sup> others argue that current federal expenditure trends will become unsustainable without large tax increases.<sup>5</sup>

Projections of the potential ameliorative effects of LTC insurance on future government liabilities are highly sensitive to estimates of policy ownership rates. Computer simulations conducted by the Brookings Institution<sup>6</sup> and the American Council of Life Insurance (ACLI)<sup>7</sup> demonstrate significant differences in savings to the Medicaid program when differing rates of private LTC insurance ownership are assumed among the non-elderly. Estimates of significant savings to Medicaid using both the Brookings and ACLI simulations hinge on dramatic growth of the nonelderly LTC insurance market, especially the employer-sponsored group LTC market.<sup>8, 9</sup> The Brookings simulations vary from little

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<sup>1</sup> President Clinton, *State of the Union Address*, January 19, 1999.

<sup>2</sup> John Cutler, ASPE Research Notes, *Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services*, 1999. See also Lutzky et al. (1999), p. 13.

<sup>3</sup> U.S. Congressional Budget Office, *Projections of Expenditures for Long-Term Care Services for the Elderly*, March 1999.

<sup>4</sup> National Academy on an Aging Society, *Demography is Not Destiny*, February 1999.

<sup>5</sup> American Council of Life Insurance, *Who Will Pay for the Baby Boomers' Long-Term Care Needs?*, 1998.

<sup>6</sup> The Brookings-ICF Long-Term Care Financing Model is a computer model which simulates the use and financing of nursing home and home care by the elderly from 1986 through 2050. See description in Appendix A of J. Weiner,

L.H. Illston, and R.J. Hanley, *Sharing the Burden: Strategies for Public and Private Long Term Care Insurance*, 1994.

<sup>7</sup> ACLI's long-term care financing database incorporates data from the Brookings-ICF Model and updated projections of population, income, and assets, LTC financing, and LTC utilization. See description in Methodology section of American Council of Life Insurance, *Who Will Pay for the Baby Boomers' Long-Term Care Needs?*, 1998.

<sup>8</sup> The Brookings model simulates a 28 percent reduction in projected Medicaid nursing home expenditures by 2018 if individuals are assumed to buy group LTC policies at age 40 and over according to their affordability criteria. The ACLI model similarly estimates that by 2030 the Medicaid program could save 21 percent of its total nursing home expenditures as a result of increased ownership of LTC insurance among those age 35 and over.

<sup>9</sup> The average age of employer-sponsored group LTC buyers is 43, substantially younger than the average age of 67 associated with the individual LTC insurance market.

savings to Medicaid (6.5 percent, best case) from an insured elderly-only scenario, to dramatic savings (28 percent best case) when widespread adoption of group LTC insurance is assumed.

The potential of the employer-sponsored group LTC market to stave off a national LTC financing crisis has recently started to receive popular notice in the news media. Financial planning experts, industry analysts, and government leaders have begun to promote the employer-sponsored group LTC market as an alternative to Medicaid funding of LTC for middle-class Americans.<sup>10</sup> However, for the potential of the group LTC market to be realized, there must be widespread employer sponsorship of group LTC plans and significant participation levels among eligible employees in these plans. This *Issue Brief* addresses the issues surrounding employer sponsorship; a subsequent *Issue Brief* will address the question of employee participation. This *Issue Brief* reviews several studies of the employer-sponsored group LTC market<sup>11</sup> and analyzes the factors associated with employer sponsorship.

Analysis of the existing data focuses on answering the following questions:

- How many companies sponsor group LTC plans for their employees?
- What are the distinguishing characteristics of sponsoring versus nonsponsoring employers?
- Do nonsponsoring employers intend to install group LTC plans for their employees?
- What are the primary barriers to increased employer sponsorship?
- What goals do employers hope to achieve by installing group LTC plans?
- On what basis are group LTC plan offerings judged to

Table 1  
Estimates of Employer Sponsorship of Long-Term Care Insurance, by Employer Size

	10 or More Employees	500 or More Employees	20,000 or More Employees
Mercer/Foster Higgins National Survey of Employer-Sponsored Health Plans (1998)	7%	12%	32%
William M. Mercer (1998)	NA	NA	40 <sup>a</sup> (Fortune 500)
Towers Perrin (1995)	NA	NA	39 <sup>b</sup> (Fortune 100) 48 <sup>b</sup> (Fortune 50)
Author's Estimate (1999)	0.2	8.7	NA

Sources: William M. Mercer, *Mercer/Foster Higgins National Survey of Employer-Sponsored Health Plans*, 1998 (New York: William M. Mercer, 1999); William M. Mercer, *1998 Spotlight on Benefits for the Council on Employee Benefits* (New York: William M. Mercer, 1998); Towers Perrin, *Group Long Term Care Survey Results* (October 27, 1995).

<sup>a</sup>Seventy percent of survey sample were 1998 Fortune 500 employers.

<sup>b</sup>Survey of top five employer-sponsored group LTC insurance companies.

be successful?

- What effect has the Health Insurance Portability and Accountability Act of 1996 (HIPAA) had on employer sponsorship, and on the general growth of the group LTC market?
- What additional interventions will likely increase sponsorship rates?

Results form the basis for a set of recommended “best practices” for encouraging employer sponsorship.

Finally, this paper considers current legislative proposals intended either directly or indirectly to increase ownership rates of LTC insurance in light of levels of public support<sup>12</sup> and their efficacy in increasing ownership rates. The ability of initiatives to increase ownership rates is evaluated by contrasting each initiative’s intended effects (e.g., to educate seniors about the limits of Medicare, to permit penalty-free withdraw-

<sup>10</sup> *ACLI survey of professional financial planners (conducted by Mathew Greenwald & Associates, released April 21, 1999) shows that 85 percent recommend LTC insurance to their clients. See also see Fortune, “A Health Care Safety Net,” 14 October 1996; “How to Retire Successfully,” Business Week, 21 July 1997; remarks by Jane Bryant Quinn, syndicated columnist, and Mary Beth Franklin, Kiplinger’s Personal Finance Magazine and Retirement Report, at the 13th Annual Private Long-Term Care Insurance Conference, Amelia Island, FL, Feb. 21–24, 1999.*

<sup>11</sup> *Including the William M. Mercer, Survey of Employers With Long-Term Care Benefits (1998); the International Foundation of Employee Benefit Plans, Group LTC Insurance Benefit Survey (1999); the LIMRA Employer Survey on Long-Term Care Coverage (1998); the John Hancock/National Council on the Aging Long-Term Care Surveys (1996, 1997, 1999); the Health Insurance Association of America/LifePlans (1992) survey; the Fortune Magazine/John Hancock survey (1989); and others.*

<sup>12</sup> *Consumer attitudes toward these proposals are reviewed using data from the third National Council on the Aging/John Hancock Long-Term Care Survey (1999), the American Health Care Association survey of baby boomer attitudes toward long-term care (1999), and the Health Insurance Association of America/LifePlans studies (1992/1999).*

Table 2  
**Estimates of Employer Sponsorship of Long-Term Care Insurance and Intention to Offer**

	Currently Sponsor LTC Plan	Nonsponsor Intention to Offer
Hewitt Associates LLC (1997)	18%	28% <sup>a</sup>
International Society of Certified Employee Benefit Specialists (1997)	20	13 <sup>b</sup>
International Foundation of Employee Benefit Plans (1999)	15	49 <sup>c</sup>

Source: Hewitt Associates LLC; International Society of Certified Employee Benefit Specialists; International Foundation of Employee Benefit Plans.

<sup>a</sup>Considering offer in the next three years.

<sup>b</sup>Currently considering offering LTC.

<sup>c</sup>May/will offer LTC in the future.

als from IRAs for the purchase of LTC insurance, etc.) with the dominant barriers to ownership of group LTC (e.g., perceived unaffordability, lack of information, etc.).

## Employer Sponsorship

### Prevalence of Sponsorship

A prerequisite to widespread

employee ownership of LTC insurance is widespread employer sponsorship of LTC plans. Relatively few U.S. employers currently sponsor group LTC plans for their employees. The Bureau of Labor Statistics estimates that 7 percent of all full-time employees in *medium or large* private establishments (i.e., 100 or more employees) in 1997 were offered LTC plans (U.S. Department of Labor, 1999). A different Bureau of Labor Statistics study estimates that only 1 percent of full-time employees in *small* private establishments (i.e., fewer than 100 employees) in 1996 were eligible for LTC plans.

These sponsorship rates are very low when compared with other benefits. The Employee Benefit Research Institute estimates that 83 percent of wage and salary workers are eligible for an employer-sponsored health plan (Fronstin, 1999), and 85 percent of workers at employers with 100 or more employees have an employer or union that sponsors a retirement plan (Yakoboski, Ostuw, and Pierron, 1999). The Bureau of Labor Statistics' Employee Benefit Survey (1997) estimates that life insurance is available to 87 percent of full-time employees in medium and large private establishments.<sup>13</sup>

The present analysis of industry data<sup>14</sup> estimates the LTC plan sponsorship rate for all U.S. employers with 10 or more employees at 0.2 percent, with a significantly higher sponsorship rate among large employers (i.e., 500 employees or more) of 8.7 percent

(table 1). In addition, a significant percentage of large nonsponsoring companies are considering adding an LTC plan for their employees (table 2).

These studies indicate that the greatest growth opportunities lie in the smaller employer market, because it is enormous and virtually untapped. In fact, a market shift toward ever-smaller employer sponsors is evident in LIMRA's employer-sponsored group LTC market surveys, which have found the average size of in-force groups has consistently decreased every year since 1990, the first survey year.

The Mercer/Foster Higgins survey (1998) found the employers most likely to sponsor LTC plans were those with 20,000 or more employees (32 percent), in the financial services industry (25 percent), and located in the Northeast (14 percent) and South (13 percent). Those

<sup>13</sup> Data from the latest Mercer/Foster Higgins National Survey of Employer-sponsored Health Plans (1998) estimate that 7 percent of U.S. employers with 10 or more employees sponsor LTC plans for their employees. Higher rates of sponsorship were found among large employers (12 percent of employers with 500 or more employees) and very large employers (32 percent of those with 20,000 or more employees). Surveys sponsored by benefits consultants and the ISCEBS (1997) and IFEBP (1999) using convenience samples of clients and member companies, respectively (which tend to be larger companies), found similar sponsorship rates between 12 percent and 20 percent. The IFEBP survey data similarly show higher sponsorship levels among larger companies: 74 percent of sponsors vs. 62 percent of nonsponsoring respondents have more than 1,000 employees. Similarly, surveys by LIMRA (1998) and Foster Higgins (1994) indicate that those nonsponsoring companies that expect to offer LTC in the future tend to be larger companies.

<sup>14</sup> The method used to estimate the sponsorship rate for large employers (i.e., 500 employees or greater) involves dividing the total number of employer group contracts in force at the end of 1998 (LIMRA International, 1999; N = 2,390) by the total number of companies with at least 500 workers at all locations, with duplicates removed (from the third quarter 1999 Dun and Bradstreet database of U.S. companies; N = 27,618). The resulting 8.65 percent sponsorship rate is likely overestimated, as the sum of group contracts includes many companies with fewer than 500 employees. The estimate for employers with 10 or more employees used the same method, dividing the total number of group contracts by the number of U.S. companies within that size category (n = 1,296,709). The resulting 0.2 percent sponsorship rate may be slightly underestimated as the LIMRA survey does not include employer-sponsored individual LTC plans, which are more prevalent among small employers (i.e., less than 500 employees).

Table 3  
**Percentage of Employers Offering Long-Term Care Insurance, by Region, Industry, and Number of Employees, 1998**

	Percentage of Employers Offering Long-Term Care Coverage to:			
	Actives Only	Retirees Only	Both Actives and Retirees	No Coverage
Large Employers	8%	0%	4%	88%
By Region				
West	8	0	2	90
Midwest	8	0	4	88
Northeast	8	0	6	86
South	9	0	4	87
By Industry				
Manufacturing	6	0	2	92
Wholesale/retail	7	0	4	89
Services	10	0	6	85
Transportation/communications/utility	5	0	2	93
Health care	9	0	2	89
Financial services	13	0	12	75
Government	6	2	4	89
By Employer Size				
500-999	9	0	2	89
1,000-4,999	7	0	5	88
5,000-9,999	11	0	5	84
10,000-19,999	6	0	6	88
20,000 or more	13	1	18	68
All Employers	6	0	1	93
Large employers (500+)	8	0	4	88
Small employers (10-499)	6	0	0	93

Source: Mercer/Foster Higgins, *National Survey of Employer-Sponsored Health Plans, 1998* (New York: William M. Mercer, 1999).

least likely to sponsor LTC plans were employers in the West (10 percent), in the transportation, communications, and utilities industries (7 percent), and employers with fewer than 500 employees (7 percent). Differences between sponsors and nonsponsors of LTC plans tend to reflect the newness of LTC insurance, with early adopters being larger companies (known for benefit innovation) and companies in the financial services industry<sup>15</sup> (table 3).

## Plan Sponsors

*Reasons for Offering a Plan*—Both the Mercer and IFEBP surveys found the most prevalent motivation for sponsorship to be the desire to offer a “leading-edge” or “emerging” benefit, a characteristic usually associated with large companies (the majority of Mercer and International Foundation of Employee Benefit Plans (IFEBC) survey respondents were companies with more than 10,000 employees and 1,000 employees, respec-

Table 4  
**Employer Motivations for Offering Long-Term Care Insurance**

Employer Motivations	Mercer (n = 43-54)	IFEBC <sup>a</sup> (n = 65)
	Extremely + Very Important	Very Important
Wanted to offer leading-edge/emerging benefits	70%	65%
It was important for employees	NA	57
Low cost to the employer	69	45
It was a good fit for our work force	34	NA
Employees/retirees wanted it	27	45
Senior management wanted it	18	37
It helped achieve a human resources objective	15	NA
Competitors offered it	14	17
Changes in taxation of premiums/benefits under HIPAA <sup>b</sup>	NA	9

Sources: International Foundation of Employee Benefit Plans, *Employer-Sponsored Long-Term Care Insurance: Did HIPAA Matter?* (Brookfield, WI: International Foundation of Employee Benefit Plans, Inc., 1999); William M. Mercer, *Survey of Employers with Long-Term Care Benefits* (New York: William M. Mercer, Inc., 1998).

<sup>a</sup>International Foundation of Employee Benefit Plans, Inc.

<sup>b</sup>Health Insurance Portability and Accountability Act of 1996.

tively). These surveys also demonstrated the motivating power of the low cost of sponsorship to the organization (LTC is generally offered as a noncontributory benefit). The surveys also found that the suitability or “fit” of LTC for the employee population (“good fit” and “important for employees”) is an important motivator. Employee, retiree, and senior management desire for this benefit round out the top motivators (table 4).

Similar survey questions were asked of Fortune 500 LTC sponsors at the inception of the group LTC market in 1989, and the results are generally consistent (John Hancock/Fortune Magazine, 1989). The 1989 survey showed that the impetus for the majority of sponsorships generally came from upper management, benefits departments, and benefits evaluations (perhaps due to the perception of LTC as a leading-edge benefit). Employee and retiree requests, as well as “attracting and retaining employees,” were less prevalent motivators.

Thus, innovative benefits departments, primarily at large companies, seem to have been attracted to LTC because of its “cutting-edge” aspect. LTC also fits in well with the trend toward employee choice (e.g., flexible benefits plans, voluntary benefits) and personal responsibility for retirement planning (e.g., defined

<sup>15</sup> Region and industry data are based on employers with 500 or more employees.

Table 5  
Plan Sponsors' Lessons Learned

Communicate better during rollout and enrollment	38%
Tie long-term care more closely to employees' retirement planning	29
Find out more about employee wants and needs beforehand	27
Nothing: everything went fine	26
Negotiate a better rate structure with carrier	14
Offer higher benefit levels	9
Make plan design simpler	8
Improve another benefit instead of offering long-term care	6
Use a different insurance carrier	5

Source: William M. Mercer, *Survey of Employers With Long-Term Care Benefits* (New York: William M. Mercer, Inc., 1998).  
Note: Due to multiple responses, percentages do not sum to 100 percent.

Table 6  
Reasons for Not Sponsoring  
Long-Term Care Insurance Benefit

Benefit too new and untested among employers	51%
Employees are not interested in/do not understand the benefit	35
Benefit is too expensive	28
Need more time (may offer in future)	15
Never considered this benefit	7
Employer couldn't deduct its contribution	6
Pre-tax option not available	1
Competition doesn't offer it	<1

Source: International Foundation of Employee Benefit Plans, *Employer-Sponsored Long-Term Care Insurance: Did HIPAA Matter?* (Brookfield, WI: International Foundation of Employee Benefit Plans, Inc., 1999).

contribution), which may be largely motivated by employers' desire to cut, or at least not add to, benefits costs. Because LTC insurance addresses employers' needs to provide choices and not add to benefits costs, sponsorships should increase as LTC moves from its "innovative" status to a mainstream benefit offering. Typically, LTC insurance is an employee-pays-all benefit.

*Impact of Plan Sponsorship*—Assessments of the impact of plan sponsorship have focused on employer satisfaction with the benefit. The Mercer survey found 70 percent of sponsors extremely or fairly glad they offered it. An additional 17 percent indicate that it is still too early to tell. Thirteen percent were negative about their sponsorship. The IFEBP survey found 48 percent satisfied or very satisfied, with 22 percent indicating it is too early to tell. In this survey, 25 percent were dissatisfied.

The primary drivers of employer satisfaction appear to be the closely linked factors of employee receptivity to LTC and suitability of LTC for the employee population. The Mercer survey data demonstrates significant correlation between employer satisfaction with sponsorship and a positive employee reaction to the offering; the tendency to view LTC as a "good fit for our work force"; and participation rates, perhaps the best indicator of employee response. Similarly, the IFEBP survey found employer satisfaction with the LTC benefit to be most strongly associated with measuring employee awareness of LTC prior to offering and employee participation rate.

The Mercer survey found that ease of administration was not significantly related to satisfaction levels. The majority of respondents found administration easy (42 percent report administration extremely easy, 55 percent report it fairly easy); only 3 percent report difficulty with administration.

*Lessons Learned*—The Mercer survey asked plan sponsors what they would do differently if given the chance to start over. The most commonly cited areas for improvement were related to communication and positioning of LTC, followed by the desire to research employee needs and wants better beforehand (table 5).

## Nonsponsors

*Reasons for Not Sponsoring a Plan*—Nonsponsors cite a variety of barriers to employer sponsorship of LTC plans, which vary among surveys and go beyond the tax status of LTC. Although cost does matter (and, consequently, tax status as a means to lower employer and employee costs), for many employers cost is secondary to other issues. (Employers did not begin to receive tax-favored treatment for their LTC policies until 1997; see HIPAA section, below.) For many nonsponsors, the most important obstacles are intrinsic characteristics of their work forces: employees are too young, transient, part time, and/or low income to be suitable for LTC insurance. For many others, lack of awareness and low priority are the primary obstacles: LTC is relatively new, competitors don't offer it yet, companies haven't gotten around to it yet, they've never considered it, etc.

Because group LTC insurance has been widely available for only 10 years, many benefits managers view it as "too new and untested," preventing many from sponsoring a plan. Surveys of nonsponsors conducted by IFEBP (1999), LIMRA (1998), and *Fortune Magazine* and John Hancock Financial Services (1989) all detected resistance on the basis of the newness of LTC, lack of availability, lack of consideration or awareness, and a "wait and see" attitude (tables 6 through 8).

The other primary barrier to sponsorship is the perception that there is little employee demand for LTC, especially from employees who are "too young" or in businesses with high turnover (LIMRA, 1998). Even in

Table 7  
Reasons for Not Sponsoring  
Long-Term Care Insurance Benefit

Do not see a need/employees are too young	34%
Cost	18
Have not heard of it, have no knowledge of it	16
Company is not adding benefits now	11
Think it should be the employee's responsibility	5
LTC insurance is too new	5
Still considering LTC insurance	2

Source: LIMRA, *Long-Term Care Insurance: Sharpen Your Edge, Employer Survey* (Windsor, CT: LIMRA International, 1998).

Table 8  
Reasons for Not Sponsoring  
Long-Term Care Insurance Benefit

	Very Important
Fear of government mandates for employer contributions to plan	40%
Unfavorable tax treatment	37
Lack of employee interest	23
Employer's administrative costs	23
LTC policies not available	22
Fear of employee pressure for employer plan contributions	20
"Wait and see" attitude of upper management	15
Feeling that LTC will be added to Medicare	13

Source: *Fortune Magazine* and John Hancock Financial Services, *Corporate and Employee Response to Caring for the Elderly* (The Time Inc. Magazine Company and John Hancock Financial Services, 1989).

this age of employee choice and flexible benefits, benefit managers are reluctant to sponsor a new benefit that will be of interest to a small percentage of their work forces. Lack of employee demand is expressed in terms of little need, interest, or understanding, and young employee age.

*The Misconception Barrier*—Widely held misconceptions among consumers about LTC and LTC insurance have been thoroughly documented.<sup>16</sup> Unfortunately, these misconceptions are common among benefits decision-makers as well. Perhaps the most fundamental misconception is that the coverage is already offered through an existing benefits plan. In fact, LIMRA's 1998 survey of employers required over-sampling due to the tendency among benefit managers to confuse LTC with other benefits: 17 percent of completed interviews had to be discarded due to confusion with long-term disability and major medical insurance. The usable survey results revealed little awareness of LTC among nonsponsors, with considerable confusion between LTC and long-term disability plans. The survey also found little knowledge of basic plan features, including portability, with several employers erroneously assuming that coverage ends at separation. Nonsponsors tended to view LTC as unaffordable for both employers and employees and expensive to install and administer.

## Has HIPAA Encouraged Plan Sponsorship?

Prior to the enactment of the Health Insurance Portability and Accountability Act (HIPAA) in August 1996, the tax treatment of long-term care premiums was unclear because Congress had not addressed the issue and the IRS had not issued clear guidance. The enactment of HIPAA made long-term care premiums deductible for individuals who purchase LTC insurance, to the extent their medical costs exceed 7.5 percent of adjusted gross income. It allowed tax-favored treatment for existing

employer-sponsored policies issued before 1997 that complied with state regulations when issued. For both employer-sponsored and individually purchased policies, LTC premiums are treated as accident and health insurance. In addition, LTC benefits are excluded from federal income tax. In essence, HIPAA served to clarify the tax status of LTC insurance and establish product criteria for tax qualification.

HIPAA also made specific provisions for employer-sponsored LTC plans. Employer-paid LTC coverage (unless provided through a cafeteria or flexible benefits plan) was excluded from employee income up to specified limits. Employers were allowed to deduct the costs of installing a new LTC plan for employees and were allowed to deduct their contributions to employee premiums.

Following the enactment of HIPAA, several states (19 as of this writing) have also passed state tax credits or deductions for LTC insurance policies: Alabama, California, Colorado, Hawaii, Iowa, Kentucky, Maine, Maryland, Minnesota, Missouri, Montana, New York, North Carolina, North Dakota, Ohio, Oregon, Utah, Virginia, and Wisconsin (see Appendix B).

*Effect on the Market*—Despite predictions that this legislation would fuel rapid market growth,<sup>17</sup> by virtually all measures HIPAA has not yet succeeded in accelerating the growth of the employer-sponsored LTC market. The number of new participants covered (from sales of new cases) indicated either single-digit and even negative growth, respectively, in the two years following

<sup>16</sup> See, for example, *American Health Care Association (1998), The National Council on the Aging/John Hancock (1996/1997/1999), and Magee (1998)*.

<sup>17</sup> "The tax break will dramatically increase the number of companies that offer (LTC) coverage..." *Business Week, How to Retire Successfully, 21 July 1997, pp. 59-61.*



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the passage of HIPAA (+7 percent in 1997 and -7 percent in 1998; LIMRA, 1999). The growth rate for total insured lives remained flat during the period of 1996 through 1998 (12 percent or 13 percent each year).

*Effect on Nonsponsors*—Based on survey results from 1989 showing “unfavorable tax treatment” as one of the top barriers to sponsorship, one might expect HIPAA to have a large positive impact on the rate of sponsorship (see table 8). However, LIMRA’s 1998 survey of primarily nonsponsoring employers indicated that the tax incentives contained in HIPAA exerted no influence on their sponsorship decision. Similarly, the IFEBP survey found that nonsponsors were unlikely to cite the unavailability of a pre-tax option or deduction for employer contributions as barriers to their sponsorship. According to the IFEBP survey, nonsponsoring companies’ *intention to sponsor* appears to have been positively impacted by HIPAA’s enactment. Nonsponsoring employers were asked if the enactment of HIPAA had changed their views on offering LTC insurance in the future: only 1 percent indicated that they definitely would offer and another 48 percent may offer an LTC plan as a result of HIPAA. The results show that HIPAA has not yet positively affected actual sponsorship rates of group LTC insurance, although it appears to have increased employer intention to sponsor, the authors conclude.

*Effect on Plan Sponsors*—Tellingly, the IFEBP survey found that in a list of seven reasons for offering LTC insurance, tax changes resulting from HIPAA ranked solidly in last place (see table 4). Employers sponsoring group LTC insurance were asked if HIPAA had changed their opinions or views about their companies’ LTC plan; only 11 percent reported a change in their views, perhaps not surprisingly, since HIPAA is supportive of their decision to implement such a plan. Similarly, Mercer’s survey of LTC benefits (1997) found that HIPAA did not spark significant action on the part of employer sponsors: Only 12 percent of sponsors planned to consider plan design changes and 9 percent of sponsors planned to hold

another enrollment campaign as a result of HIPAA. Two-thirds of sponsors (67 percent) considered no action as a result of HIPAA.

*Implications*—For policymakers interested in the ameliorative effects of LTC insurance on future government liabilities, several trends indicate stronger incentives are needed to spur employer sponsorship: flat market growth, employer sponsorship rates below 1 percent, and limited or tentative planning for future action. To translate employer interest into plan sponsorship will likely require actions that simultaneously increase both corporate self-interest and employee demand for LTC coverage.

## What Will Increase Sponsorship?

Recent surveys of primarily large employers indicate that LTC insurance is being actively considered by many benefit managers, and of those benefits presented to employers, each indicated LTC insurance as the benefit most likely to be under consideration.<sup>18</sup>

To evaluate the effectiveness of actions intended to increase employer sponsorship, it is instructive to consider federal and state legislative attempts to increase LTC ownership in light of the reasons that employers cite for sponsorship or nonsponsorship of group LTC plans.

As indicated above, legislative efforts have not yet succeeded in increasing LTC sponsorship and ownership rates. Based on the reviewed survey results, it is reasonable to hypothesize that the reason for HIPAA’s limited effectiveness is that it provided a necessary but insufficient remedy that did not remove the primary

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<sup>18</sup> Surveys conducted by Hewitt Associates, the International Society of Certified Employee Benefit Specialists, and IFEBP found that more employers planned to offer long-term care insurance than any other surveyed benefits, including popular group auto and homeowners insurance. Sponsorship intention is related to the immediacy of the future offering, with higher rates of agreement for less immediate commitment, ranging from 13 percent currently considering sponsorship, to 28 percent considering sponsorship in the next three years, to 49 percent who will likely sponsor at some point in the future.

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barriers to sponsorship: insufficient employee demand, employer misconceptions about LTC insurance, and lack of precedence. The following section will present the primary barriers to sponsorship and review potential remedies.

*Insufficient Employee Demand*—The perception of limited employee demand is really a three-fold problem: (1) consumer awareness of LTC issues is relatively low, especially among younger workers; (2) many employers are not aware of existing latent demand for LTC coverage; and (3) many employers view their work forces as unsuitable for LTC insurance.

(1) Unfortunately, many American workers are not yet aware of LTC financing issues, and many erroneously believe that they are already covered.<sup>19</sup> To address the well-documented knowledge gap among workers and benefit managers alike, increasing employee demand for LTC insurance will likely require extensive education efforts, and perhaps an insurance industry shift toward leaner, more affordable LTC plan designs. The Clinton administration's proposal for a \$10 million National LTC Information Campaign targeted to Medicare beneficiaries would do little to educate younger work forces. However, expansion of the proposed education program to working-age Americans, with a separate campaign targeted to benefits professionals, could build demand for

employer-sponsored LTC plans. Similarly, the introduction of a LTC plan for federal employees would signal the government's endorsement of personal responsibility for LTC and raise awareness due to the sheer size of the eligible population (Brenerman, 1999).

(2) Despite low levels of awareness among consumers, LTC insurance is of interest to large and growing segments of the work force: older workers and those with personal experience with a family member's care.<sup>20</sup> In fact, a recent survey by William M. Mercer<sup>21</sup> revealed that LTC insurance is the new employer-sponsored benefit that employees are most likely to think they "might need someday" (response given by 65 percent of employee respondents).

A series of surveys by The National Council on the Aging/John Hancock Mutual Life Insurance Company have found that 65 percent to 75 percent of full-time employees who are not currently eligible for a LTC plan would like their employer to offer a plan, and 29 percent to 36 percent respond that they would be very interested in such an offer or likely to enroll (table 9). Similarly, a recent survey by Unum found that working-age Americans would be more likely to buy LTC insurance through their employers (30 percent) than to buy it on their own (22 percent; Magee, 1998). The current level of interest in employer-sponsored group LTC should be communicated to employers as part of

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<sup>19</sup> Unum's 1998 survey found that 29 percent of 40-to-70-year-old Americans believe that they have LTC insurance, when industry research shows the true percentage to be less than 1 percent for all Americans, and 6 percent among those over age 65. The American Health Care Association's 1998 survey on LTC found that 27 percent of baby boomers believed they already owned LTC insurance and another 12 percent believed that Medicare or another insurance plan covered LTC, resulting in 39 percent erroneously believing that they are already covered. The three NCOA/John Hancock surveys have consistently found that approximately 12 percent of American adults believe they own a LTC insurance policy. These surveys also contained a quiz on knowledge of LTC issues, which the majority of Americans have consistently failed. A recent article by McKinsey & Company reports on their analysis of LifePlans, Inc., data showing that 62 percent of the over-age 65 population is unaware of the existence of LTC insurance.

<sup>20</sup> *Employer-sponsored LTC plan participation rates tend to be highest among those ages 40–60 (Advisory Board, 1996). Currently, more than 30 percent of employed Americans are age 45 or older, and the older worker segment is growing rapidly with the aging of the baby boom generation (U.S. Bureau of the Census, 1997). The prevalence of familiarity with a family member or friend's receipt of LTC services has been estimated at 46 percent to 58 percent among full-time employees (NCOA/John Hancock, 1996/97/99). Estimates of the prevalence of any employee caregiving to older adults range from 22 percent to 46 percent of a work force, with 7 percent to 11 percent providing assistance with activities of daily living (Washington Business Group on Health, 1995).*

<sup>21</sup> William M. Mercer (1998): "In Mercer's 1998 Survey of Employee Benefit Preferences, LTC insurance tops the list of benefits employees think they 'might need someday.' Of almost 25,000 workers surveyed, 65 percent gave that response. Another 30 percent said they would probably use LTC, and only 5 percent said they would never use it."

Table 9  
**Current and Desired Eligibility for, and Intention to Buy,  
 Employer-Sponsored Long-Term Care Insurance  
 (Full-Time Employees)**

	Current Eligibility for Employer-Sponsored LTC Plan	Want Employer to Offer LTC Plan	Interest/Likelihood of Enrollment, If Offered
NCOA <sup>a</sup> /John Hancock (1999)	22%	65%	36% very likely 40% somewhat likely
NCOA <sup>a</sup> /John Hancock (1997)	26	75	34% very interested 48% somewhat interested
NCOA <sup>a</sup> /John Hancock (1996)	15	70	29% very interested 48% somewhat interested

Sources: The National Council on the Aging/John Hancock Mutual Life Insurance Company Surveys on Long-Term Care (1996, 1997, and 1999).

<sup>a</sup>National Council on the Aging.

any government- or insurance industry-sponsored education campaign.

(3) The problem of perceived suitability is intrinsic to the demographics of a company and is not easily overcome with education campaigns, tax incentives, or other interventions. High-turnover industries with young, lower-wage workers will face the same challenges in LTC that they currently face in health insurance coverage (Fronstin, 1999) and retirement plan sponsorship (Yakoboski, Ostuw, and Pierron, 1999). Efforts to expand LTC ownership among blue- and gray-collar workers should profit from increased distribution to the “under-served market” through work site marketing of individual policies; increased union interest in LTC insurance as a negotiated benefit; and new generations of more affordable LTC insurance products, perhaps utilizing managed care principals (Riefberg and Taraporevala, 1998).

*Employer Misconceptions*—Widespread misconceptions about LTC require some form of employer education program. Nonsponsoring employers need to be informed that LTC insurance exists; that disability and health plans will not cover their employees’ LTC needs; that a large proportion of their employees face a significant risk of needing LTC at some point in their lives; that LTC is usually offered as an employee-pay-all benefit; and that LTC is generally affordable, easy to administer, and portable if employees separate from the company or retire. Nonsponsoring employers need to see evidence that employees want LTC, that LTC can attract and retain valued employees, and that nonsponsorship can cause competitive disadvantages.

*Lack of Precedence*—For companies that view LTC as “too new and untested,” the only effective remedy will be increased sponsorship, or a perception of increased sponsorship through publicity of existing plans. The proposed LTC plan for federal employees and their dependents will likely provide much-needed precedence and signal the government’s “endorsement” of employer-sponsored LTC plans.<sup>22</sup>

## Increasing LTC Coverage

Following the defeat of President Clinton’s Health Security Act, Washington’s

legislative agenda has shifted away from a public LTC entitlement and toward legislation that establishes the tax deductibility of private LTC insurance. Several legislative proposals are currently under consideration that are intended to either directly or indirectly increase ownership rates of LTC insurance (see Appendix A). These proposals are considered in light of levels of public support and their efficacy in increasing ownership rates. The ability of an initiative to increase ownership rates is evaluated by contrasting each initiative’s intended effects with the desires and dominant barriers to participation in employer-sponsored LTC plans.

<sup>22</sup> Conning & Company (1999): “Many experts...believe that the federal government’s adoption of LTCI as (a voluntary) part of the Federal Employees Benefit Plan, as President Clinton has suggested, will help increase public awareness” (p. 46). “The federal employees program should generate positive press and momentum for private-sector employers to provide similar opportunities” (p. 66).

Table 10  
**Price Elasticity of Demand and Estimated Increase in Demand Generated by an Above-the-Line Tax Deduction for Long-Term Care Insurance, by Selected Age Groups**

Age Group	Price Elasticity of Demand	Estimated Increase in Demand
35–39	-1.22	$(0.21) \times (1.22) = 0.26$
40–49	-0.38	$(0.21) \times (0.38) = 0.08$
50–59	-0.38	$(0.21) \times (0.38) = 0.08$
60–65	-0.17	$(0.21) \times (0.17) = 0.04$
35–49 <sup>a</sup>	-0.80	$(0.21) \times (0.80) = 0.17$

Source: Author's analysis of John Hancock/Eastern Research Associates (1998) data.

<sup>a</sup>Average age of employer-sponsored LTC insurance buyers is 43, corresponding most closely to the average of the 35–39 and 40–49 age groups

Table 11  
**Government and Employer Factors That Would Make Nonpurchasing Employees More Likely to Participate in a Group Plan**

Factors Related to Potential Purchase of Long-Term Care (LTC) Insurance	More Likely to Buy
If my employer would pay for part of the insurance premium.	90%
If the government gave me a tax break for buying LTC insurance.	89
If the chance of me or my spouse needing LTC services was greater than what I think.	71
If the government provided consumers with information on how to choose a LTC policy.	43
If the government gave a seal of approval to certain LTC policies.	41

Source: Health Insurance Association of America/LifePlans, *Who Buys Long-Term Care Insurance?* (Washington, DC: Health Insurance Association of America, 1992).

A survey conducted by the Health Insurance Association of America (HIAA) and LifePlans, Inc. (1992) asked nonparticipating employees what government, employer, and policy changes would make them more likely to participate in their employer's LTC plan, and asked participating employees about their attitudes toward the role of government in long-term care (see tables 11 and 12). The responses of both participants and nonparticipants similarly point to a desire for an expanded role of government in two areas: education of the public about long-term care risks and financing options, and definition through the tax code (i.e., tax deductions) of what constitutes an "acceptable" LTC insurance policy.

*Lower Effective Cost of Coverage*—Nonparticipants' top two reasons for not electing LTC coverage—lack of employer contributions and individual tax breaks—correspond directly to their desire for a lower cost of coverage. Other survey research has similarly found that tax deductibility of premiums, especially full tax deductibility (i.e., an "above the line" deduction), is enthusiastically supported by nonowners of LTC insurance as a change that would motivate them to purchase coverage. Table 13 shows levels of baby-boom generation support for a variety of potential government LTC initiatives, indicating strongest support for tax deductions and tax credits (National Council on the Aging/John Hancock Long-Term Care Survey, 1999; American Health Care Association, 1999).<sup>23</sup>

*Tax Deductions as a Means to Increase Coverage Levels*—Cohen and Weinrobe (1999) present an analysis of the potential of an above-the-line tax deduction to increase coverage levels using a set of assumptions regarding the price elasticity of demand for LTC policies. Their analy-

sis results in additional growth estimates of 14 percent (conservative) to 24 percent (moderate) above current levels of growth, equivalent to an additional 70,000 to 120,000 policies each year. The authors point out that such a change in tax policy would also have a nonquantifiable "signaling effect" that would raise awareness of the need for LTC insurance, leading to even higher growth.

The estimates presented by Cohen and Weinrobe are based on two assumed levels of price elasticity of demand (-0.75 and -1.25, corresponding to conservative and moderate levels, respectively). These estimates may be refined using actual price elasticity data by age groupings.<sup>24</sup> As indicated in table 10, this study demonstrated that price elasticity varies considerably by age group such that it is relatively elastic at younger ages (i.e., one unit change in price results in greater than one unit change in demand) and relatively inelastic at older ages (i.e., one unit change in price results in less than one unit change in demand). This makes conceptual sense: LTC insurance is a "high involvement" purchase for older consumers, and they are therefore willing to

<sup>23</sup> Brenerman (1999) gives the following examples of tax incentives that might be considered to encourage the growth of the LTC insurance market:

- "Enhance the deduction for LTC insurance premiums, such that premium dollars are not subject to a percentage of income;
- Permit the tax-free use of IRA and 401(k) funds for purchases of LTC insurance;
- Permit premiums to be paid through cafeteria plans and flexible spending accounts;
- Provide a tax subsidy for the purchase of LTC insurance; and
- Encourage state tax incentives for the purchase of LTC insurance" (p. 19).

<sup>24</sup> John Hancock/Eastern Research Associates (1998). *The present analysis assumes a static demand curve prior to and following such tax legislation. The actual demand curve may change due to the "signaling effect" referenced by Cohen and Weinrobe (1999).*

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pay a wider range of prices to get what they want. For younger consumers, LTC is a distant concern, and therefore LTC insurance is not permitted much latitude to impact household budgets; lowering the premium costs for younger consumers should be associated with larger increases in demand.

Price elasticities of employee demand are presented in table 10. Using the John Hancock LTC Sponsor database, the average annual salary (in constant 1999 dollars) is \$48,305; the corresponding average marginal tax rate (using 1999 tax-year rates) is 21 percent. For the average employee of a sponsoring company, a 100 percent above-the-line tax deduction on LTC insurance premiums would result in a 21 percent decrease in the average cost of employer-sponsored LTC coverage (i.e., \$446), equivalent to an annual saving of \$94. The number of participants in employer-sponsored LTC plans has increased by an annual average of 84,260 during the period 1996 through 1998 (LIMRA International, 1999). Based on the present analysis, a 100 percent above-the-line tax deduction would increase that number by 17 percent, or close to 100,000 new participants in the first year of the tax deduction. Thus, such an intervention should be effective in increasing LTC coverage levels among working-age adults.

*Inclusion of LTC Insurance in Sec. 125 Plans*—Included in HIPAA are provisions allowing employers to deduct the costs of establishing an LTC insurance plan for employees and contributions toward employee premiums; HIPAA also stipulated that such contributions be excluded from employees' taxable income. Although the tax advantages established by HIPAA are primarily designed to facilitate growth of the employer-sponsored market, little positive effect has been seen in the market (see above). This may be due to the facts that very few employers currently contribute to employee premiums (or plan to do so) and that the costs of setting up an LTC plan are not especially high. The primary barrier to increased employer sponsorship may, in fact, be the current inability of plan sponsors to include their LTC

plans in Internal Revenue Code Sec. 125 benefit "cafeteria plans," because this is the preferred mechanism for employer contributions (Lutzky et al., 1999). The ability of employees to pay for LTC insurance premiums with "pre-tax dollars" (as this is equivalent to a 100 percent above-the-line deduction) should also increase participation in light of very high levels of consumer support. Most bills in Congress proposing an above-the-line tax deduction for LTC insurance also include language removing this restriction.

*Provision of Information*—Tables 11, 12, and 13 show very high levels of consumer support for government's role as a provider of objective information regarding how to pay for LTC, whether or not to buy a LTC policy, and how to choose a policy. More than 80 percent of surveyed baby boomers (those born between 1946 and 1964) support a National LTC Information Campaign. As indicated above, current proposals to educate Medicare recipients about the limitations of Medicare funding for LTC may positively affect LTC ownership levels among the elderly, but are unlikely to affect coverage levels among working-age cohorts. Several insurers have suggested that the LTC insurance industry coordinate and fund a media-based consumer awareness campaign, following the example set by the Got Milk?<sup>®</sup> campaign, developed by the California Milk Processors Board and funded by dairy farmers, although implementation of such a broad campaign for long-term care insurance is uncertain.<sup>25</sup> Information campaigns targeting electoral and legislative agendas have recently been launched by the Citizens for Long-Term Care,<sup>26</sup> and Americans for

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<sup>25</sup> Conning & Company, 1999.

<sup>26</sup> This organization is based in Washington, DC, and had offices in New Hampshire and Iowa, to influence presidential candidates to take a more active stance on LTC issues during the presidential primaries. The radio advertisements included educational information aimed at raising consumer awareness of LTC financing issues and ran for eight weeks. Citizens for Long-Term Care is sponsored by LTC provider organizations, seniors groups (including AARP), insurers, and other stakeholders in the LTC debate ([www.citizensforltc.org](http://www.citizensforltc.org)). The Citizens for Long-Term Care is a nonpartisan, nonprofit organization whose purpose is to promote and educate consumers about LTC insurance.

Table 12  
**Employee Purchasers' Attitudes Toward the Role of Government in Long-Term Care**

Area for Government Involvement	Support Level
Information Provision	
Provide consumers with information on how to pay for LTC, including information on LTC insurance and government programs	68%
Provide consumers with information on how to choose a LTC insurance policy	50
Provide consumers with information on the risks of needing LTC	50
Quality Control	
Give a seal of approval to certain LTC insurance policies	24
Government Finance	
Provide a government LTC insurance plan for which purchasers would have to pay premiums	41
Don't Know	8

Source: Health Insurance Association of America/LifePlans, *Who Buys Long-Term Care Insurance?* (Washington, DC: Health Insurance Association of America, 1992).

Table 13  
**Baby Boomer Support for Government Long-Term Care Initiatives**

Government LTC Initiative	Support Level
Making LTC insurance fully tax deductible <sup>a</sup>	94%
Granting a tax deduction to a child or grandchild who buys LTC insurance for a parent or grandparent <sup>a</sup>	87
Allowing you to pay for LTC insurance premiums using tax-free withdrawals from 401(k) plans or IRAs <sup>a</sup>	84
Sponsoring a national campaign to educate the public about LTC issues <sup>a</sup>	82
Expanding Medicare to cover LTC with an increase in taxes to pay for the expansion <sup>a</sup>	61
Granting a \$1,000 tax credit to support those with LTC needs or the family members who care for and house their ill, disabled, or infirm relatives <sup>b</sup>	86
Sponsoring a national campaign to educate Medicare beneficiaries about the program's limited coverage for LTC and how best to evaluate their financing options <sup>b</sup>	82
Creating a National Family Caregiver Support Program allowing states to set up centers for "one-stop shopping" for information and support on LTC concerns <sup>b</sup>	74
Offering quality private LTC insurance to federal employees to set a national example to encourage businesses to offer this benefit to their employees <sup>b</sup>	58

Sources:

<sup>a</sup>National Council on the Aging/John Hancock (1999).

<sup>b</sup>American Health Care Association survey (1999).

Long-Term Care Security,<sup>27</sup> coalitions of LTC providers, insurers, seniors groups, and other stakeholders in the LTC financing debate.

Although it is difficult to accurately project the effect on coverage levels that would result from an increase in awareness, it can be assumed that coverage levels would increase by some degree (Riefberg et al., 1997). Riefberg et al. (1997) of McKinsey & Company present an analysis of LifePlans survey data showing the relationship between consumer awareness levels of LTC insurance and LTC coverage rates in the population over age 65: the ratio of those aware of LTC (38 percent) to those covered by LTC insurance (8 percent) is 0.21, suggesting that theoretical full awareness (i.e., 100 percent of the elderly population) brought about by an information campaign should increase coverage levels to 21 percent in this age group.<sup>28</sup>

*Providing a Federal LTC Insurance Plan—Surveys reveal a modest level of support for federally sponsored*

<sup>27</sup> "The Americans for Long-Term Care Security, a broad-based network of organizations sharing a common vision, was formed to educate policymakers, the media, and the general public about the importance of preparing for the eventual need of long-term care and viable private-sector financing options." ([www.ltcweb.org](http://www.ltcweb.org)). This organization advocates for federal and state legislation that establishes tax incentives for the purchase of LTC insurance.

<sup>28</sup> This theoretical effect does not take into account the probability that those who already are aware of LTC insurance are more likely to have higher incomes, assets, educational levels, etc., making them more suitable candidates for LTC insurance.

LTC insurance. The HIAA/LifePlans (1992) survey found 41 percent of LTC insurance owners in favor of a government-sponsored LTC plan for which participants would have to pay premiums. Similarly, 61 percent of baby boomer respondents said they would support an expansion of Medicare funded by tax increases to cover LTC. Levels of support for these proposals are significantly lower than those proposals concerning government provision of information and tax deductions, representing approximately 60 percent of the most highly supported proposals in each survey.

*Tightening Eligibility for Medicaid*—A great deal has been written on the harmful effect on expanded LTC insurance coverage by relatively easy access to Medicaid funding of LTC for the nonpoor through the use of Medicaid Estate Planning practices (see Center for Long-Term Care Financing (1999) for review and bibliography). In essence, the argument is that Americans are not willing to pay out of their own pockets for LTC coverage that they can already receive through Medicaid using various legal maneuvers to establish eligibility. The practice of Medicaid Estate Planning was targeted by a provision of HIPAA (which was popularly

derided by critics as the “Granny Goes to Jail Act”), establishing criminal penalties for individuals who professionally advise their clients to transfer their assets in order to qualify for Medicaid; this provision was eventually challenged and repealed on the grounds that it violated First Amendment rights.

Observers have proposed alternative mechanisms to limit middle-class access to Medicaid, such as the establishment of a federal LTC loan program (Center for Long-Term Care Financing, 1998). Faced with growing costs of care and a burgeoning elderly population, the federal and state governments are likely to continue to place restrictions on Medicaid. However, legislation to restrict or reduce Medicaid benefits would represent a potentially unpopular “take away” from elderly beneficiaries; lawmakers may be unlikely to seek publicity for these actions, limiting the legislation’s effectiveness in encouraging private LTC coverage.

## Conclusion

Increasing rates of LTC coverage among younger Americans is not a small or easy task. Although employment-based LTC insurance appears to be the best mechanism for mass expansion of coverage at affordable rates, the data reviewed in this *Issue Brief* suggest that employer sponsorship of LTC plans is relatively rare, especially among smaller employers, and that these sponsorship rates may not dramatically increase without significant investments in employer education and new incentives.

The interventions contained in the Health Insurance Portability and Accountability Act of 1996 appear to have been insufficient to stimulate coverage

Increasing rates of LTC coverage among younger Americans is not a small or

growth rates that will meaningfully reduce the future burden on government financing of LTC. This may be because HIPAA provided incentives for exceedingly rare contributory LTC plans, yet failed to permit inclusion of LTC insurance in Sec. 125 cafeteria plans, which are employers’ preferred mechanism for offering new benefits. The data suggest that the primary barrier to employer sponsorship, however, is the same as the primary barrier to employee participation: widespread ignorance about LTC and LTC insurance. The implication is that any improvement in private sponsorship and participation will require a significant investment in publicity and education on the part of the LTC insurance industry and government.<sup>29</sup>

Although increased employer sponsorship is necessary for greatly expanded LTC coverage among working-age adults, it is by no means sufficient by itself. Achieving acceptable levels of participation in LTC plans—as an employee-paid voluntary benefit—will require the alignment of multiple supporting factors, to be reviewed in a subsequent *Issue Brief*.

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<sup>29</sup> The last EBRI Issue Brief on the subject of long-term care insurance similarly concluded, “Public education is very much needed. Until it occurs and the public is ready to pay either through premiums or taxes, it is unlikely that the goals of adequate coverage, universal access, and affordability through risk pooling will be achieved” (Snider, 1995).

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## *Appendix A: Federal Legislation*

More than 50 bills affecting long-term care insurance have been introduced in Congress this year. Bills are summarized below in the following categories: Sense of Congress, tax legislation, and offering group LTC to federal employees.

### **Sense of Congress**

Expressing the Sense of Congress with Respect to Promoting Coverage of Individuals under Long-Term Care Insurance, S.Con.Res.22, sponsored by Sen. Christopher Dodd (D-CT), urges congress Congress to: 1) take appropriate steps to inform the public about financial risks posed by the cost of long-term care and the importance of planning for future long-term care needs; 2) to inform the public about limited Medicare and Medicaid coverage of long-term care services; 3) to encourage employers to offer long-term care coverage to employees, and encourage private citizens to purchase long-term care insurance; 4) encourage Congress to develop ideas for encouraging Americans to plan for their future long-term care needs; and 5) for the federal government to determine tax rules for long-term care insurance that will adequately facilitate the affordability of long-term care insurance.

A Concurrent Resolution Expressing the Sense of Congress with Respect to Promoting Coverage of Individuals under Long-Term Care Insurance H.Con.Res.8, sponsored by Rep. Christopher Shays (R-CT), concurs with and restates the Sense of Congress as written in S.Con.Res.22.

### **Tax Legislation**

#### **Tax Relief Bill**

H.R. 2488, sponsored by Rep. Bill Archer (R-TX), proposes a phased-in 100 percent deduction (for both itemizers and non-itemizers) for the health and long-term care insurance costs of individuals not participating in employer- subsidized plans, and permits offering long-term care insurance under employer cafeteria plans and flexible spending arrangements. (This bill was vetoed by the president on Sept. 23, 1999, because of other, unrelated, tax provisions added by Congress.)

#### **Taxpayer Refund Act of 1999**

S. 1429, sponsored by Sen. William J. Roth, Jr. (R-DE), as relating to long-term care insurance, this bill would allow for the purchase of long-term care insurance under employer cafeteria plans and flexible spending arrangements.

#### **Long-Term Care Insurance Act of 1999**

H.R. 1261, sponsored by Rep. David L. Hobson (R-OH), would allow a phased-in deduction for eligible long-term care premiums paid on behalf of a taxpayer, spouse, or dependent. The phase-in begins with a 20 percent deduction, gradually increasing to 100 percent over five years. The bill would amend the Social Security Act to exempt 75 percent of certain assets from the Medicaid estate recovery program; include provisions to inform the public about the risks and financial costs of long-term care; and limit coverage under federally funded programs such as Medicaid and Medicare. The bill would encourage employer-sponsored long-term care.

#### **Health Care Assurance Act of 1999**

S. 24, sponsored by Sen. Arlen Specter (R-PA), would make long-term care insurance a qualified benefit for employer cafeteria plans, and excludes from an employee's gross income employer-provided coverage for long-term care. It would exclude from income proceeds from whole or partial surrender, cancellation, or ex-

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change of a life insurance contract if the amount is used to purchase a qualified long-term care insurance contract. The bill would also exempt from income tax the proceeds of a home-equity conversion sale-leaseback if the proceeds are used to purchase a qualified long-term care insurance.

**Real Estate Investment Trust Modernization Act of 1999**

H.R. 161, sponsored by Rep. Rick Hill (R-MT), would allow the reimbursement of long-term care insurance premiums by flexible spending accounts (FSAs) and repeal the inclusion in income of long-term care provided through FSAs.

**Additional bills regarding the tax status of long-term care insurance:** H.R. 2102, H.R. 161, S. 35 IS, H.R. 145, S. 799, H.R. 275, S. 1160, H.R. 2020, H.R. 2085

## Offering Group LTC to Federal Employees

**Omnibus Long-Term Care Improvement Act of 1999**

H.R. 2691, sponsored by Fortney Pete Stark (D-CA), would authorize the provision of long-term care insur-

ance to federal workers and their families, as specified by the Office of Personnel Management (OPM). It would specify the conditions and financing of the contract, and describe minimum standards and conditions that must be met by contracting long-term care insurers.

**Federal Civilian and Uniformed Services Long-Term Care Insurance Act of 1999**

H.R. 1111, sponsored by Rep. Constance A. Morella (R-MD), would establish a program to provide long-term care insurance for certain federal employees and annuitants, current and retired members of the uniformed services, and qualified relatives. It would authorize the OPM to contract with three qualified carriers to provide group long-term care insurance, and it describes contract terms. The bill would require OPM to ensure that at least one of the benefits plans is a government-wide plan.

**Additional bills relating to the provision of long-term care insurance to federal employees:** S. 894, H.R. 110, S. 57, S. 36, S. 10, H.R. 602.

## Appendix B: State Tax Legislation

State	Credit/Deduction	Description
Alabama	Deduction	A deduction is allowed for the amount of premiums paid pursuant to a qualifying insurance contract for qualified long-term care coverage. [Code of Ala. 40-18-15 (27) (1996)]
California	Deduction	A deduction is allowed beginning in taxable years on or after January 1, 1997, for qualified long-term care insurance premiums to the extent that amount does not exceed the limitation allowed for certain attained ages. [Cal. Rev. & Tax Code § 17213 (1996)]
Colorado	Credit	A credit is allowed in taxable years on or after January 1, 2000, for 25 percent of premiums paid for long-term care insurance. The credit will be available to only individual tax payers with taxable income of less than \$50,000 or two individuals filing a joint return with taxable incomes of less than \$100,000. [C.R.S. 39-22-122 (1999)]
Hawaii	Deduction	A deduction is allowed for premiums paid for long-term care insurance to the extent such premiums are deductible in determining federal taxable income beginning in taxable years after December 31, 1998. {HRS Sec. 235-2.4, (1999)}
Iowa	Deduction	A deduction is allowed for tax years beginning on or after January 1, 1997, for premiums for long-term care insurance for nursing home coverage to the extent the premiums for long-term health care services are eligible for the federal itemized deduction for medical and dental expenses. [IAC Chapter 40, § 701-40.49(422); IAC § 422.7 (1997)]
Kentucky	Deduction	A deduction is allowed for any amount paid during the taxable year for long-term care insurance premiums from adjusted gross income applied to taxable years beginning after December 31, 1997. [KRS 140.0 (Sec. 1) (1998)]
Maine	Deduction	A deduction is allowed for an amount equal to the total premium spent for insurance policies for long-term care that have been certified by the Superintendent of Insurance as complying with Title 24-A, Chapter 68. [Title 36, Part 8, Chapter 805, Sec. 5122 (1989)]
	Credit	For employers, a credit is allowed against the tax imposed for each taxable year equal to the lowest of the following: (A) \$5,000; (B) 20% percent of the costs incurred by the taxpayer in providing long-term care policy coverage as part of the benefits package; or, (C) \$100 for each employee covered by an employer provided long-term care policy. [Title 36, Part 4, Sec. 2525, Chapter 357 (1996)]

Source: American Council of Life Insurance, unpublished personal communication to the author, 1999.

State	Credit/Deduction	Description
Maryland	Credit	A credit is allowed against the state income tax for employers providing long-term care insurance up to an amount equal to 5 percent of the costs incurred by the employer during the taxable year for providing long-term care insurance as part of the employee benefit package. The credit may not exceed \$5,000 or \$100 for each employee covered by long-term care insurance under the employer benefit package, and it is applicable to all taxable years beginning after 12/31/98. [Ins. Art. 6-117, Chapter 7 (1998)]
Minnesota	Credit	A credit is allowed for long-term care insurance premiums during the taxable year equal to the lesser of (1) 25 percent of premiums paid to the extent not deducted in determining federal taxable income; or (2) \$100. [Chapter 231, (1997)]
Missouri	Deduction	A deduction is allowed for a resident from state taxable income for an amount equal to 50 percent of all nonreimbursed amounts paid by an individual for qualified long-term care insurance premiums to the extent such amounts are not included in the individual's itemized deductions for all taxable years beginning after December 31, 1999. [Sec. 8 of R.S. MO 334660 (1999)]
Montana	Deduction	A deduction is allowed for all premium payments made directly by the taxpayer for long-term care insurance policies or certificates that provide coverage primarily for any qualified long-term care services as defined in 26 U.S.C. 7702B(c) beginning after 12/31/94 or of the taxpayer's parents, grandparents, or both for taxpayers beginning after 12/31/96. [Chapter 111, (1997)]
New York	Deduction	A deduction is allowed for premiums paid for long-term care insurance to the extent such premiums are deductible in determining federal taxable income beginning in taxable year 1/1/96. [Chapter 42, (1997)]
North Carolina	Credit	A credit is allowed for premiums paid on long-term care insurance in an amount equal to 15 percent of the premium costs the individual paid during the taxable year for the individual, spouse, or dependent. The credit may not exceed \$350 for each qualified long-term care insurance contract for which a credit is claimed. [Part 2, Article 4, Chapter 105, § 105-151.28 (1998)]
North Dakota	Credit	A credit is allowed to be applied against an individual's tax liability in the amount of 25 percent of any premiums paid by the taxpayer for long-term care insurance coverage for the taxpayer or the taxpayer's spouse, parent, step-parent, or child. The credit may not exceed \$100 in any taxable year. [Title 57, Chapter 57-38 (1997)]

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State	Credit/Deduction	Description
Ohio	Deduction	A deduction is allowed for individual policy premiums paid for qualified long-term care insurance effective for taxable years beginning January 1, 1999. [OH REV. STAT. Sec. 5747.01]
Oregon	Credit	A credit is allowed for amounts paid or incurred for long-term care insurance by an individual on behalf of individual, dependents or parents and for amounts paid or incurred by employer on behalf of employees. Limits credit to lesser of 15 percent of premiums or \$500. Effective October 23, 1999. [Chapter 1005, (1991)]
Utah	Deduction	A deduction is allowed from federal taxable income of a resident or nonresident individual for tax years beginning on or after January 1, 2000, of any amounts paid for premiums on long-term care insurance policies to the extent the amounts paid were not deducted under Sec. 213 of the Internal Revenue Code in determining federal taxable income. [Chapter 60, §§ 59-10-114(1999)]
Virginia	Deduction	A deduction is allowed from federal adjusted gross income for taxable years beginning on and after January 1, 2000, for the amount an individual pays annually in premiums for long-term care insurance. [Chapter 298, §§ 58.1-322(1999)]
Wisconsin	Deduction	A deduction is allowed for 100 percent of the amount paid for a long-term care insurance policy for the person and his or her spouse beginning on or after January 1, 1998. [WIS. STAT. § 71.05(6)(b)26 (1997)]
Total	19 States	



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# Issue Brief

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