Long-Term Care Insurance Buyer Profiles: Implications for CLASS

By Eileen J. Tell

The Community Living Assistance Services and Supports (CLASS) Plan – a groundbreaking component of the Affordable Care Act – creates a voluntary federally-administered insurance program to help individuals pay for needed assistance in a place they call home if they become functionally limited. Implementation will require knowledge translation from various sectors, including research and existing public and private programs. This Technical Assistance Brief Series seeks to answer questions pertinent to developing and implementing the program.

In ths brief, demographics and key attitudes that differentiate long-term care insurance buyers from those who do not buy are reviewed. This analysis can help the CLASS Plan inform a more cost-effective targeted marketing strategy, reaching out first to those most receptive to the product.

Introduction and Overview of Relevant Research

There is a great deal of information about individuals who buy long-term care insurance and those who consider it but choose not to buy. Key variables explored in the research focus on how buyers and non-buyers differ in terms of:

- demographics,
- long-term care knowledge and attitudes,
- long-term care experiences,
- decision-making processes, and
- other factors.

With over two decades of research findings on this topic, much is known about buyers—who they are, what motivates their decision to purchase coverage, and why they select the specific coverage they choose. One of the most important sources of information is a series of studies conducted by LifePlans, Inc. on behalf of both America's Health Insurance Plans (AHIP) and the U.S. Department of Health and Human Services.[1,2,3,4,5,6,7,8,9] Every five years since 1990, LifePlans has conducted a comprehensive survey of buyers, non-buyers, and the general population age 55 and older. One of the strengths of these surveys is that many of the core questions focusing on attitudes, knowledge, and concerns about long-term care have remained constant over time, which allows us to make comparisons and view trends in long-term care awareness. Each generation of surveys includes questions focused on issues important at that time. The most recent surveys that are currently in the field include questions about the CLASS Plan.

Building a profile of individuals who have the greatest propensity to buy long-term care insurance is important to developing the messages that are likely to be most salient to that audience. For example, buyers are more likely than non-buyers to be concerned about becoming a burden to their family should they need long-term care. Therefore, marketing messages that emphasize independence, peace of mind for loved ones, and similar concepts will resonate more for those already more likely to consider long-term care insurance. Similarly, understanding non-buyers helps to craft marketing messages that overcome their key objections. For example, many non-buyers say that they are still on the fence about the purchase—while they have chosen not to buy at this time, they are not fully closed off to the concept. Marketing messages that reinforce the advantages of buying at a younger age (and at a lower premium cost) may help address the wait-and-see tendency of many non-buyers.

While it is important to understand key attributes of buyers and non-buyers, it is also important that the information gained be actionable. For example, if research showed that people with smaller families (all else held constant) are more likely to buy, it could be difficult to operationalize this finding in a cost-effective marketing campaign. How would messages be tailored to find and reach this audience? In contrast, knowing the prime ages at which people are likely to buy is an actionable insight, as direct mail marketing and education can be focused on specific age segments.

About Today's Buyers and Non-Buyers

People buying long-term care insurance today differ from buyers of 15 years ago. Most notably, people are buying at younger ages perhaps in part because of the expansion of the workplace as a venue for purchasing coverage, but also as a result of greater affordability due to lower premiums for younger ages (since premiums are based on one's age at the time of purchase). With an average age of 61 (compared to 68 in 1990), almost 70% of buyers today are under age 65 while almost 25% are age 55 and younger.[9] While the gap is narrowing, females still outpace males in the purchase of coverage (57%).[9] This is likely due in part to women's greater awareness of the risks and costs of long-term care as they are more likely to outlive their spouse and thus lack a critical source of support

TABLE 1 Demographic Profile Buyers vs. Non-Buyers[9]

Trait	Buyer	Non-Buyer
Average age	61	64
Married	73%	65%
Income $75,000+	49%	30%
Assets $100,000+	76%	53%
College graduate	61%	53%

should they need care.

Compared to non-buyers, buyers are more likely to be younger and married (see Table 1 on page 2). One hypothesis is that married individuals may have more disposable income and/or be motivated to purchase out of concern for protecting income and assets for their spouses. Buyers also have greater income and assets than non-buyers and are more likely to have higher levels of education. It makes sense that individuals with the financial means to protect their assets are more likely to purchase insurance than those who are less well-off.

More important, however, than these socio-demographic differences are differences in long-term care knowledge, attitudes, and experiences; these key factors seem to shape one's perception of risk and desire to have insurance to preserve independence and protect income and quality of life.

Why People Buy Long-Term Care Insurance

Financial protection against the costs of long-term care is only one of many reasons people buy long-term care insurance. Other important reasons are to avoid relying on others, to help pay for needed care, and to preserve assets and protect one's family's quality of life.[9] There are also non-financial reasons. People often cite the desire to have choice in how they receive care (59% of buyers say this is a very important reason for them to buy), and avoiding reliance on others for meeting care needs is a very strong motivator (cited by over 70% of buyers).[9] And while there is evidence that some people are willing to "take their chances" and use Medicaid as a safety net should they need long-term care, just over 40% of those who buy private long-term care insurance say that avoiding reliance on Medicaid is a very important reason for their purchase.[9] Other very important concerns include not using up savings or income to pay for care (76%) and ensuring adequate income for a spouse (57%)[9]. See Table 2 for what people cite as the most important reason to buy.

TABLE 2 Most Important Reason to Buy Long-Term Care Insurance[9]

Protect assets or leave an estate	36%
Avoid dependence on others	23%
Guarantee affordability of care	18%
Protect living standards	14%
Some other reason	24%

Critical Knowledge and Attitudes

Buyers and non-buyers differ significantly in their perception of the risks and costs of long-term care and how it is financed. Building a baseline of knowledge about the likelihood of needing care and the lack of alternative payment sources is a critical component of any successful marketing campaign.

As shown in Table 3, buyers have a more realistic view of the likelihood that they might need long-term care and understand that, if they did, it would be their own personal responsibility to pay for that care. In contrast, non-buyers are more likely to have incorrect knowledge about the costs of long-term care and how it is paid for; they are more likely to believe that government programs such as Medicare or Medicaid will cover the costs of care. Finally, an important distinction between those who buy long-term care insurance and those who do not is having a planning orientation. Individuals who strongly agree that it is important to plan ahead to best meet long-term care needs are twice as likely to buy long-term care insurance as those who do not share this perception.

The research literature also finds significant differences between buyers and non-buyers in terms of their long-term care experience—whether or not they have had a family member or close friend who has needed long-term care. Those who have had personal experiences with long-term care have been found to be more likely to buy long-term care insurance than those without such experience.[9] This can be explained by the fact that those who have watched a close family member or friend go through needing long-term care have learned the hard way about the harsh realities of long-term care risks and costs and who pays, and their long-term care experience has fostered a buyer mindset.

TABLE 3 Attitude Differences, Buyers vs. Non-Buyers[9]

Attitude	Buyer	Non-Buyer
Perceive risk of needing LTC in nursing home.	64%	53%
Perceive risk of needing LTC at home.	71%	59%
Have correct LTC cost estimate.	26%	17%
Don’t know who pays for LTC.	15%	25%
Believe government pays for LTC.	12%	22%
Know LTC paid on one’s own.	56%	45%
Believe important to plan ahead.	62%	30%

The Buying Process

A variety of individuals are influential in the process of deciding to buy long-term care insurance, as shown in Table 4. Because long-term care has an impact on multiple family members, it makes sense that spouses are more likely to influence buyers. Adult children, on the other hand, rarely play a role in the decision-making process as they are less likely to know about risks and costs and, many are uncomfortable advising their parents in financial matters such as long-term care insurance. Other important influencers include insurance agents, financial planners, and other friends and relatives. Knowing someone who has bought long-term care insurance increases the likelihood that an individual will buy.

Interestingly, negative media reports on the long-term care insurance market do not seem to have much influence on the buying decision. Non-buyers are no more likely than buyers to have heard about companies that are going out of business or no longer selling long-term care insurance (32% of both groups have).[9] Other important factors motivating the buying decision (shown in Table 5 on page 6) include the company's reputation, an agent recommendation, the company's financial ratings, and policy cost. The policy's benefits do not rank highly as a factor motivating purchase or differentiating between buyers and non-buyers.

Why People Do Not Buy Long-Term Care Insurance

People give different reasons for not buying long-term care insurance. Cost is the most common, as shown in Table 6 on page 6. Other reasons include denial of the financial risk or the need for care, as well as confusion about which coverage features or what type of policy to buy. Some consumers are waiting for better policies, and others are uncertain whether they can trust insurance companies to provide the coverage they promise.

When consumers say that they did not buy coverage because it costs too much, it may mean that they do not perceive the value of coverage relative to the price,

TABLE 4 Who Influences the Decision to Buy Long-Term Care Insurance?[9]

Spouse	40%
Agent	22%
Financial planner	21%
Other relatives or friend	14%
Children	3%

TABLE 5 Factors Important in the Buyer Decision[9]

Factor	Buyers	Non-Buyers
Company reputation	63%	41%
Agent recommendation	62%	48%
Company ratings	46%	33%
Policy cost	44%	32%
Policy benefits	23%	23%

or they are considering coverage options that cost more than they believe they can afford. Once consumers understand the value of long-term care insurance and are given options that match their financial preferences, resistance based on cost is significantly reduced.

It would seem that affordability is in the eye of the beholder, since individuals who say long-term care insurance costs too much do not have significantly lower income and assets than those who do not think it is too costly (although we do not know what other financial obligations individuals may have).[9]

Other reasons that people say are important to their decision not to buy long-term care insurance include the following:[9]

- I was concerned about premiums being increased in the future (55%).
- I don't mind using my own income or savings to pay for care (49%).
- I don't think I'll need long-term care (27%).
- My family will take care of me (20%).
- Medicaid will pay for my long-term care if I need it (19%).

TABLE 6 Most Important Reason NOT to Buy Long-Term Care Insurance[9]

Too costly	53%
Waiting for better policies	19%
Don't believe insurer promises	16%
Hard to choose a policy	14%

Clearly, it is important to help individuals understand that while they may intend to pay on their own, it is very difficult to save the amounts needed to fully pay for long-term care. While "self-insuring" gives people the flexibility to use their savings for other purposes if they never end up needing long-term care, saving enough is extremely difficult. For example, a female who puts aside $100 a month starting at age 30 and who earns 5% return on those funds would still face a significant shortfall between her expected costs of care and her savings by the time she reaches the age when she is likely to need care, as shown in Table 7.

Addressing concerns about rate stability is also important, as is helping people understand the realities of the risk of needing long-term care, its costs, and the burden that relying on family can impose. Another interesting observation is that the vast majority of non-buyers have not fully ruled out the possibility of buying at some point in the future. In fact, only one-third of non-buyers intend never to buy coverage; the majority (56%) are undecided, and 13% say they will purchase at or around the time of retirement but are not ready to do so at present.[9]

Public Sector vs. Private Sector Programs

Relevant to the offer of the CLASS Plan is research comparing buyers and non-buyers in the private and public sectors. A 2004 study found only a few differences between buyers and non-buyers in the private sector (a private employer offering an insurance company policy) in comparison to those in the public sector (a government-offered program such as the federal government's long-term care program or state government programs).[8] (Note that some existing government programs are self-

TABLE 7 Saving on Your Own for Long-Term Care[10]
Begin saving at age 30. Put aside $100 a month and earn 5% annually on investments.
Need long-term care at age 80 for an average amount of time for a female.
Lifetime cost of long-term care: $2.146 million (adjusted for inflation).
Amount saved by age 80: $264,000.
Gap between savings and costs: $1.9 million.

insured like CLASS, while others have an insurance company partner.)

Perhaps the most significant finding is that public program buyers tend to be less affluent than private-sector buyers. Their primary purchase motive, not surprisingly, also differs. While public program buyers are more likely to buy to avoid reliance on family or to assure that affordable care is available when needed, private sector buyers are more motivated by financial concerns — protecting assets and ensuring adequate family resources to pay for care. While for both groups cost remains the primary reason not to buy, public program non-buyers are more likely to cite a belief that the government might pay for care as a reason not to buy. An important similarity between these groups is that a roughly equal proportion of non-buyers within each say that they are planning to buy at a later time. This suggests that opportunities for education on the value of insurance and on concerns about relying on public programs may help boost future participation.[8]

Considerations for CLASS Plan Design and Implementation

With creativity, research, and targeted marketing, CLASS can learn from the private sector experience and identify and reach out to best prospects for enrolling. It is important to understand that in marketing it is not the case that "one approach works for all," and this is especially true for CLASS given the very broad eligible population segments involved. Evaluation, such as the buyer and non-buyer studies outlined here, is also a vital component of marketing success—learning what worked and did not work and identifying obstacles and facilitators to the sale in order to leverage them in future campaigns. Only with this commitment to marketing research can the CLASS Plan understand why it succeeded (and replicate that) or why it failed to meet objectives (and modify that).

Drawing on the research discussed in this brief to understand the demographics and key attitudes that differentiate long-term care insurance buyers from those who do not buy can help the CLASS Plan develop a more cost-effective, targeted, marketing strategy. Considerations on plan features, marketing messages, and marketing focus are outlined below.

Plan Features

According to the cited research, plan features, with the exception of price, do not seem to be a primary factor in the purchase decision (or at least they play a much smaller role than other factors).[9] Existing research does have some plan design implications however, that can help market the CLASS Plan.

- Not being a burden to family and friends is an important motivating factor to purchase. Therefore, it may be important to emphasize how the CLASS cash benefit can be used either to hire relatively low-cost paid providers (removing the caregiving responsibility from family) or to compensate family for real costs they incur for caregiving (such as time off work). Simply discussing the ability to hire family caregivers may not adequately address the desire not to burden family, since many people would rather not receive hands-on care from family members even if they are compensated. Consequently, emphasizing the alternative ways cash payments can be used to offset family burdens will be helpful.

- Cost is most frequently and consistently cited in the research as a reason for non-purchase. Therefore, designing CLASS to have as competitive and attractive a premium as possible is important. However, price in and of itself is not the key factor — it is the perception of price relative to the value of coverage. It will be important to CLASS Plan design to identify features that can be scaled back to lower the price without compromising the appeal of the program, and research will be needed to guide the program in doing this. At the same time, of course, CLASS needs to be mindful of the legislative mandate and of features of coverage that cannot be modified.
- Research indicates that having confidence in the sponsor and the program is important to the buying decision. Consequently, the CLASS Plan needs to conduct research to identify the nature of affinity and confidence among working individuals, address obstacles or concerns, and reinforce favorable perceptions where they occur. Design features that increase confidence should also be considered; these may include the use of rate stability guidelines in pricing, contractual promises about meaningful options in the case of a rate increase, transparency and clarity with respect to the process of becoming eligible for and receiving benefits, and other provisions. The CLASS Plan should also market test messages that best convey the sponsorship and administration of the program in the most favorable light, engendering greater confidence in a government program where such confidence may be lacking.

The Marketing Message

Research also has implications for how the CLASS Plan should be marketed.

- CLASS needs to focus marketing messages on the value of having coverage and the cost of insurance relative to the cost of going without coverage. Another marketing message that can help provide a needed context for price is the financial value of having coverage in terms of quality of life and access to care options. Also, messages that help reinforce the understanding that self-insuring is neither efficient nor realistic can be effective as long as they are not overly complex. The Savings Cost Calculator found at the National Clearinghouse for Long-Term Care Information (www.longtermcare.gov) provides an excellent illustration of how much an individual would need to save in order to pay for the average amount of care needed in one's lifetime.[11]
- Marketing messages need to focus on the variety of reasons that (according to research) motivate people to buy long-term care insurance. While for some people financial reasons to buy are important, communications need to focus on the many other reasons that motivate purchase such as avoiding reliance on family, quality of life for a loved one, and freedom of choice about

how best to meet care needs.

- Marketing messages should address the most prevalent objections to purchase such as speaking to perceptions of cost relative to value, fostering confidence that the plan will do what it promises to do, and enabling and fostering belief in the probable need for care and the significant advantages of having insurance.
- Likely of greatest importance to the CLASS Plan is the need to foster the key attitudes that research shows are critical to making the decision to buy coverage (see Table 8). Using real-life stories of people who have needed long-term care — both those who have coverage and that who do not — has been shown to be an often effective way to raise awareness of these key attitudes.

TABLE 8 **Critical Buyer Attitudes**

Individuals are more likely to buy insurance if they:
• Accurately understand the risks and costs of needing long-term care.
• Know that such needs are not currently covered.
• Know that long-term care needs are best met when they are planned for, providing more freedom of choice, independence, and peace of mind as care needs are met.

The Marketing Focus

Yet another important consideration for the CLASS Plan is identification of the best prospects on which to focus initial marketing. Once the plan gains momentum, marketing can be expanded to other segments, but early marketing success will be important to the plan's acceptance both among employers and employees. Based on the research literature, best prospects are likely to be the following:

- People ages 40 to 50.
- Individuals with incomes of $50,000 or more and assets of $75,000 or more.
- Married employees: Given the influence of spouses in the decision-making process, marketing to this group is more cost-effective. Reaching out to married employees could mean enrolling both members of the couple with the same amount of marketing, so marketing to this group is cost-effective. It also provides some protection against adverse selection, since married couples

often have lower service utilization. (Whether this is true in the presence of a cash benefit, however, is not known.)

- Employees of participating employers: The CLASS Plan should probably emphasize working through employers. Employees' affinity with the employer can be leveraged, and CLASS can utilize information on employees (age, gender, marital status, and other voluntary benefits) to identify best prospects for long-term care coverage.
- Individuals with a planning orientation: If the research for the CLASS Plan indicates that it resonates more favorably with individuals who see the value of planning ahead for long-term care needs (as it does for private long-term care insurance), then identifying proxy measures that tend to indicate someone is a planner can be useful in target marketing for CLASS. These measures might include interest in retirement planning (such as participation in retirement seminars at work); contribution to the company's 401K; and owning annuities, IRAs, and other insurance products. For example, one insurance company that sells both long-term care insurance and homeowners insurance identifies customers with umbrella coverage as better prospects for long-term care insurance, and experience has shown that they have a higher purchase rate, all else being equal. It may be possible for CLASS to obtain this type of information through reliable, purchased marketing database lists. The cost of obtaining this type of information for direct marketing efforts may well be justified by the higher propensity to buy among people with this profile.

It would be to the CLASS Plan's advantage to encourage healthy individuals to enroll, to address concerns about adverse selection and the possibility that those in only fair or poor health are more likely to have an interest in enrolling. If feasible, the CLASS Plan design might include features to encourage healthier purchasers, as is done in the private sector. These might include a rebate or brief premium holiday to individuals who remain claim-free for some defined period of time; a good health discount for individuals willing to apply for it based on evidence of good health once they have enrolled on a guaranteed issue basis for the program; and other similar concepts.

Finally, learning more specifically why the undecided have not bought and fashioning messages and approaches to overcome obstacles is a vital but untapped area of research on buyer behavior which could benefit the CLASS Plan. Research to identify what factors are preventing these people from buying today and how to overcome those concerns could be rewarding. These fence-sitters have admitted that they are not closed to the purchase decision but also are not ready to make it. Learning more about what might persuade them to act earlier could be useful.

Author:

Eileen J. Tell, MPH., is Senior Vice President for Product Development and Analytic Services for Univita Health. She has over 25 years experience as an industry leader in long-term care policy, research, and consumer education.

References

1. Health Insurance Association of America (HIAA). (2000). Who buys long-term care insurance in 2000? A decade of study of buyers and non-buyers.

2. Health Insurance Association of America (HIAA). (2001). Who buys long-term care insurance in the workplace? A study of employer long-term care insurance plans: 2000-2001.

3. LifePlans, Inc. for US Department of Health and Human Services. (2004). A demographic and attitudinal profile of buyers of the federal long-term care insurance program. Retrieved from http://aspe.hhs.gov/daltcp/reports/2004/buyprof.pdf

4. LifePlans, Inc. for US Department of Health and Human Services. (2004). A demographic and attitudinal profile of non-buyers of the federal long-term care insurance program. Retrieved from http://aspe.hhs.gov/daltcp/reports/2004/buyprof.pdf

5. LifePlans, Inc. for US Department of Health and Human Services. (2004). A demographic and attitudinal profile of non-responders of the federal long-term care insurance program. Retrieved from http://aspe.hhs.gov/daltcp/reports/2004/buyprof.pdf

6. LifePlans, Inc. for US Department of Health and Human Services. (2004). Multivariate analysis of buyers and non-buyers of the federal long-term care insurance program. Retrieved from http://aspe.hhs.gov/daltcp/reports/2004/FLTCIanal.pdf

7. LifePlans, Inc. for US Department of Health and Human Services. (2004). What we know about buyers and non-buyers of private long-term care insurance: a review of studies. Retrieved from http://aspe.hhs.gov/daltcp/reports/LTCIlr.htm

8. LifePlans, Inc. for U.S. Department of Health and Human Services. (2004). A comparative analysis of the socio-demographic and attitudinal characteristics of active buyers and non-buyers of long-term care insurance in the federal, private, and public sectors. Retrieved from http://aspe.hhs.gov/daltcp/reports/LTCIchar.htm

9. LifePlans, Inc. for America's Health Insurance Plans (AHIP). (2007). Who buys long-term care insurance? A 15-year study of buyers and non-buyers, 1990-2005.

10. National Clearinghouse for Long Term Care Information. (2011). Long term care savings calculator. Retrieved from http://www.longtermcare.gov/LTC/Main_Site/Planning_LTC/Considerations/Savings_Calculator.aspx?rand=3

11. National Clearinghouse for Long Term Care Information. (2011). Long term care savings calculator. Retrieved from http://www.longtermcare.gov/LTC/Main_Site/Planning_LTC/Considerations/Savings_Calculator.aspx?rand=7