



# POLICYINSIGHT

*A Policy Newsletter on Life and Health Insurance and Financial Security Issues*

December 2011

## Annuities Protect Consumers From Longevity Risk

Americans are living longer than ever before, and as they plan for retirement, more and more individuals are facing some difficult financial realities. A recent study by the Government Accountability Office (GAO) shows that longevity risk, or the risk of outliving one's retirement savings and income, is an increasing concern for individuals planning for retirement. Most people have less money available for retirement when they reach retirement age than did retirees in the past, due to the downturn in financial markets and home values and increasing health care costs. Today's increased longevity means that retirees need larger retirement savings than ever before.

The GAO report suggests that annuities may be vital for many Americans who need to bridge the gap between their retirement savings and life expectancy. Annuities are a financial product that allows individuals to plan and prepare for anticipated financial needs by making deposits into a fund that will yield regular

payments at a predetermined future date, usually retirement. Annuities give individuals stability and peace of mind in knowing that they won't run out of money during their retirement years.

According to Wharton Financial Institutions Center, as reported in "Annuity Digest," males who are healthy at age 65 have a 50 percent chance of living beyond age 85, and a 25 percent chance of living beyond 92. Females who are healthy at age 65 have a 50 percent chance of living beyond age 88, and a 25 percent chance of living beyond 94. By this time, many people's retirement savings will have dried up, but annuity payments will continue to come for as long as the individual lives.

Annuities are an important product in particular for middle-income households without traditional pensions whose net worth is around \$350,000, including their homes, according to the GAO study. Annuities are especially beneficial for young to middle-aged adults, who will be able to pay in smaller amounts, but they can also be attractive for other

individuals depending on their specific needs. Because of the variety of annuities in the market, individuals are encouraged to consult with a financial planner or other professional in deciding if an annuity is right for them.

As the importance of annuities increases for many Americans, life insurers are stepping up their efforts to ensure that consumers' interests are protected through the annuity sales process and that the integrity of the agents who provide these products remains strong.

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# Citing Future Funding Challenges, Federal Government Ends Long-Term Care Program

A key part of federal health reform intended to provide long-term home health care for the disabled and elderly will not succeed without taxpayer assistance, leading the Obama administration to determine it will not be implemented.

The Department of Health and Human Services said the Community Living Assistance Services and Supports (CLASS) program would only operate in the black for a few decades before needing taxpayer money to remain solvent, prompting federal officials to abandon it. The program was to have been voluntary, with participants paying into the system for a minimum of five years before being eligible to receive cash for long-term care at home.

Long-term home health care is one of the fastest-growing segments of health care spending. About 9 million Americans with chronic illnesses or disabilities receive long-term care, either in nursing homes, assisted living centers,

community facilities or individuals' homes. The expense of such care can have a devastating impact because it is not covered by Medicare or private health insurance. Medicaid is available, but it requires recipients to spend down their life savings before becoming eligible.

As a result, long-term home health care currently comprises one-third of all Medicaid spending — \$122 billion in 2009 — and is expected to require even larger chunks of future Medicaid funding. According to AARP, seven of every 10 people turning 65 will need long-term health care for an average of three years during their lifetimes; 20 percent will need care for five or more years.

An annual study from financial services firm Genworth Financial shows how the cost of care among facility-based providers is steadily increasing. In 2005 the median annual rate for a private nursing home room was \$60,225, compared to the 2011 median annual rate of \$77,745.

Although rates in Texas are below the median, they are still expected to double in 15 years to more than \$125,000 a year for a private nursing home room and more than \$96,000 a year for a semi-private room.

Nursing homes are by far the biggest expense for long-term home health care, and some states are experimenting with ways to provide better home care. That allows patients to live in their home longer and can save as much as 50 percent over the cost of a nursing home. States such as Ohio, Oregon, Washington and Wisconsin have been able to control increases in institutionalized care by expanding home care and community-based care.

Private long-term home health care insurance is also available. In 2008, 7.6 million Americans over 55 owned a policy. According to the AARP, premiums for long-term care coverage average \$189 a month for individuals and \$57 a month in the group market.

## ABOUT TALHI: Texas Association of Life and Health Insurers

TALHI is the trade association for life and health insurers doing business in Texas. It was formed when Texas Life Insurance Association and the Texas Legal Reserve Officials Association merged in 1997.

Now representing the majority of insurers in the state, TALHI has emerged as a leading voice for life and health insurers on legislative and regulatory matters.

TALHI is an open-door trade association boasting some of the most progressive life and health insurance company officials in Texas. We are united for the mutual benefit and development of a healthy and competitive insurance market.

The work that TALHI does in the public policy arena is intended to strengthen the insurance market by enhancing insurers' ability to provide Texans financial security for their future.



# Future of Federal Health Care Reform to Be Decided by Supreme Court

As expected, the U.S. Supreme Court has announced it will consider the constitutionality of the 2010 health care reform. What that ruling will look like, though, is anyone's guess.

The court could uphold or reject the entire law, reject portions of the law, or decide that legal challenges against the law are premature and shouldn't be raised again until 2015. The court's decision, expected in June, will almost certainly be a significant factor in the 2012 elections in addition to its transformational role in redefining the nation's health care landscape during the middle of the presidential campaign next summer.

Some 26 state governments have challenged the reform, with most attacking the so-called individual mandate requiring all Americans to buy health insurance or pay a financial penalty. Additionally, the states contend Congress is illegally coercing them to expand Medicaid by threatening to withhold funds from states that refuse to do so.

The case against the law has made its way through several appeals courts with different verdicts. In August, the 11th Circuit Court of Appeals in Atlanta struck down the individual mandate, but let the rest of the law stand. Other

appeals courts, however, have upheld the individual mandate. And one appeals court, the 4th Circuit in Richmond, Virginia, said that because the first monetary penalty for failing to buy insurance will not be assessed until 2015, the courts have no power to rule on that issue until then.

The Supreme Court allotted five and a half hours for legal arguments in the case, the most in several decades for challenges to a new law. The court typically allots one hour for argument, although it set aside 90 minutes for argument in *Bush v. Gore*, the case that settled the 2008 presidential election.

In announcing its decision to hear the challenge, the court said it would consider the following four questions:

- Can Congress mandate that Americans buy health insurance or else pay a penalty?
- If the individual mandate is struck down, does that make the entire law unconstitutional or are there parts of the reform that could survive?
- Is Congress illegally forcing states to expand Medicaid by threatening to withhold funding from those that refuse?

## TEXAS INSURANCE INSIGHT

In 2009, life insurers provided payments in excess of \$594 billion, helping families guarantee long-term financial security now and in retirement.

- Since the penalty for not buying health insurance doesn't go into effect until federal income taxes are due in 2015, is the legal challenge against the health care overhaul premature?

Meanwhile, several portions of the reform law have already been enacted, complicating the issue if the law is overturned.

Changes that have already occurred include:

- Allowing parents to continue covering children on their policy until the child reaches 26.
- Closing the so-called Medicare drug coverage donut hole. In 2011, beneficiaries pay only 50 percent of the cost of brand-name drugs in the donut hole and 93 percent of the cost of generic drugs.

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# Annuities

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TALHI is pleased to have joined with Texas legislators to help pass national model reform acts that give new powers to the Texas Department of Insurance (TDI) to stop fraud and the potential for abuse in the sale of annuities. As a result, Texas lawmakers are among the leaders in the nation in safeguarding seniors and others from unscrupulous practices in the sale and marketing of annuities. TALHI also worked with the Texas Legislature to pass the National Association of Insurance Commissioners (NAIC) Suitability in Annuity Transactions Model Regulation in 2007, which set high standards to ensure that annuity products purchased are appropriate and suitable to meet the financial needs of the purchaser.

**TEXAS INSURANCE  
INSIGHT**

Life insurance  
companies invest  
approximately \$320  
billion of their assets in  
Texas' economy.

TALHI will continue to partner with state legislative and regulatory leaders to ensure that consumer confidence in financial products like annuities remains strong and that they continue to provide the financial security that those who purchase them seek.

# Supreme Court

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- A provision that requires Medicare to eliminate cost-

sharing for Medicare-covered preventive services rated as A or B by the U.S. Preventive Services Task Force.

- Free colorectal screenings for Medicare beneficiaries.
- Freezing the income level at which higher-income Medicare beneficiaries pay premium surcharges for Part B coverage at \$85,000 a year through 2019.

While the Court's legal opinion will not be known for months, the practical effects of its decision can be foreseen now. The Court's decision will either affirm a broad transformation of the nation's health care system or reject key elements of that change and set the stage for a continuation of the polarizing debate about the feasibility and process of ensuring health coverage for every American.

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