Employer Long-Term Care Insurance Market Participation Rates: 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.

This brief looks at best practices in gaining strong participation rates in employer-sponsored long-term care insurance offerings to help inform strategies for the success of the CLASS Plan.

Introduction and Overview of the Employer Long-Term Care Insurance Market

As of December 2009, almost 25,000 employers offered long-term care insurance to their employees and often also to employees' family members.[1,2] The employer-sponsored long-term care insurance market is a critical one for the industry. It has historically been the market segment with the most aggressive growth, often even during periods of flat growth or sales declines for the industry overall. Despite this consistent growth, this market segment remains small, accounting for just over 35% of the roughly 7.5 million policies in force today.[1]

Employers today have a wider variety of long-term care insurance options from which to select. In addition to the traditional group product approach, employers can sponsor an individual policy offered at the worksite. Individual policies often provide additional discounts (such as a good health or spousal discount) not typical of a true group product and may also provide more customizable plan options. This expansion of the market, including both true group and worksite or multi-life plans, has also meant that employers have more insurers from which to choose when considering whether to offer long-term care coverage.

While most workplace long-term care insurance is offered on a voluntary, employee-pay-all basis, there is a sizable segment of the market with some type of employer subsidy. This may be in the form of an employer contribution to the premium, or the employer may offer a low-cost base plan and allow employees to "buy up" to additional coverage amounts.

Employers of all types and sizes offer long-term care insurance as a voluntary benefit. With less than 1% of all employers currently offering any type of long-term care insurance plan, the untapped market potential is significant.[3] While early efforts focused on larger employers, a significant and growing share of the market is among smaller and mid-sized employers. Currently, 66% of firms that offer long-term care insurance have 500 or fewer employees, while only 11% have more than 5,000.[3] While insurers get more "bang for the buck" marketing to large employers (all else being equal), the sheer number of smaller and mid-sized firms makes this an important market segment on which to focus.

"Participation Rate refers to the number of eligible individuals (employees, spouses, and parents) who enroll in the long-term care plan, divided by the total number of eligible employees."

This brief reports what is known about current employer behavior regarding participation in the existing long-term care insurance market and offers considerations for marketing the CLASS Plan to employers.

Participation Rates

The number of individuals insured who have obtained coverage through an employer-sponsored plan is approximately 2.7 million.[1] This market penetration is distributed across about 10 insurers focused on the true group employer-sponsored market, and 18 insurers offering worksite or multi-life coverage to employer groups.

Participation levels are a key marketing concern in group long-term care insurance. Enrollment must be sufficient to cover the initial and ongoing marketing expenses and the risks of being selected against by higher-risk applicants and hence exceeding anticipated claim costs. (This is especially important where coverage is offered on a guaranteed issue basis for actively-at-work employees.) For these reasons, many carriers include assumptions about participation levels in their pricing models, and some vary their pricing to different employer groups based on assumed participation levels. Coverage features are also impacted by participation rates; if a carrier anticipates low participation, more limited coverage may be offered to offset the potential for adverse selection. For example, few employer-based plans offer lifetime coverage. Some insurers will offer coverage on a guaranteed issue or limited underwriting basis only if the employer guarantees and can deliver a specified participation rate; if the required number of employees do not sign up, the plan does not go forward.

Virtually all group long-term care carriers struggle with the participation issue, both in terms of determining what participation levels are adequate and in terms of maximizing participation. There are anecdotal reports and sales claims but very little in the way of solid industry data on achieved participation levels by carrier.

Here is what is presently known:

- Average voluntary participation levels are between 3% and 8%, with an overall industry average of 5%. While averages are fairly consistent, participation can vary significantly by employer, from below 3% to over 50%.[4]
- Participation rates vary by industry from a low of 2.5% for education to a high of 14.7% for law.[5] It is possible that employer contribution may have been

a factor in the highest participation rate in this study, since this is a common practice in law firms that offer long-term care insurance.

- An adequately-funded marketing campaign can have a significant impact on participation. For example, spending less than $5 per employee results in 4% participation, while spending $10 or more can yield a 14% participation rate.[6]
- Variations appear to be a function of the nature and characteristics of the employer, employee demographics, the plan design(s) offered, and the marketing activities of the carrier.
- State tax policies also influence market penetration to varying degrees, with state tax credits more successful than tax deductions.[7] The State of Minnesota achieved a 20% participation rate in its 2000 offering of long-term care insurance to state employees, due in part to the prominent reference to the state's $500 tax credit for those who buy tax-qualified long-term care insurance.[8]

While some carriers appear to have participation rates on the higher side of the ranges, none has yet developed an approach that consistently delivers double-digit participation. No one seems to have found the so-called "silver bullet."

The first comprehensive analysis of practices for maximizing enrollment participation in group long-term care insurance was conducted in 2000 in anticipation of designing a successful marketing campaign for the Federal Long-Term Care Insurance Program.

TABLE 1 Factors Critical to Strong Participation Rates[9]

- Active employer support and positive employer-to-employee affinity.
- A favorable employment environment (such as low turnover, no recent benefit "take-aways").
- A sound and affordable plan design, with a limited number of reasonable and easy-to-understand coverage choices.
- A good track record with other voluntary benefits at the workplace.
- Good demographics—a reasonable portion of employees within the desired age, income, and education levels suitable for long-term care insurance.
- A high percentage of employees who are female and/or ages 46-49.
- Marketing expenses of $10 per employee or more.
- A limited number of coverage options including a low-cost plan.
- A strong and varied communications plan.
- Worksite meetings with time off for employees to attend.
- A call to action or deadline for enrollment.

This analysis identified several factors that are critical for strong participations rates, as described in Table 1. These variables interact in a variety of ways that we are just now starting to better understand. More successful group long-term care enrollments are associated with employers that:[6]

- have a favorable take-up of other voluntary benefits they offer;
- enthusiastically support the long-term care insurance program (are willing to "own" the program and be visible in sponsorship, exclusively endorse one long-term care insurance program, and take a visible role in program endorsement and sponsorship);
- recognize the importance of an education and communications campaign and allow multiple touches and varied communications;
- are willing to provide a member database with mailing information and are supportive of the key components of a communications campaign specific to long-term care (such as workplace meetings, direct mail to home, and payroll deduction);
- allow the use of a specified enrollment period (60 to 90 days) with a "call to action" deadline;
- keep the plan design options simple and limited to only a few key choices;
- facilitate opportunities for communicating with employees (payroll stuffer, e-mail, website, direct mail, company newsletters, workplace seminars with administrative time-off, etc.); and
- have a positive management and professional environment (that is, minimal workforce disruption resulting from lay-offs, divestitures, mergers, acquisitions, etc.) and a stable workforce.

Employee characteristics associated with more successful group long-term care enrollments include the following:[6]

- A majority of employees are age 45 to 65, the prime buying ages for long-term care insurance.
- Employees are concentrated in a single geographic area (such as the same state), reducing the need for complex variations in plan design to accommodate different market areas.
- A large number of employees are concentrated in a relatively small number of worksite locations (making enrollment meetings and communications easier).
- A decent proportion of employees have a moderate to high income (e.g., $50,000 or more in annual salary).
- White collar, non-union employees predominate, relative to blue-collar, union workers.
- A decent proportion of employees have education at the college level or beyond.
- Employees have positive and strong feelings of affinity with the employer/sponsor (measurable by participation in other voluntary programs, low staff turnover, and other factors).
- Industries with better participation rates include law, government, higher education, insurance and financial services, biotechnology, pharmaceutical, high technology, and the like.

"Successful Enrollment Strategies[5]

One insurer reports an increase from 60% to 85% when electronic online enrollment was expanded from modest use in 2001 to nearly complete use in 2009.

Employees like to buy long-term care insurance at the workplace because they trust the due diligence of the employer.

Initial enrollment is 18% higher when payroll deduction is offered. First year retention rates are also higher.

'Off-cycle' enrollments are three times as successful as those that coincide with health or other benefit enrollment periods."

Strategies to Maximize Enrollment Results

Success in the group market requires the insurer first to establish and implement processes for an internal review and approval of employer prospects with a focus on those that will be more desirable from a participation perspective. That is not to say that all employers with the desired characteristics will always have good participation, but on average when this knowledge is applied consistently the results will be better than taking a more reactive approach or focusing the same resources on all comers.

In addition, both the plan design and the marketing communications campaign need to work for the specific employer situation. Long-term care insurance is not a one-size-fits-all product. The campaign needs to focus on the messages that will get employees to take action and include the basic principles that have worked in the industry. These include the following:

- **Company support and endorsement** — As noted above, the importance of this factor in a successful enrollment cannot be overstated.
- **Multiple touches** — A high-frequency multiple-touch campaign during the enrollment period is needed. Because of the tendency for denial of the need for the product, frequent contact with and varied messages to employees are critical to "building the need" and overcoming obstacles to purchase.
- **Timing** — Enrollments during "distraction months" (holidays, summer, or the employer's usual health care open enrollment) and in negative corporate environments (such as a period of downsizing) should be avoided.
- **Pre-launch research** — Because long-term care insurance is not one-size-fits-all, it is important to learn about the corporate culture and employee demographics and customize the plan offerings to meet the needs, preferences, and financial resources of the target audience. Also, market research is critical to ensuring that the strongest marketing messages are used: those that best resonate with the motivations and concerns of the employee population.
- **Education** — Sufficient time for building awareness and education should be allowed. Typically, successful campaigns require three months, with the first month for pre-education, a second for the actual enrollment, and a third to process enrollments and conduct underwriting (where relevant).
- **Plan choices** — Complex plan choices should be minimized, but affordable and relevant coverage alternatives need to be assured. Industry data suggest that successful plans need to offer alternatives that most employees perceive as affordable yet meaningful. Too many choices cause employees to become overwhelmed and opt not to purchase.
- **Ease of offering** — Materials should be simple and easy to read, and the enrollment process should be as easy and familiar as possible. Industry experience indicates that ease of enrollment is one of the key factors in successful enrollments. Ease of offering means both supporting the employer with all the materials it

needs to communicate with employees and making it easy for employees to participate (automatic online enrollment and payroll deduction).

Participation in group long-term care insurance is not just a one-time event. Enrollment may grow slowly over time, but only if significant attention is paid to growing an existing group, possibly from year to year by having subsequent highly focused marketing campaigns (such as an annual application period). In addition to the initial enrollments, there are significant opportunities to remarket to an existing group, which can cost-effectively improve participation levels. Historically, many carriers have viewed re-solicitations as opportunities to move existing insured individuals to more up-to-date plans and to meet their legal requirements to offer inflation buy-ups. While this is important, another way to think about re-solicitation is as an opportunity to remarket to a semi-captive group of millions of employees in hundreds of groups, with some people in those groups having already made a positive purchase decision. There are significant opportunities to both increase the number of people and to increase sales to people who are already insured through remarketing to existing employer customers.

Employer Participation

Another key element in the participation equation is engaging the employer in offering a long-term care plan in the first place. While employer awareness of long-term care insurance as a voluntary benefit is high (87% in 2006[10]), even today only about 15% of all employers offer it.[3,1] Employers that have considered long-term care insurance but do not offer it cite a variety of factors: lack of employee interest, concern over the administrative cost and complexity of making the offer, and others. A recent study found that 40% of employers believe that the administrative time and effort needed to support the benefit is similar to that of a long-term disability (LTD) plan, putting it just below health insurance or a 401(k) plan in complexity but above group life insurance.[3] Nearly two-thirds of employers say they do not offer coverage because they perceive a lack of interest in the benefit among employees.[3] This underscores the importance of ensuring employers that best practices in maximizing participation rates will be used.

Employers also lack accurate information about long-term care insurance:

- Only 40% know that coverage is portable.[11]
- Only half know that employer-paid premiums are tax-deductible as a business expense.[11]
- More than half do not know that the costs of offering long-term care insurance at the workplace are minimal or none.[12]
- In one state that offers a straight $500 tax credit to anyone who buys long-term care insurance, 60% of employers surveyed in the state were not aware of this important tax advantage for their employees.[12]

Addressing these gaps in awareness can help improve employer interest. One of the major factors motivating the offer of long-term care insurance at the workplace is personal experience with long-term care by an opinion leader, chief executive, or other key person. The ability to attract and retain employees, the tax advantages for business owners, and employee interest are other compelling reasons to offer long-term care insurance, as shown in Table 2. Employers also need to know the true facts about the coverage they might offer — that it is fully portable, that the costs to the employer can be minimal or none, and that the coverage can help improve employee workplace productivity and morale as employees struggle with juggling work and family caregiving.

TABLE 2 The Top Four Reasons Employers Currently Offer Long-Term Care Insurance[3]

Attraction and retention of key employees (47%)
Tax advantages to the business-owner (43%)
Employee demand (43%)
Personal experience with long-term care (42%)

Considerations for CLASS Plan Design and Implementation

The first important challenge to maximizing enrollment in the CLASS Plan will be to interest employers in offering the program, especially employers that have not yet embraced long-term care insurance. This will require an understanding, based on the research we have discussed in this brief, of the reasons why some employers offer coverage while others have chosen not to. It will be critical for the CLASS Plan to address employer concerns in this regard.

Pre-Launch Research and Education

The CLASS Plan will need to undertake a comprehensive educational campaign in order to gain the attention, interest, and confidence of employers. Currently, while over 87% of employers are aware of long-term care insurance, only 35% are aware of the CLASS Plan.[11] The educational

TABLE 3 Employer Views: Positive Features of CLASS[11]

No tax dollars will be used in the program (74%).
All employees are eligible to enroll—no underwriting (71%).
The cash benefit can be used for a wide variety of long-term care services (70%).
There will be no premium increases for those who are over age 65 and retired and who have paid in for at least 20 years (64%).

campaign should focus on the reasons why it is important to offer long-term care insurance at the workplace and emphasize the advantages of CLASS (as shown in Table 3).

Other important ideas that employer education should convey:

- Employees value long-term care insurance offered through the workplace, and offering it can be done on an employee-pay-all basis.
- There is little if any administrative cost to the employer, and any costs it might incur, including a contribution to premiums should it decide to make one, are tax-deductible to the employer.
- While not required, even a small employer premium contribution can enhance participation.
- Many states offer a tax credit or tax deduction to employees who purchase long-term care insurance. The CLASS Plan should reinforce this message to employers in states that offer such incentives. Market penetration for long-term care insurance is enhanced where there are tax incentives, most notably tax credits.[7] The CLASS Plan should target employers in these states and build on the momentum this provides.

Conducting pre-implementation research among employers and employees is another element critical to success in obtaining both employer engagement and good employee participation. To succeed in penetrating the employer-sponsored market in a meaningful way, CLASS should conduct research to help it answer these questions:

- Which employer market segments have the greatest interest in offering CLASS? How well do the size and nature of this workforce fit with the objectives of CLASS with respect to broad and varied participation? To begin with, CLASS should focus on those industries and employer types found to generate the greatest participation rates when long-term care insurance is offered.
- What information do employers need to motivate an interest in offering CLASS where it may not exist currently?
- How will employers currently offering group and multi-life long-term care insurance feel about modifying their existing plan to accommodate CLASS? Are those currently offering long-term care insurance the better prospects, or is the program likely to find more success with those without a competing plan? One recent survey found that more than half of employers without an existing long-term care benefits would evaluate CLASS and consider participating.[11]
- What support and resources will employers want to help them communicate to employees about the CLASS Plan? A survey conducted in Minnesota among employers not offering long-term care insurance found that they would be significantly more willing to do so if the state provided educational and motivational materials so that human resources personnel did not have to take on that responsibility.[12] This is similar to how many voluntary benefits are offered today, where the employer selects an insurer and provides access to its employees, whereas the insurer is responsible for information, education, and customer service. This is the model that employers will expect when engaging with the CLASS Plan.

Plan Choices

One advantage of the CLASS Plan with respect to favorable participation experience is the simplicity of the offering. As research cited above shows, participation declines with the number of plan choices offered. Keeping it simple enhances participation. Since CLASS does not require employees to review and choose among complex coverage options, the decision becomes a simpler "yes" or "no" consideration.

On the other hand, employers and employees may not react positively to the CLASS Plan design as constructed in the existing law because it does not offer choices to match varying consumer preferences. Indeed, in a recent employer survey, 84% of employers were concerned about the one-size-fits-all coverage of CLASS.[11] Therefore, it will be important for the CLASS Plan to consider the development of more than one coverage plan from which employees can choose. For example, where the CLASS coverage currently contemplated is "long and skinny" in the sense that it provides a relatively low monthly benefit amount but extends coverage for as long as care is needed, an option that provides "short and fat" coverage could be an attractive option and introduce some easy-to-understand choice into the program. This would also allow CLASS to better compete with private plans, which always include at least some choice of coverage amount and/or duration.

Ease of Offering

CLASS can and should also offer employers a choice of roles—those that do not want to offer it as a voluntary benefit can still be encouraged and supported to play an educational role. Under either scenario, the CLASS Plan needs to make implementation as simple as possible for the employer. It needs to basically establish a "turn-key" approach to the offer, providing an implementation kit that includes everything the employer would need to communicate, install, and maintain the benefit. This kit should include detailed educational documents, motivational pieces for consumers, a how-to guide for getting the most participation out of the offer, and all the forms and materials the employer needs to implement and maintain the CLASS Plan. The program should have a dedicated toll-free line specifically for employer support. A recent employer survey found that 57% of employers said that ease of implementation is one of the most important concerns they would have if they were to add long-term care insurance to their existing benefits.[12]

Multiple Touches and Other Best Practices

Once an employer agrees to offer the CLASS Plan, employees must be persuaded to enroll. The research indicates best practices for reaching employees, as discussed above, and these should be followed by the CLASS Plan:

- Marketing materials should clearly educate employees about the need, risk, and cost of long-term care and the value of having insurance to meet that risk. This information can be enhanced when presented in an emotional but non-threatening way. The use of real-life testimonials can be especially persuasive.
- Onsite and workday-based education and enrollment meetings should be

held, with employers either mandating attendance or allowing time off for employees to attend.

- There should be repeat messaging because the more "touches" employees have, the more likely they are to enroll. Also, varying the message and communication vehicles is important. Using a combination of direct mail to employee homes, workplace e-mail and newsletter communication, worksite posters, and other methods is important.
- The CLASS Plan should have a dedicated website with lively and engaging interactive tools, including the ability to enroll on line, to generate improved participation and retention.
- The CLASS Plan is already intending to rely on automatic payroll deduction, another best practice in engaging and retaining participation.
- Offering the CLASS Plan outside the employer's other usual benefit offerings (off-cycle marketing) is also likely to enhance participation, as it allows employees to focus on CLASS without the distraction of other benefit decisions. Having a strong call to action in the form of an enrollment deadline (typically one to three months, shorter for a plan with guaranteed issue) is also vital.
- Maintaining a strong re-enrollment initiative to build participation over time among participating employers is also important. Long-term care insurance is not a "once and done" marketing activity; the CLASS Plan needs to maintain a presence and return for re-enrollments within participating employers.

An additional key question that the CLASS Plan needs to be prepared to address if it wants to get a foot in the door among employers is how it can or will coordinate with private long-term care insurance offerings that the employer may already have in place or choose to add. It is widely acknowledged that the CLASS benefit is meant to "take the edge off" long-term care costs but is not a complete solution for comprehensive coverage including nursing home care, given the anticipated daily cash benefit of $50 to $75. The CLASS Plan will not be the complete solution for many who desire protection. Similarly, the CLASS Plan needs to fit in where employers have decades of experience and satisfaction with a long-term care insurance plan. So an important part of CLASS marketing and education to employers will be to help them understand how the CLASS Plan can complement their existing coverage and how employees with coverage should maximize the best of both options.

Based on the experience of long-term care insurers in penetrating the group market, the CLASS Plan will face substantial challenges in persuading employers to sponsor the program and employees to enroll in it. Drawing on the knowledge gained by the private sector over many years, the CLASS Plan can apply the lessons learned by insurers to maximize both employer and employee participation.

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. LIMRA. (2010). U.S. group long-term care insurance, 2009: new business and in-force.

2. LIMRA. (2010). U.S. individual long-term care insurance, 2009: new business and in-force.

3. Wooster, L.V., Hurley, S.J., & VanGavree, M.S. (2010). Small business market, big growth opportunity? Presented at the Tenth Intercompany Long-term care Insurance Conference. New Orleans, LA, March 2010. Retrieved from http://www.lifecareassurance.com/2010Conference/Powerpoint/21.pdf

4. Hurley, S.J. (2010). Small Business Market, Big Growth Opportunity? Presented at the 10th Intercompany Long Term Care Insurance Conference. Retrieved from http://www.lifecareassurance.com/2010Conference/Powerpoint/21.pdf

5. Ames, C., Breen, C., & Cheung, M. (2006). What's new in true group? Presented at the 2006 LTCi National Producers Summit. Austin, TX, November 2006.

6. Pincus, J. (2004). Ways to maximize participation. Presented at Building Group Long-Term Care Insurance Expertise. Boston, MA, May 2004.

7. Stevenson, D., Frank, R.G., & Tau, J. (2009). Private long-term care insurance and state tax incentives. Inquiry, 46, 305-321.

8. Strebe, P. (2004). Public entities offering long-term care insurance. Society of Actuaries 4th Annual Intercompany Long-term care Insurance Conference. Retrieved from http://www.soa.org/files/pdf/52_bk-ltci04.pdf

9. Employee Benefit Research Institute. (2000). Voluntary long-term care insurance: best practices for increasing employee participation (Issue Brief No. 221). Washington, D.C.: Jeremy Pincus.

10. LIMRA. (2007). The voluntary benefits report card. Retrieved from http://www.limra.com/members/abstracts/reports/5692.pdf#search=%22Voluntary%22

11. John Hancock Long-Term Care Insurance. (2010). CLASS act: a survey of employer and consumer perceptions. Retrieved from http://www.jhltc.com/uploadedFiles/PDFs_for_Producer_Support/Health_Care_Reform_and_CLASS/ltc_6032.pdf.

12. Tell, E.J., Malone, J., & Goldie, S. (2003). Study of employer interest in long-term care insurance. Minnesota Board on Aging.