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The Current State of the Long-Term Care Insurance Market

Presented to:
Federal Advisory Committee on Insurance
U.S. Department of the Treasury

By
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Purpose

- Provide background on need for long-term services and supports (LTSS) and why insurance is appropriate way to address need

- Characterize the current market in terms of products, customers, insurers and financial performance
  - How did we get to where we are?

- Put forward ideas on how to increase role of private insurance and prospects for growth

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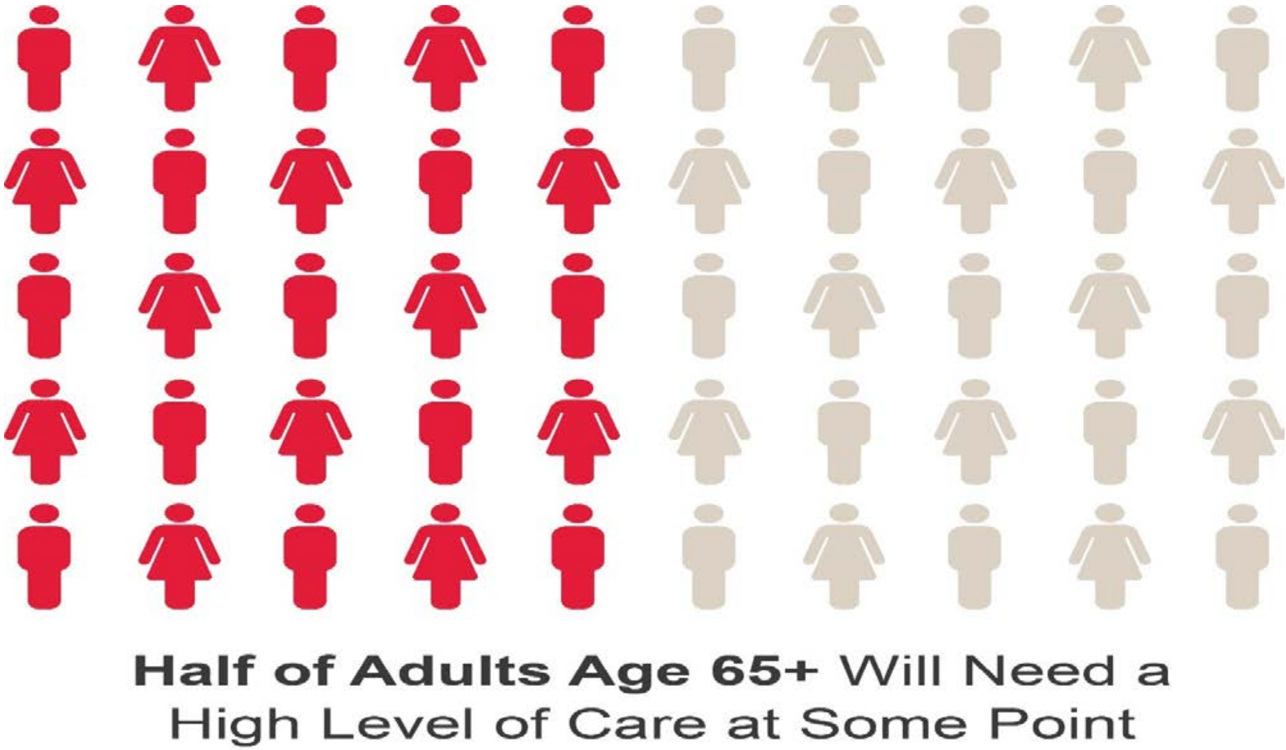
The risk of needing assistance to perform two or more activities of daily living sometime after age 65 is significant



Source: Favreault & Dey (2015), Table 1 in Anne Tumlinson Innovations presented to SCAN Foundation, 2016
https://www.thescanfoundation.org/sites/default/files/financing_long-term_care_chartpack_092016_final.pptx

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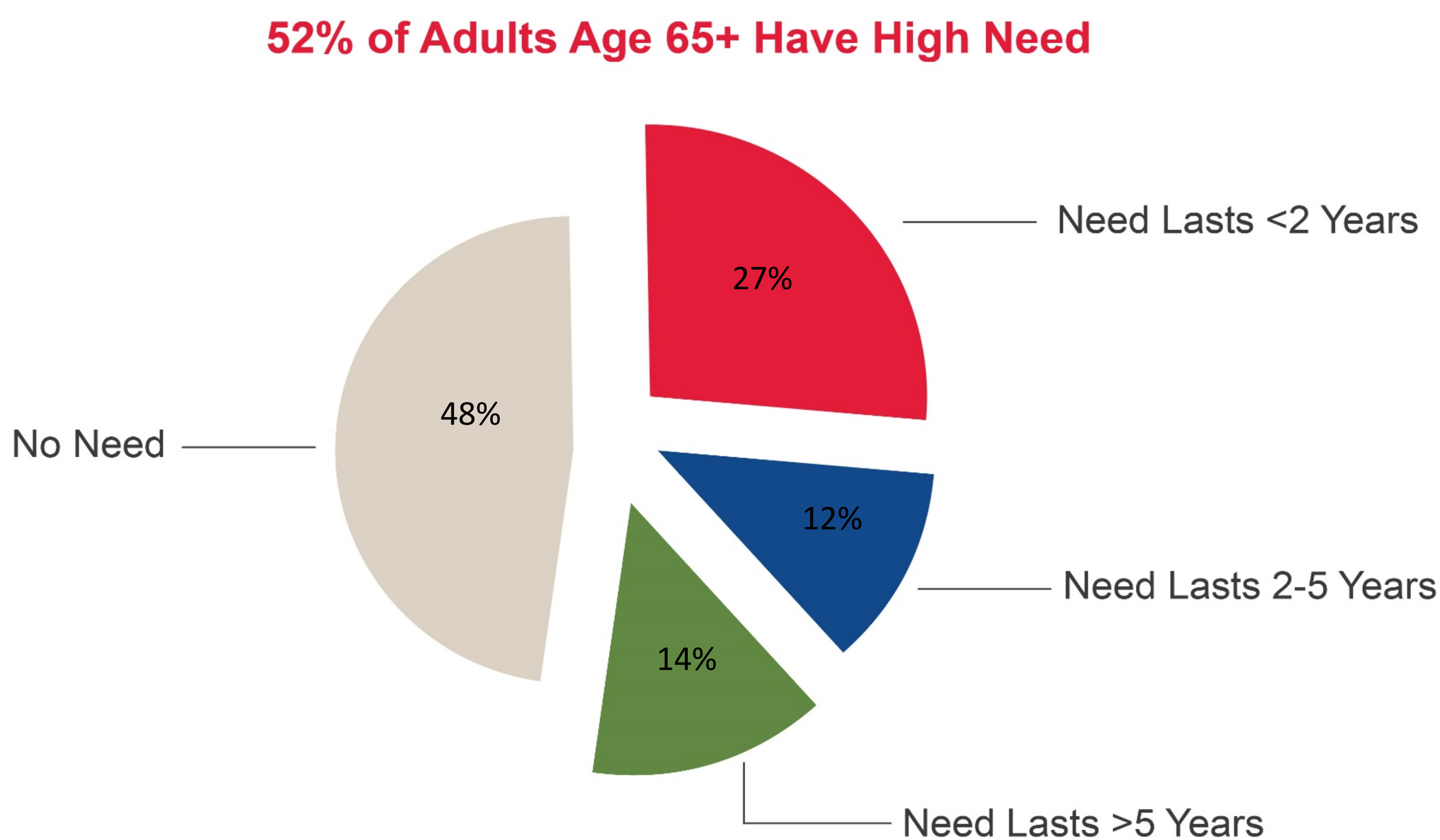
The LTSS risk is highly skewed among those with a high need



Source: Ann Tumlinson Innovations based on Favreault & Dey (2015) Table 1.
https://www.thescanfoundation.org/sites/default/files/financing_long-term_care_chartpack_092016_final.pptx

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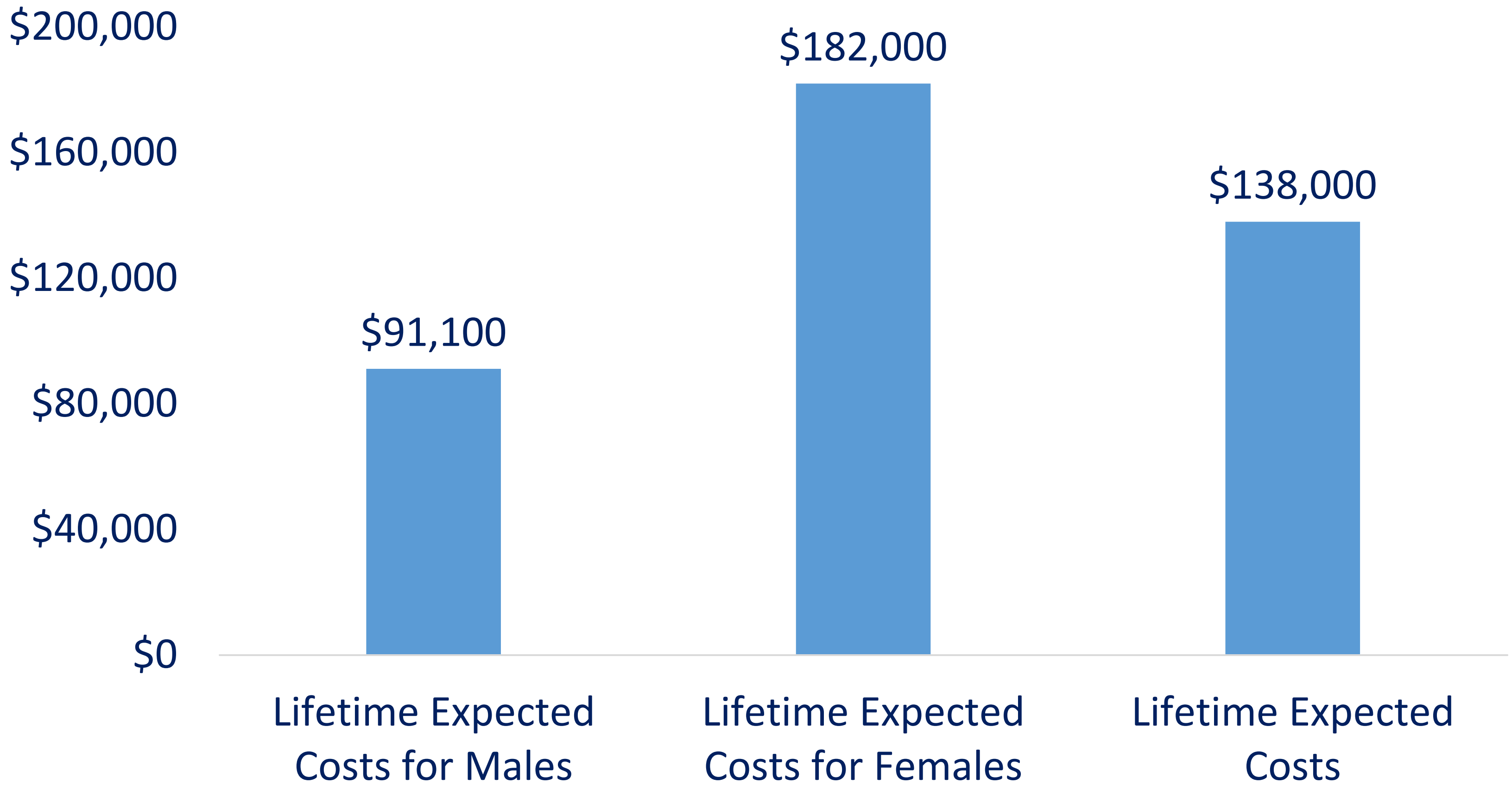
Excluding costs associated with family caregiving, someone turning age 65 today and needing care in the future is high (2015 dollars)



Source: ASPE Issue Brief on LTC Financing, July 2015, https://aspe.hhs.gov/basic-report/long-term-services-and-supports-older-americans-risks-and-financing-research-brief

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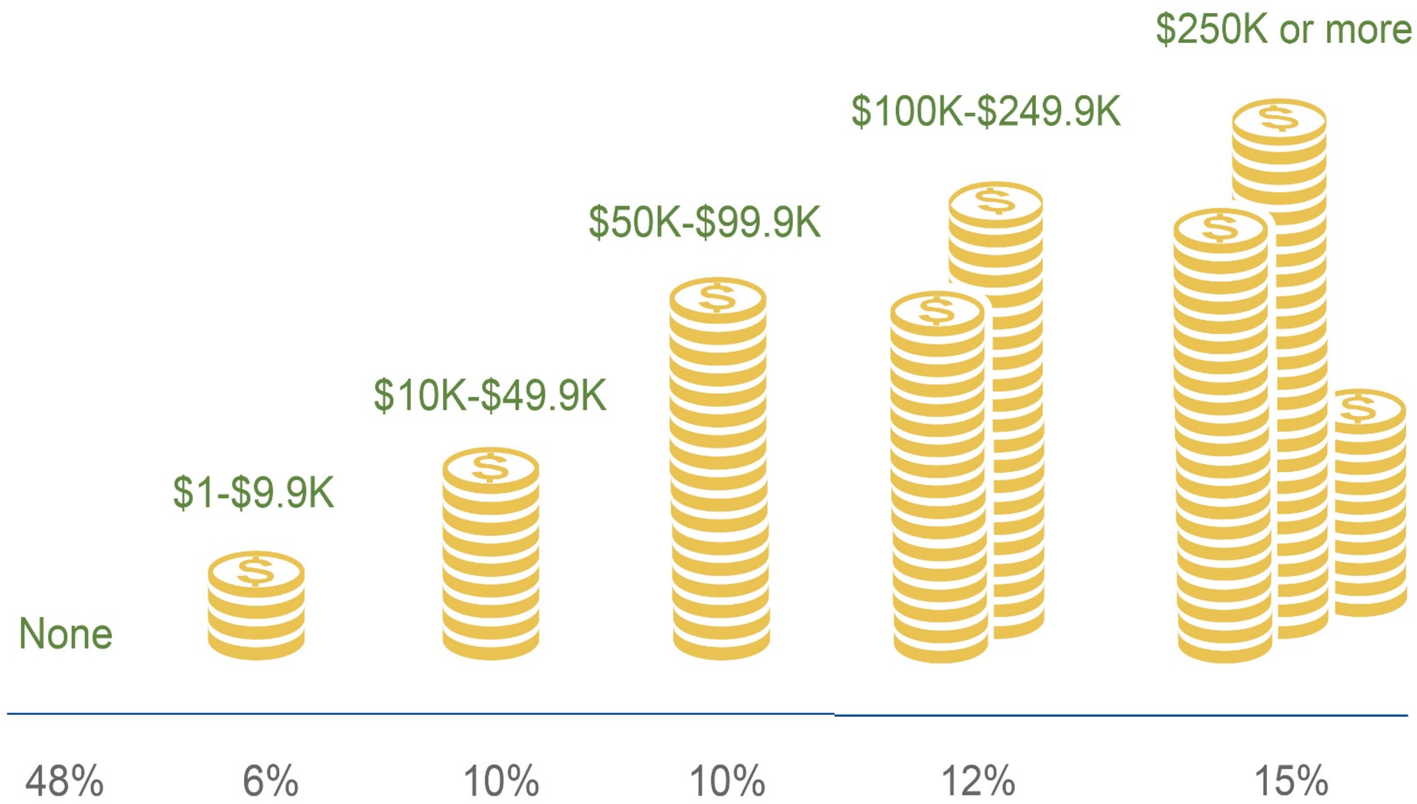
Because utilization is skewed, so too is the distribution of costs



Source: Favreault & Dey (2015), Table 5 in Anne Tumlinson Innovations presented to SCAN Foundation, 2016
https://www.thescanfoundation.org/sites/default/files/financing_long-term_care_chartpack_092016_final.pptx

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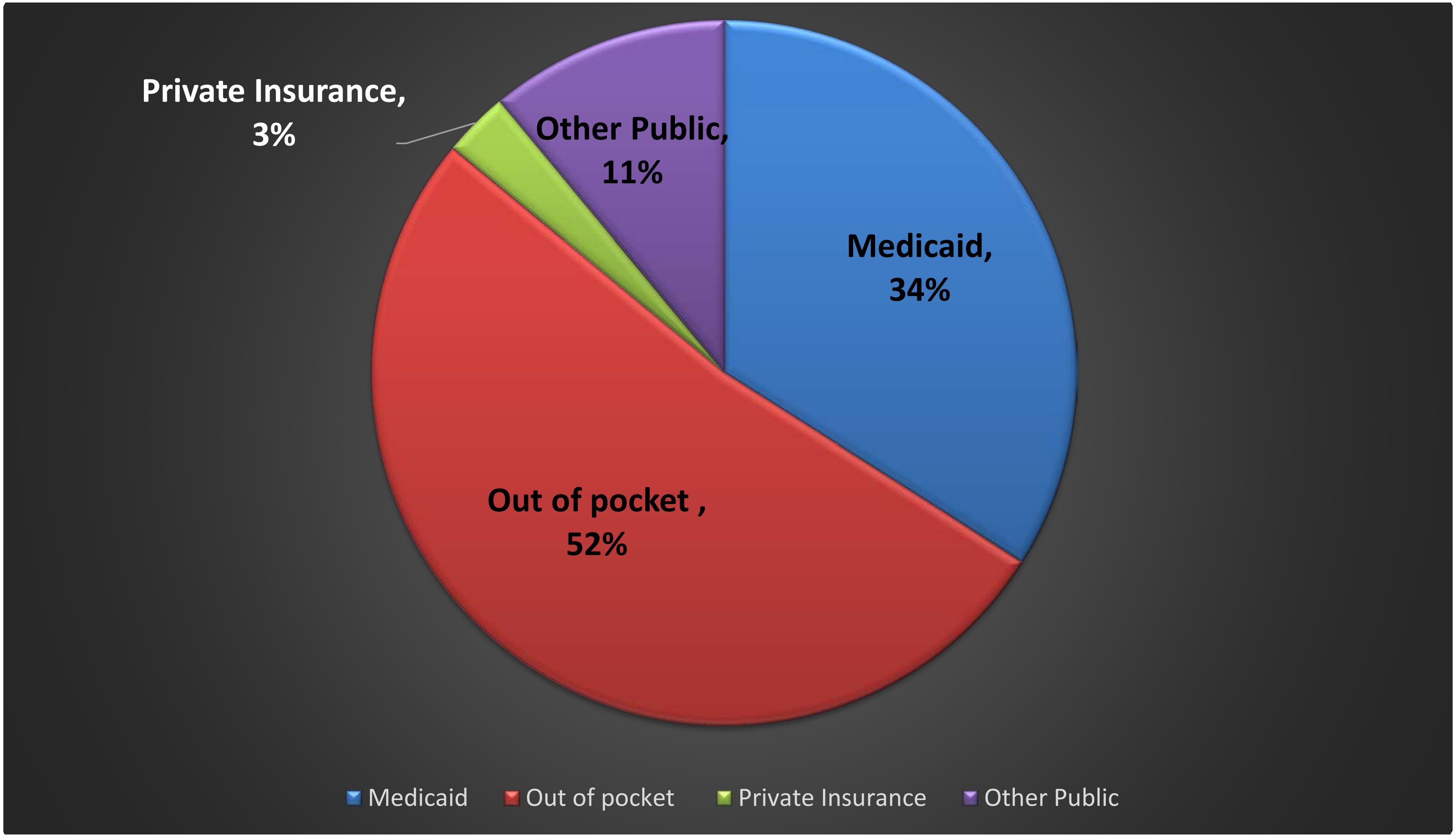
Medicaid and Families will pay the most for elders with significant needs



Source: Favreault and Dey, 2015. https://aspe.hhs.gov/basic-report/long-term-services-and-supports-older-americans-risks-and-financing-research-brief

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Reliance on Medicaid financing is problematic

- Most who need care spend what little income and assets they have before accessing the social safety net (Medicaid)
  - Obtaining eligibility through spend-down is threat to many individuals' financial security
  - Encourages some people to transfer or shift assets to obtain eligibility
- Waiting lists and access limits for home and community-based care
- Less flexibility in service provision
- States struggling with budget pressure
- Medicaid financing of LTSS is the fastest growing budgetary item for many state budgets

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Reliance on Families alone is becoming more difficult

- Roughly 25 million of today's seniors will need LTSS services (paid and unpaid) and total costs will exceed $2.5 trillion over next 10 years

- Family caregivers currently provide 37 billion hours of care at an economic value about $470 billion[1] -- > 6x the amount paid by public payers

- The family caregiver network is experiencing unprecedented challenges due to:

  - ➢ Smaller family size;
  - ➢ The increasing employment mobility of children;
  - ➢ Strains associated with "sandwich generation"

➢ Many elders currently have significant unmet need

➢ Number of people needing significant assistance will grow by 149% from 6.3 million to 15.7 million in fifty years.

[1] Also includes care to those less than age 65 with need

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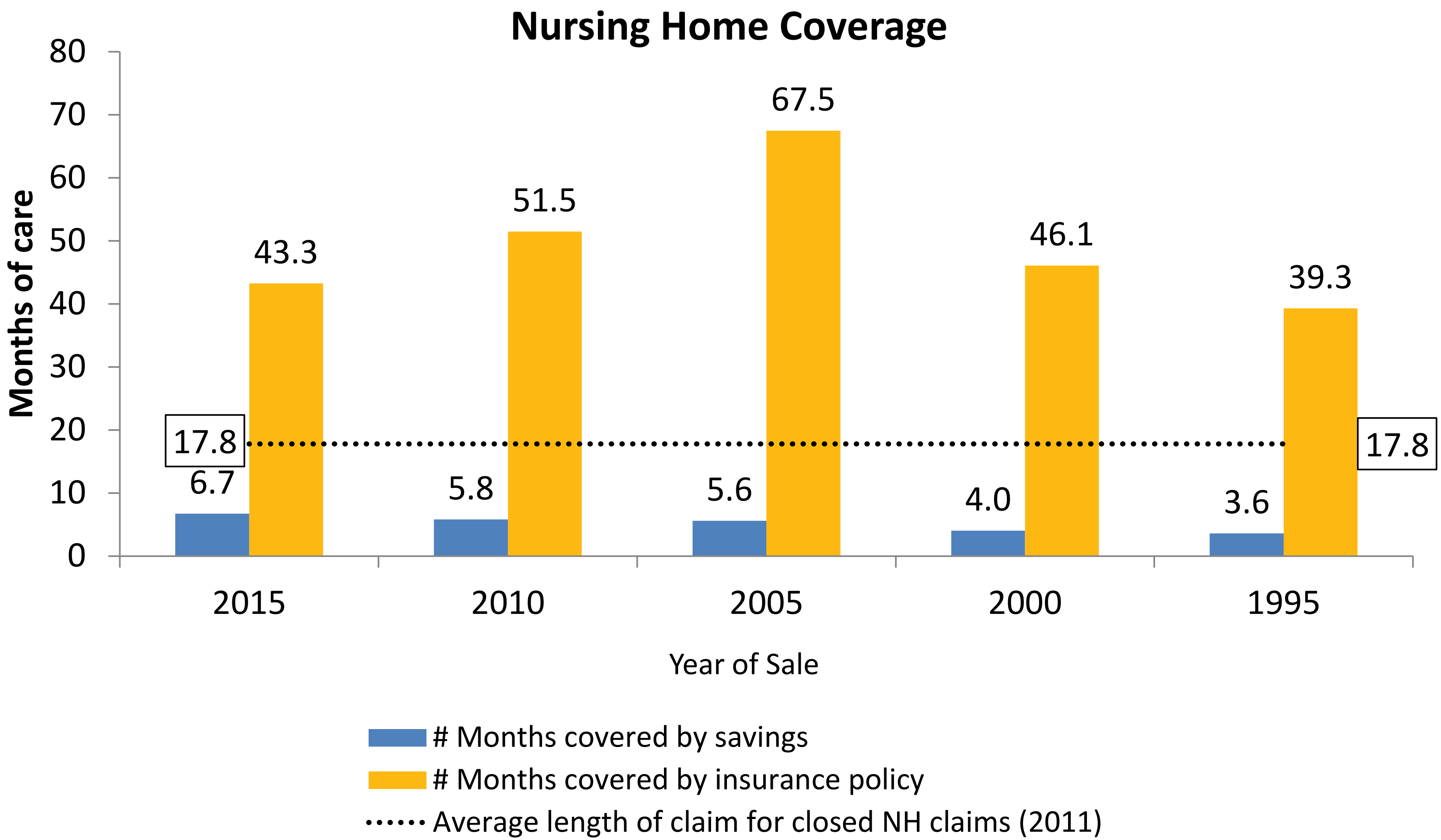
Leveraging Insurance: nature of LTSS risk suggests insurance, whether private, public, or a combination makes most sense



Source, NAIC, 2016.
http://www.naic.org/documents/cipr_current_study_160519_ltc_insurance.pdf

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Current LTC Insurance Market

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Current Industry Parameters (2015)

Parameters	Values
Policies In-force (individual and group)	7.2 million
Earned Premiums	$12.0 billion
New Claim Reserves	$10.1 billion
Cumulative claims paid 1992-2012 Cumulative claims incurred 2013-2015	$75.6 billion $26.8 billion
Number filing new claims	79,000
Number of In-force Claimants	268,000
Average Claim Reserve	$127,000

Note: Number of inforce for life and annuity products with accelerated long-term care benefits is about .5 million.

Source: NAIC LTC Insurance Experience Reports for 2012 – 2015, LIMRA 2018.

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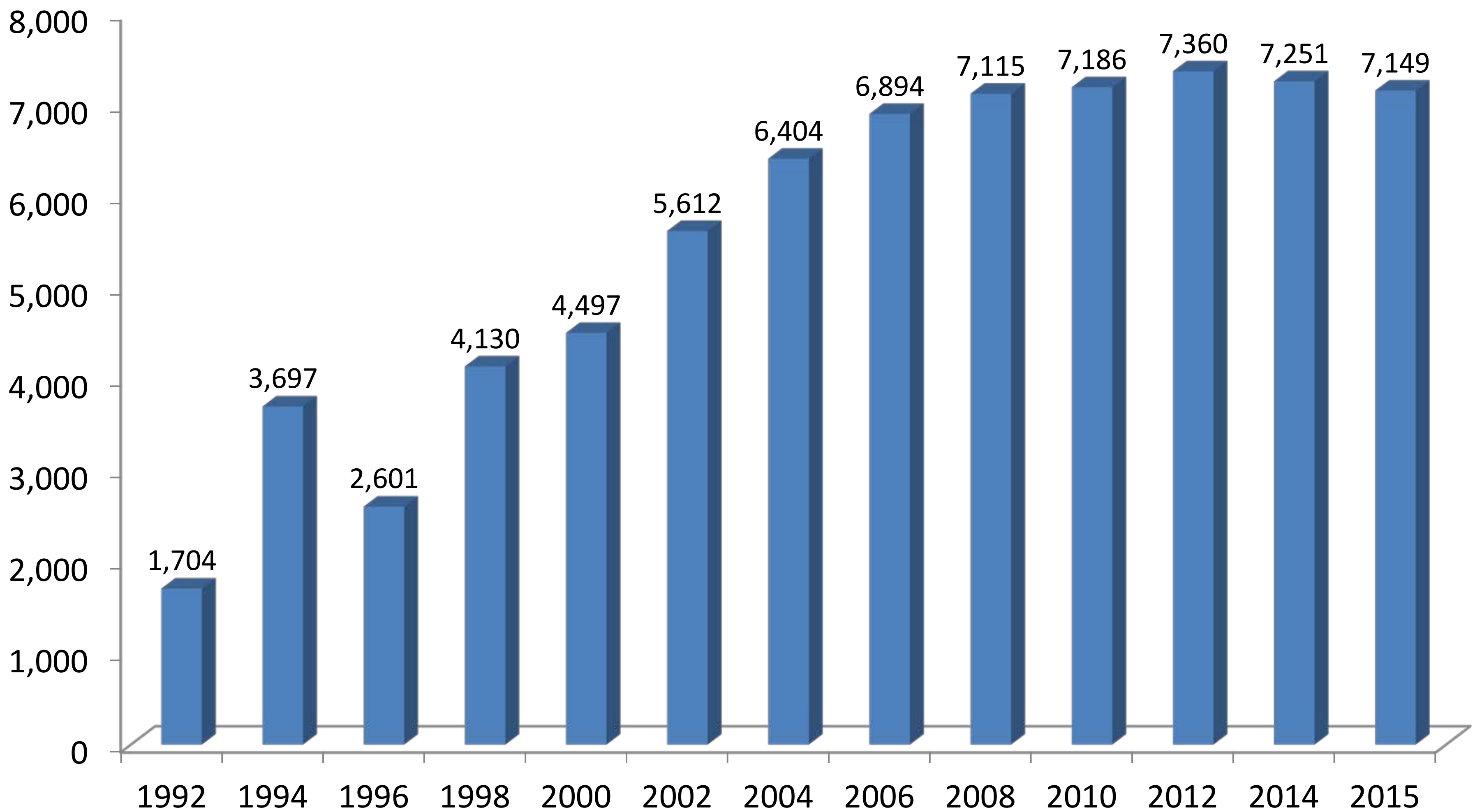
Number of Individual and Group Insured Lives has been relatively flat since 2008



Source: NAIC LTC Experience Reports 1993-2016

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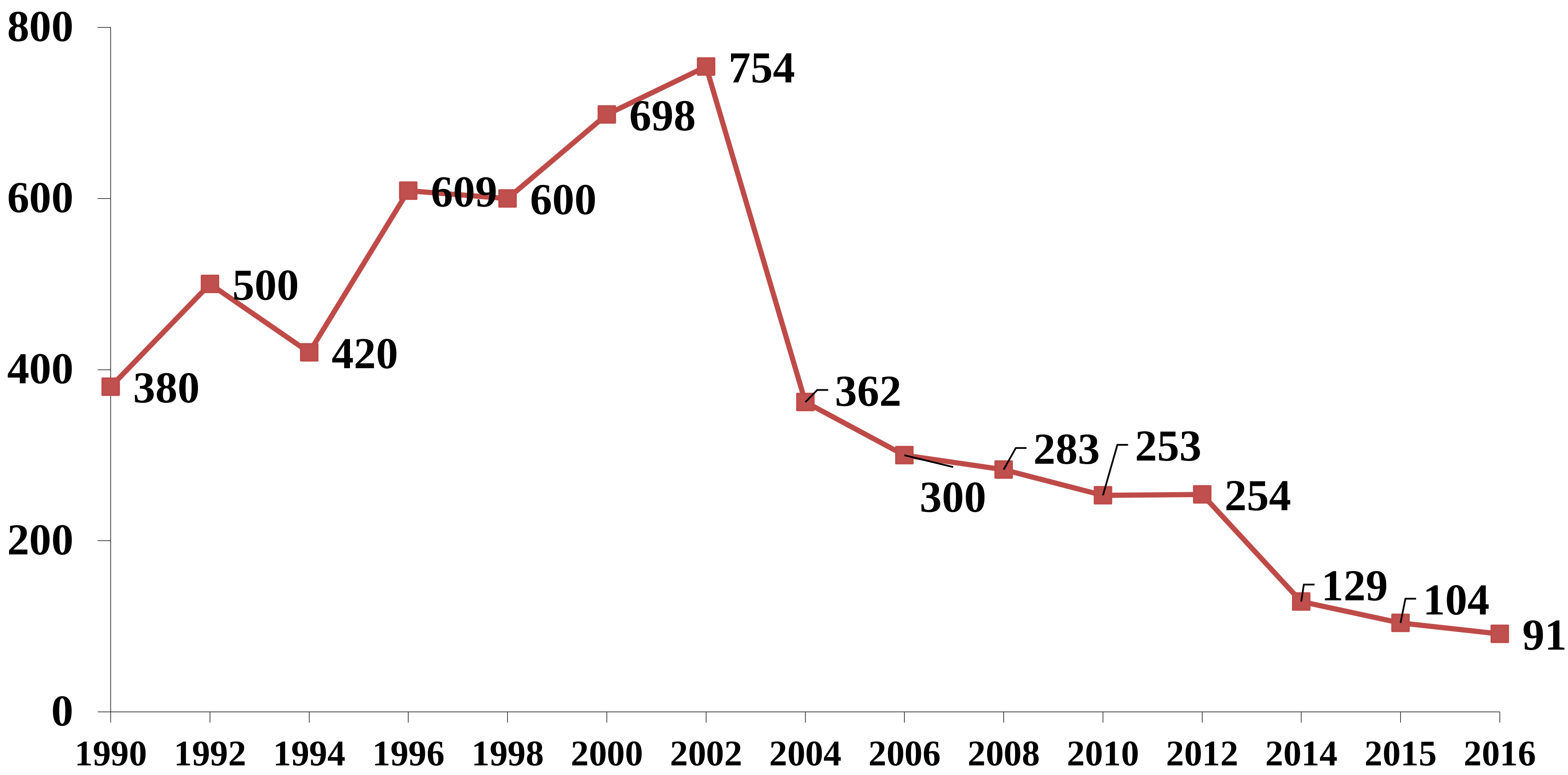
Annual Sales of Individual LTC Insurance Policies have been declining since 2002



Note: LifePlans analysis based on AHIP, LIMRA and LifePlans sales surveys, 1990-2018. Beginning in 2009, LTC Partners data for annuitants included in counts.

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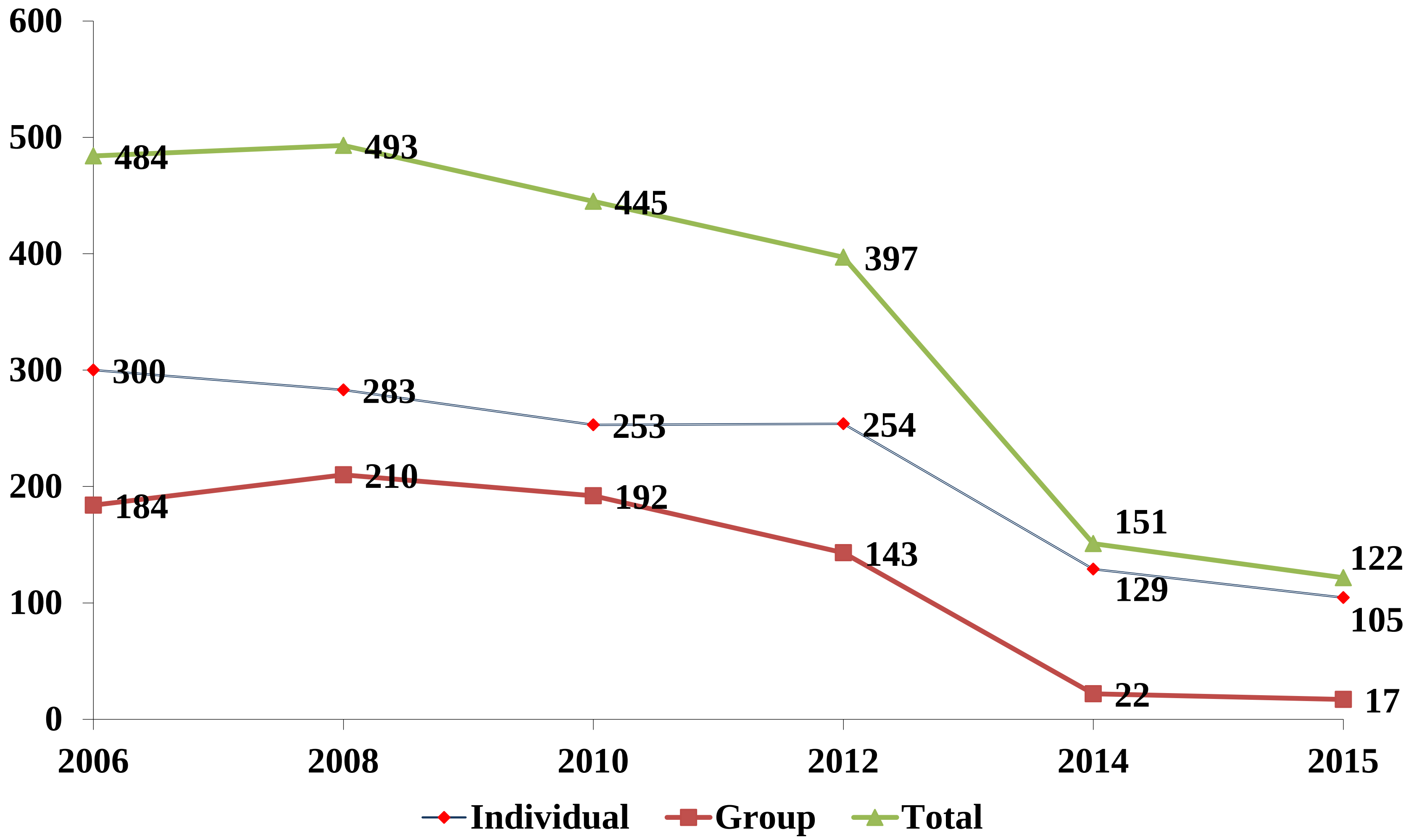
Group sales declining more rapidly than individual sales



Note: Estimates based on AHIP, LIMRA and LifePlans sales data and analysis. Beginning in 2009, LTC Partners data for annuitants included in counts.

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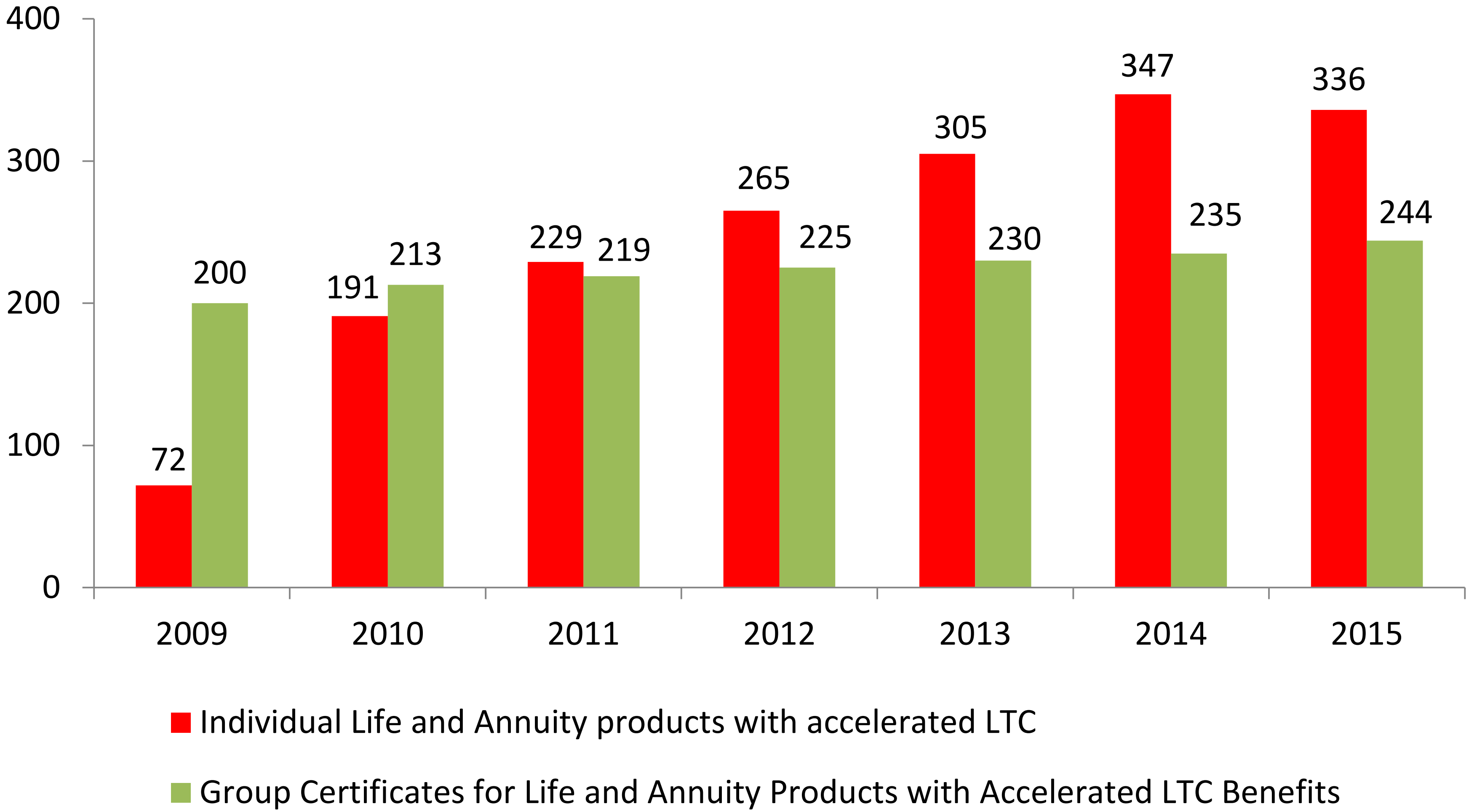
Bright spot: Combination products are growing in the market (thousands of policies in force)



Sources: NAIC Long-term care Experience Exhibit Reports, 2010-2015

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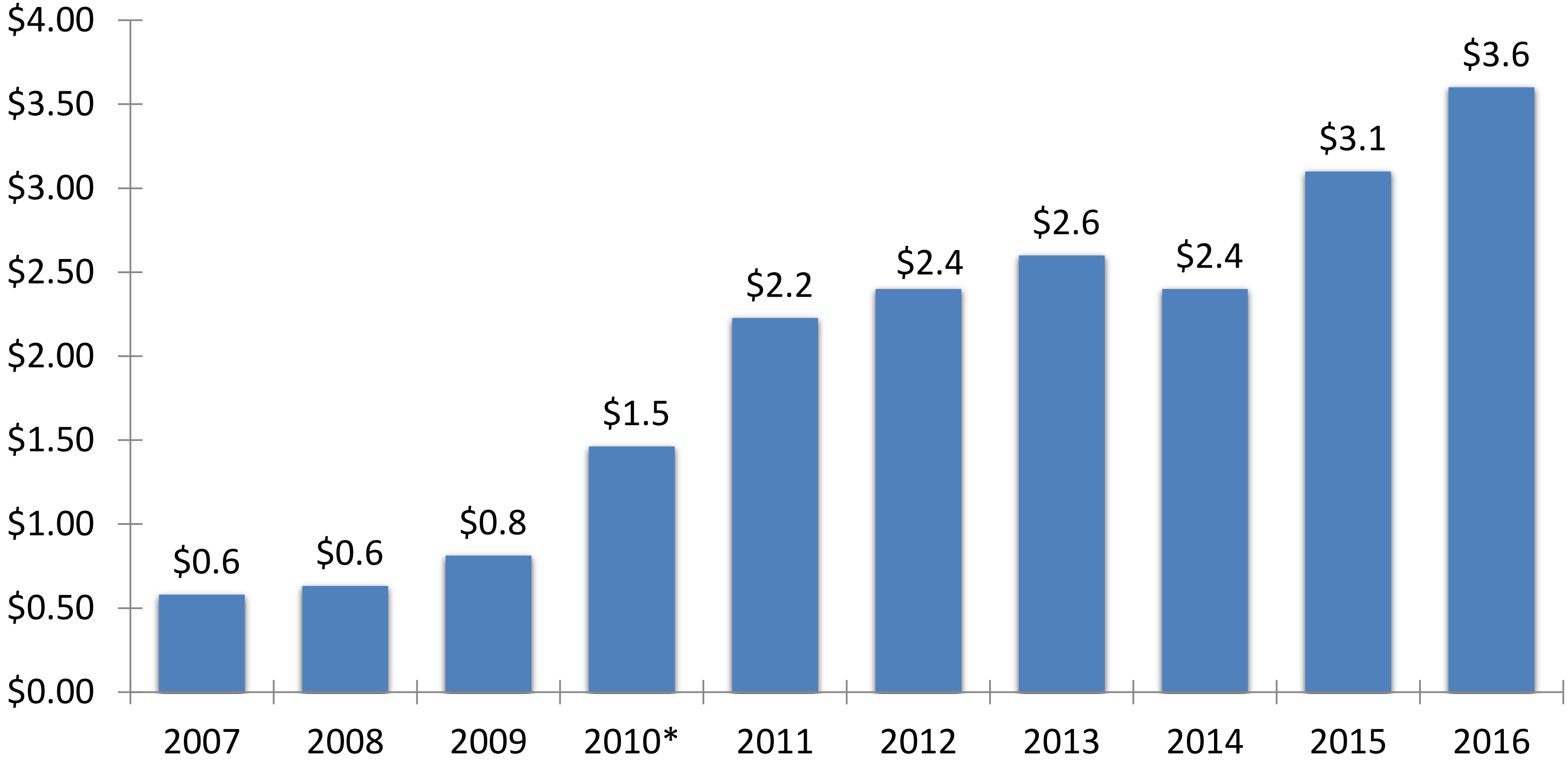
Life-combination product sales have grown significantly -- $3.6 billion in premium



Source: LIMRA's 2013 Life-Combination Sales Survey 18. Premium is Total Premium (Recurring + Single Premium). 2010 first year to include Life-Chronic Illness riders.

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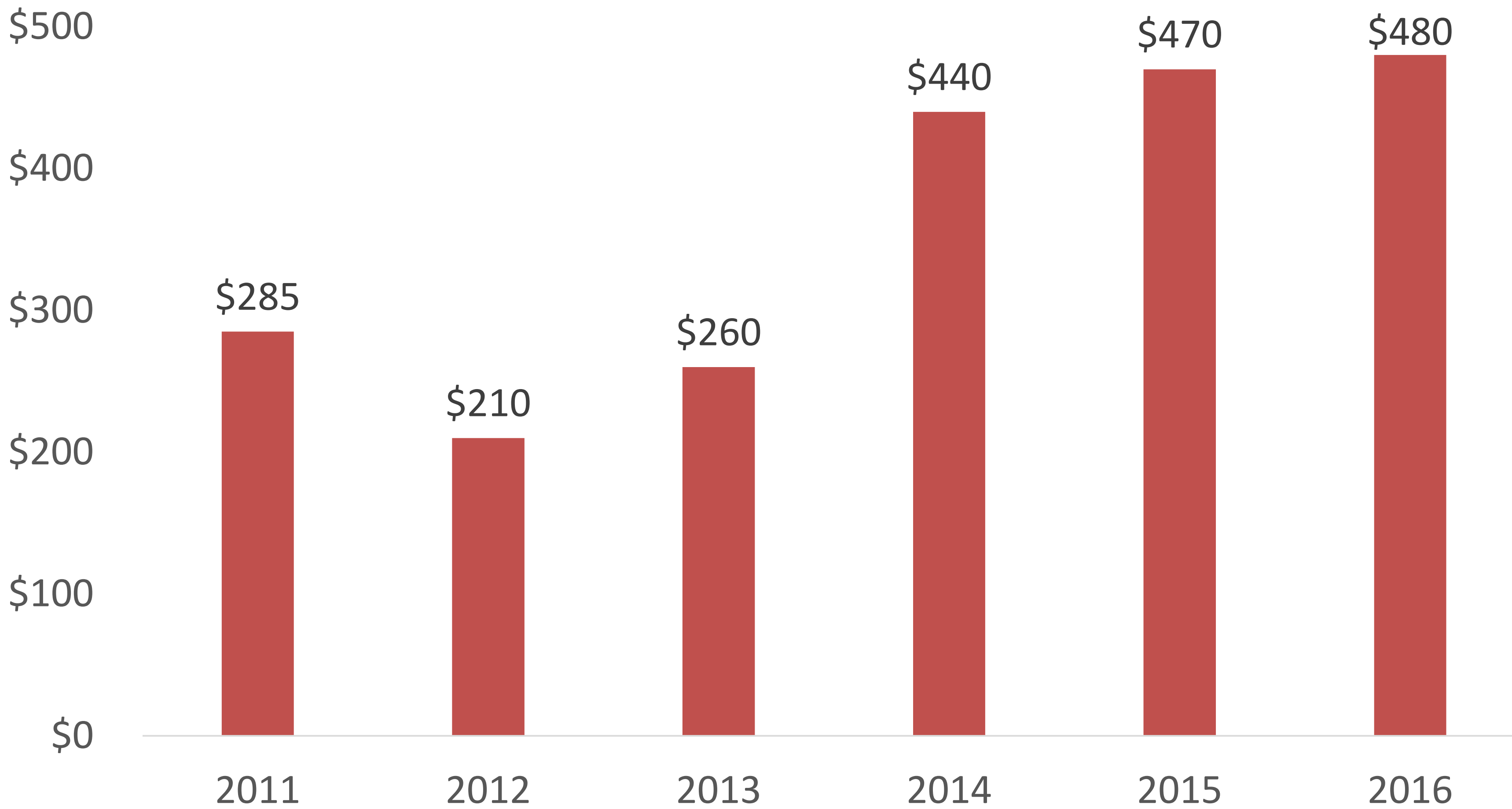
Annuity-Long-Term Care Combination Products (Sales dollars in millions)



Source: LIMRA, 2018

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Purchase Considerations by Product Type

Most important Reason for Purchase of Stand-Alone Policies	Primary Reasons for Individuals would consider Life/Combo Policies
Protect assets and leave an estate (36%)	Benefits will be paid even if LTC expenses are not incurred (36%)
Guarantee Affordability of Services (23%)	More economical use of current assets (36%)
Protect Living Standards (14%)	Concern that LTC costs will deplete/exceed savings (35%)
Avoid Dependence (13%)	LTC Insurance on its own is too expensive (29%)
Other Reasons (13%)	Can't afford two separate policies (28%)
	Will not receive sufficient support from public programs (24%)
	Will not qualify for stand-alone LTC insurance (7%)

Source: LIMRA/LIFE Barometer Study 2016 for combination products and AHIP, 2017 for stand-alone policies

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Younger, wealthier and employed individuals are buying stand-along policies

Characteristic	2015	2010	2005	2000	1995	1990
Average Age	61	59	61	65	69	68
%> 70	9%	23%	16%	40%	49%	42%
% Married	75%	69%	73%	70%	62%	68%
Median Income	$109,781	$99,772	$62,500	$42,500	$30,000	$27,000
% > $50,000	82%	77%	71%	42%	20%	21%
Median Assets	$317,363	$291,884	$275,000	$225,000	$87,500	N.A.
% > $75,000	86%	82%	81%	77%	49%	53%
% College Educated	69%	71%	61%	47%	36%	33%
% Employed household	68%	69%	71%	35%	23%	N.A.

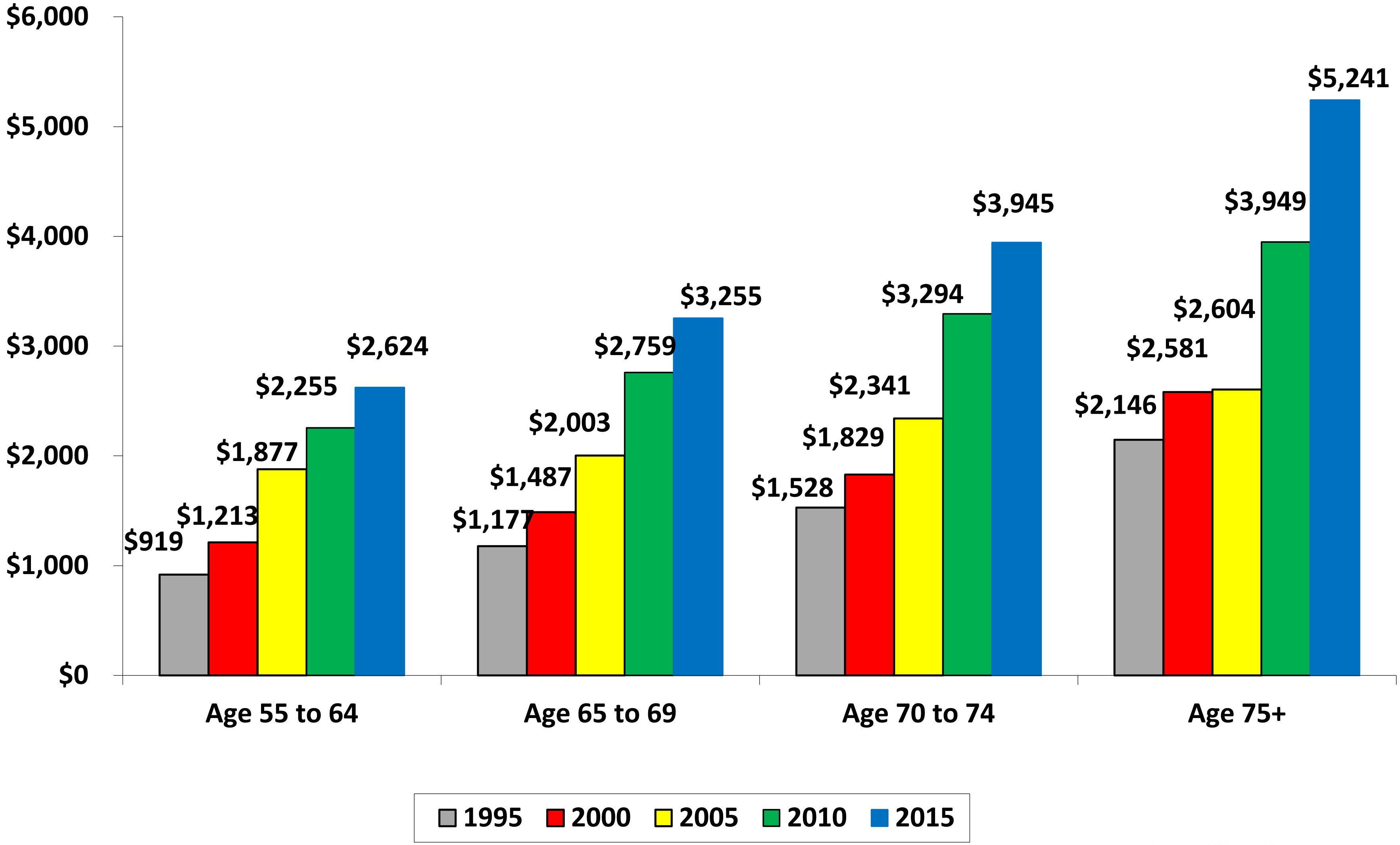
Source: AHIP, 2017, https://www.ahip.org/who-buys-long-term-care-insurance

Characteristics of Individual LTC Policies Bought: 1990 -2015

Policy Characteristics	2015	2010	2005	2000	1995	1990
Policy Type						
Nursing Home Only	0%	1%	3%	14%	33%	63%
Nursing Home & Home Care	100%	95%	90%	77%	61%	37%
Daily Benefit Amount for NH Care	$159	$153	$142	$109	$85	$72
Daily Benefit Amount for Home Care	$152	$152	$135	$106	$78	$36
Nursing Home Only Elimination Period	……….	85 days	80 days	65 days	59 days	20 days
Integrated Policy Elimination Period	93 days	90 days	81 days	47 days	46 days	--------
Nursing Home Benefit Duration	3.8 yrs.	4.8 yrs.	5.4 yrs.	5.5 yrs.	5.1 yrs.	5.6 yrs.
Partnership Policy	45%	28%	N.A.	N.A.	N.A.	N.A.
Inflation Protection	75%	74%	76%	41%	33%	40%
Annual Premium	$2,772	$2,283	$1,918	$1,677	$1,505	$1,071

Source: AHIP, 2017, https://www.ahip.org/who-buys-long-term-care-insurance

Premiums are rising, but largest increases for youngest and oldest



Source: AHIP, 2017, https://www.ahip.org/who-buys-long-term-care-insurance

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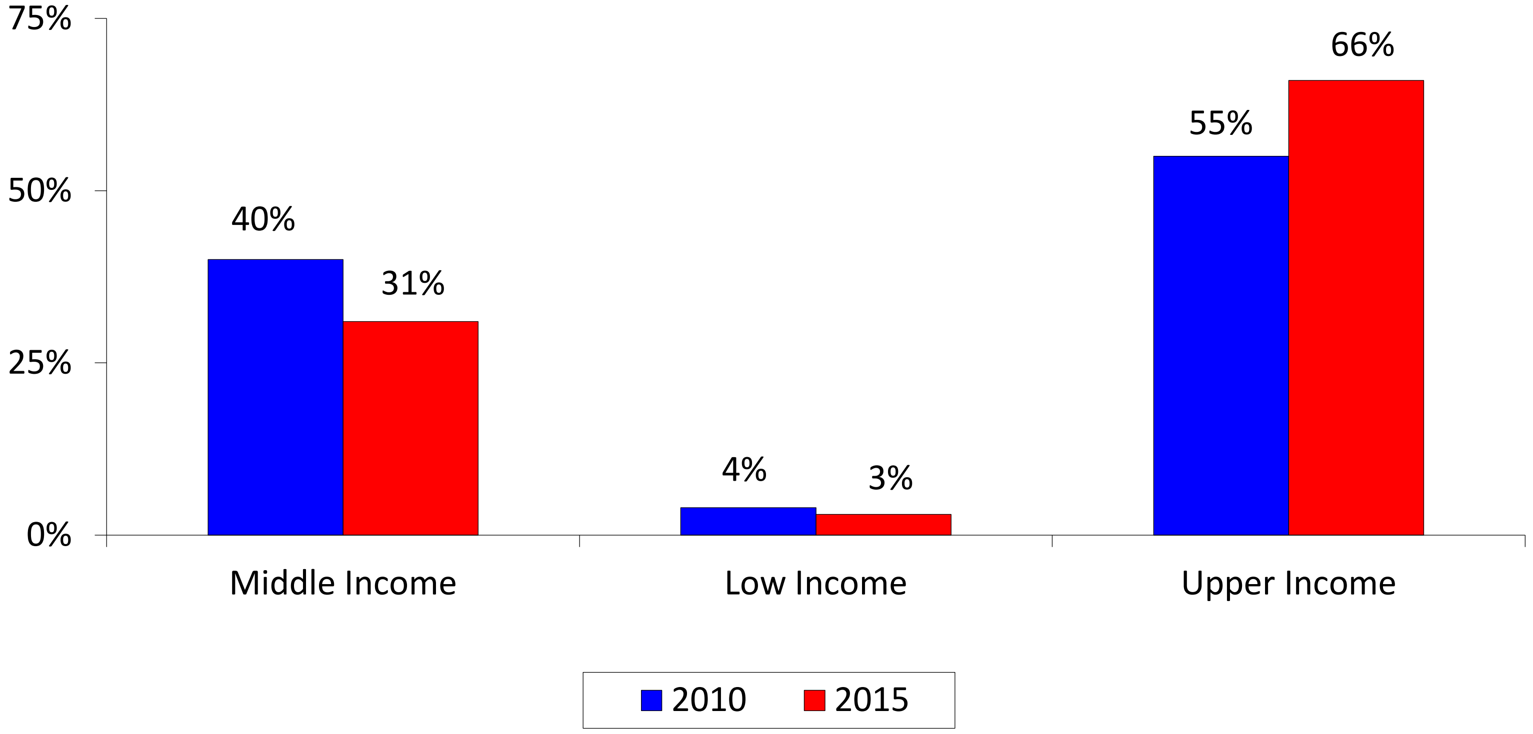
The share of LTC sales to the middle market age 40-69 is declining



Note: Low income <33% of income distribution; Middle income = 33% - 66%; Higher income = >66%

Source: LifePlans analysis of AHIP Buyer Data, 2011 and 2015 and Social Security Administration, Income of the Population Age 55 and Over 2010 and 2014.
https://www.ssa.gov/policy/docs/statcomps/income_pop55/2014/sect03.pdf

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Most LTC claimants are well served by companies when it comes to claims payments

- Data suggests that roughly 95% of all claims are paid.
- About four in five claimants (78%) found it easy to file a claim
- Greater than 90% felt policy benefits were meeting current care needs, were satisfied with the amount of coverage purchased, and 86% knew what their policy covered.
- Majority of claimants felt that in absence of policy they would have to go with less care (71%) and rely more on family (64%).
- About 90% of claimants felt their policy enabled them to receive higher quality care.

Source: DHHS, 2008 https://aspe.hhs.gov/basic-report/private-long-term-care-insurance-following-admission-cohort-over-28-months-track-claim-experience-service-use-and-transitions AHIP, 2016. https://www.ahip.org/wp-content/uploads/2016/09/LifefePlans_LTC_2016_9.19.16.pdf

RECENT CHALLENGES AND OPPORTUNITIES

Trends in factors affecting profitability have been very unfavorable throughout the decade

- Since 2000, all major determinants of premium and product profitability have been going in the wrong direction:
  - interest rates are significantly lower than what was priced for,
  - voluntary lapse rates are lower than for any other insurance product,
  - morbidity is somewhat worse than expected and
  - mortality is actually improving.
- For these reasons, the prior decade saw a major exodus of companies from the market, as returns on the product have been significantly below expectation.
- Only a dozen or so companies still in market compared to over 100 in the year 2000.

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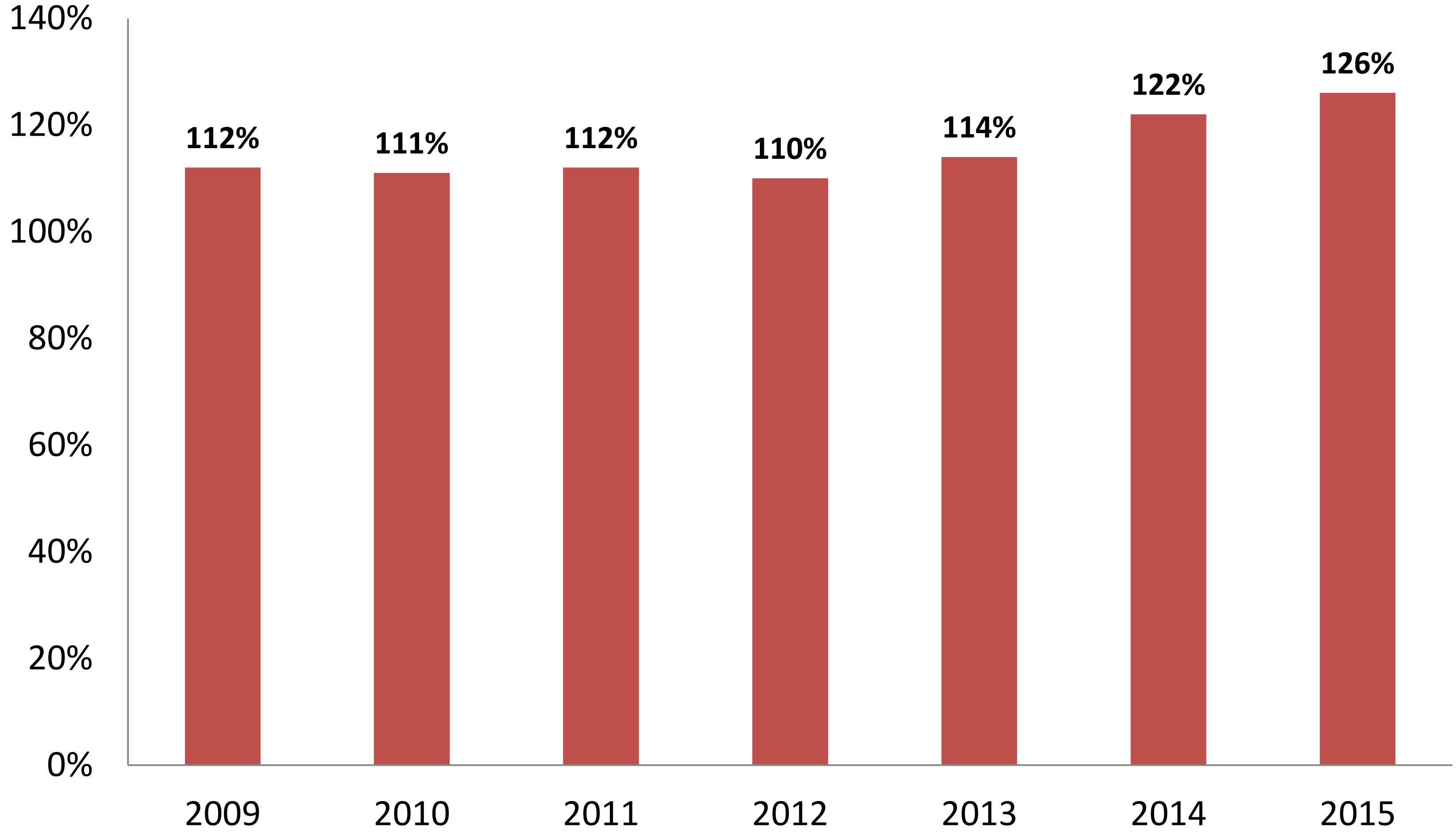
Claims experience is deteriorating in recent years: Industry Actual to Expected Annual Incurred Claims, 2009-2015



Source: NAIC Experience Reports, 2009-2015

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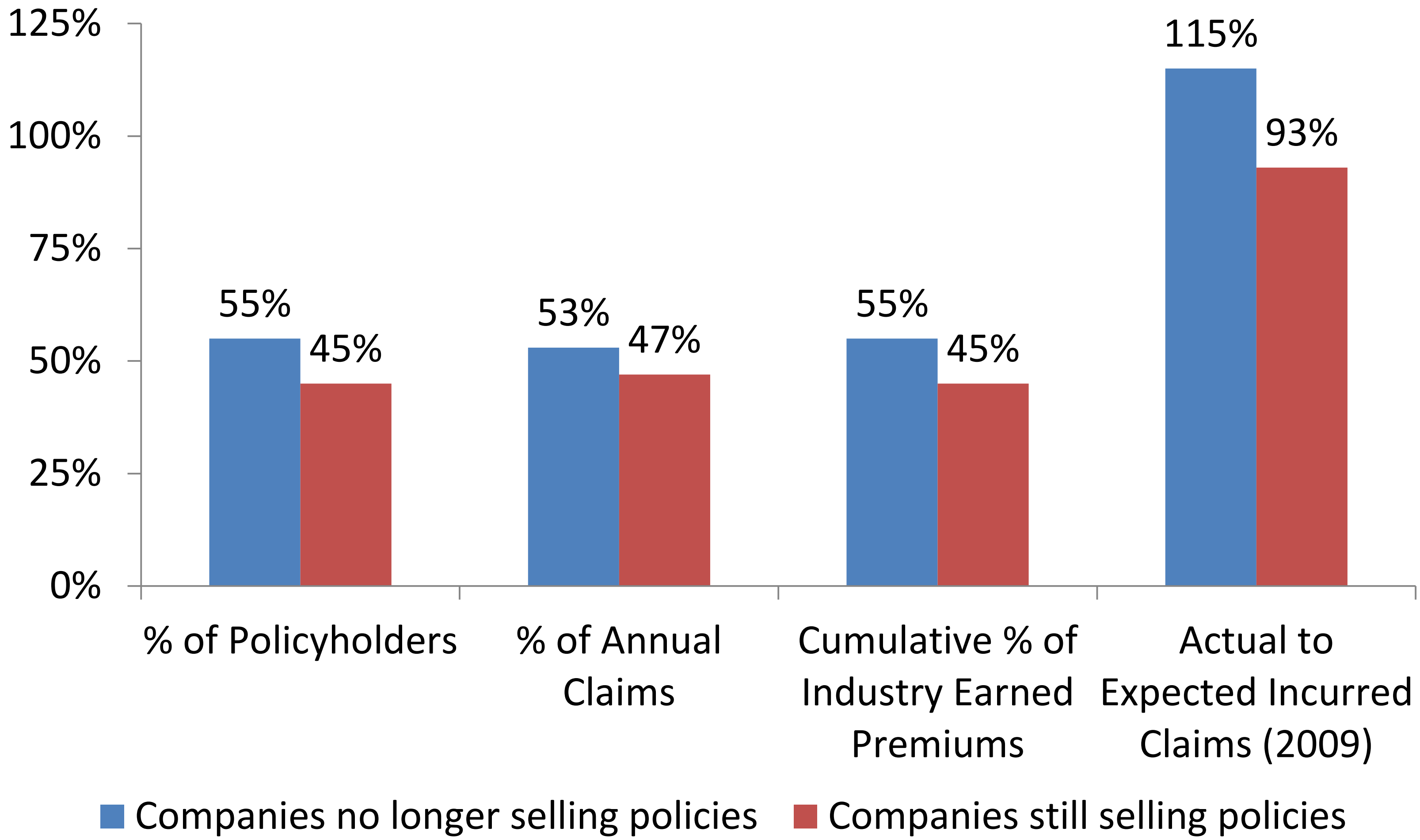
Most policies are administered by companies no longer in market and they have less favorable claims experience



Source: Analysis of 2009 and 2010 NAIC Experience Exhibit Reports

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Why the private market is limited in its reach: Demand and Supply Issues

Demand: Consumer

- Lack of information/shrouded attributes
- Misperceptions about need, costs, and coverage
- Myopia
- Consumer confusion/product complexity
- Mistrust of industry/contracts

Supply: Insurer

- Adverse selection
- High selling costs
- Inefficient risk-bearing: common shocks outside carrier control
- Uncertainty regarding regulatory approaches
- Distribution challenges

Source: Scan Foundation, 2013

Strategies to Increase role of private insurance

Lower Cost of Product	Change Tastes for Product	Induce Insurers back into the market
Product Design: • Simplify/standardize products • Index Premiums High deductible plans	Change in market design: • Product and distribution partnerships with public payers, providers, health plans (MA plans, disability, savings plans, provider networks, health insurers.)	Allow greater product funding-flexibility: • Move away from level funding • Variable benefit for fixed premium design • Continue to encourage combination products
Choice Architecture: • Expanded employer role • Active choice – opt outs • Mandate Availability	Educational campaign and warnings	Provide companies with more certainty around rate relief regulatory policy and “scheduled rate reviews”
Targeted subsidy	Explore public-private insurance partnerships for risks private carriers unwilling to assume (e.g. catastrophic tail risk for public)	Government organized or sponsored reinsurance to minimize risks outside of carrier control

Summary

- The challenge of LTSS financing will only grow in the years ahead
- Given the nature of this risk moving the system to a welfare-based impoverishment basis to an insurance-based approach is optimal
- The private market has heretofore greatly underperformed
- A combination of actions to influence demand and supply can encourage further growth in the market
- Regulators have a key role to play in inducing carriers back into the market and assuring a resurgent market as do state and federal policymakers who need to examine new models for financing care

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