



Long-term Care Insurance: A Product and Industry in Transition

Presented to

NAIC Senior Issues Task Force

by

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Presentation Topics

- ◆ Current overview of U.S. LTC Insurance Market
- ◆ Profile of Individuals Purchasing Policies
- ◆ Product Evolution
- ◆ Market exit among Carriers and Implications



Current LTC Insurance Industry Parameters

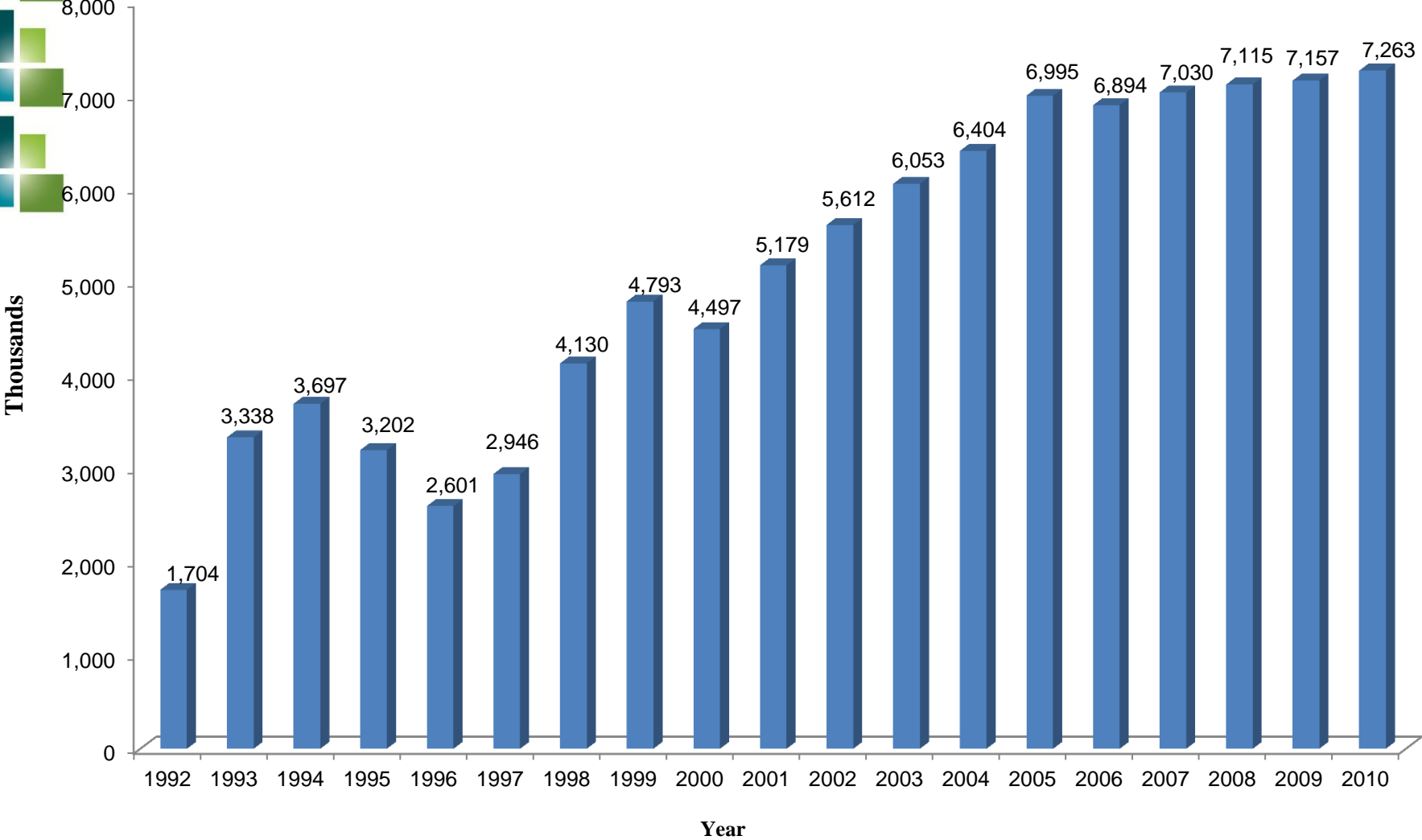
◆ Individual market

- Roughly 5-6 million individual policies in force.
- Total annualized in-force premium of over \$8 billion.
- Roughly one dozen companies still active in market
- Annual sales in 2010 were 65% lower than in 2000.
- Between 2009 and 2011 average annual growth was positive at 6%

◆ Group Market

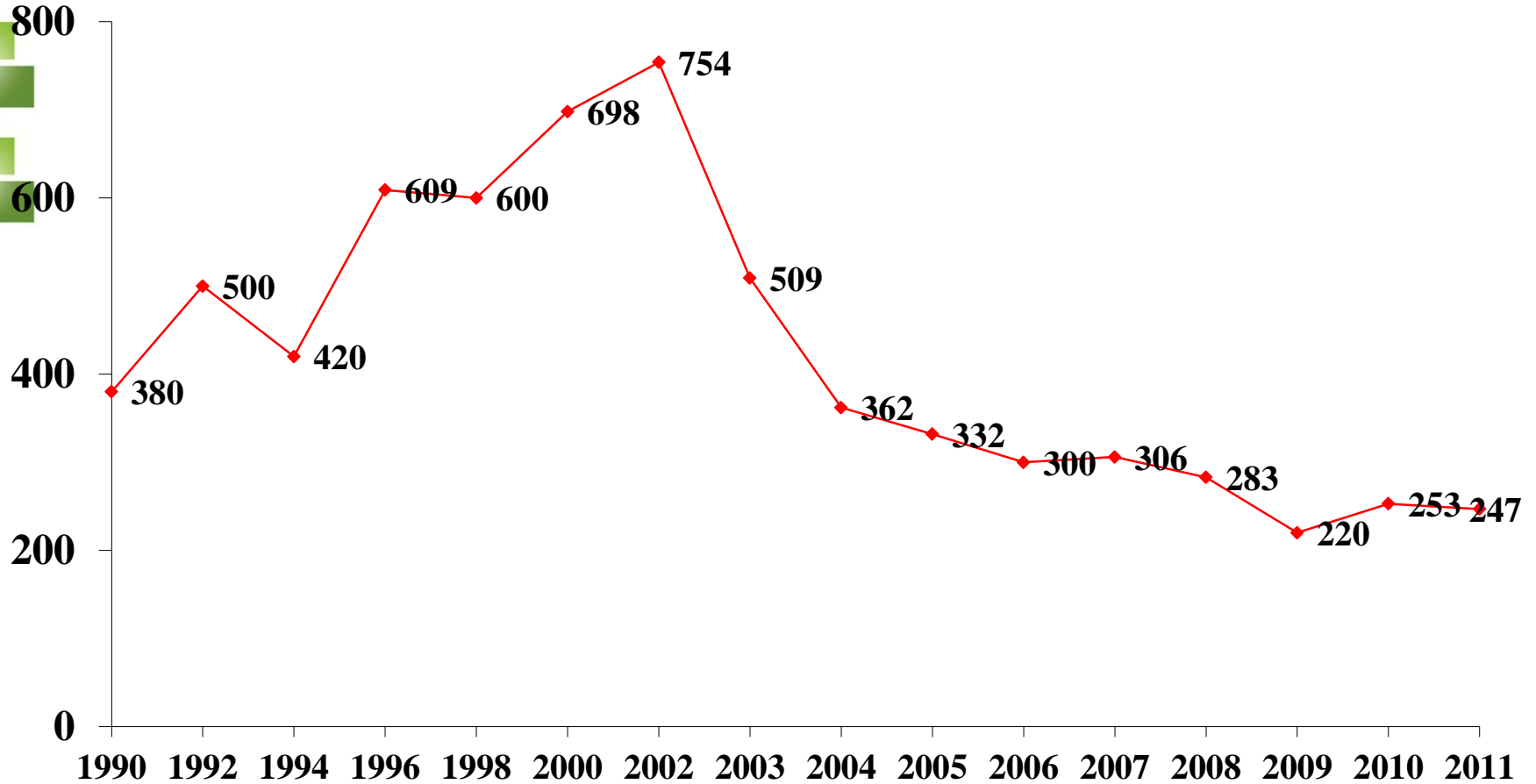
- Between 2.2 and 2.6 million certificates in force.
- Total premium of greater than \$2.0 billion.
- Compound annual sales growth rate between 2005 and 2010 is +5%
- Slightly more than 11,000 employer groups sponsoring coverage
- Less than 8 insurers actively selling in the group market

Number of Insured Lives has been relatively flat since 2005



Source: NAIC, 2011

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



Note: LifePlans analysis based on AHIP, LIMRA and LifePlans sales surveys, 2011.




Growing proportion of sales is in the Group Market

- ◆ Group market represents a growing share of sales:
 - In 2000: 75% Individual market 25% Group Market
 - In 2010: 58% Individual market 42% Group Market
- ◆ Concentration in both markets: Top 10 carriers in individual market and top 5 in group market: 95% of sales
- ◆ Market penetration less than 10% of total population
 - 16% of the age 65+ with incomes > \$20,000 have policies.



CHARACTERISTICS OF PRODUCTS AND PURCHASERS

Great deal of product change over last 20 years

- 
- ◆ Began as nursing home insurance in 1980s but now reimburses the costs of care in community and institutional settings:
 - Nursing home
 - Assisted Living
 - Home and community-based care

 - ◆ Access to a bank of benefits
 - Typically to reimburse the costs of services
 - Standard benefit triggers based on functional and cognitive status

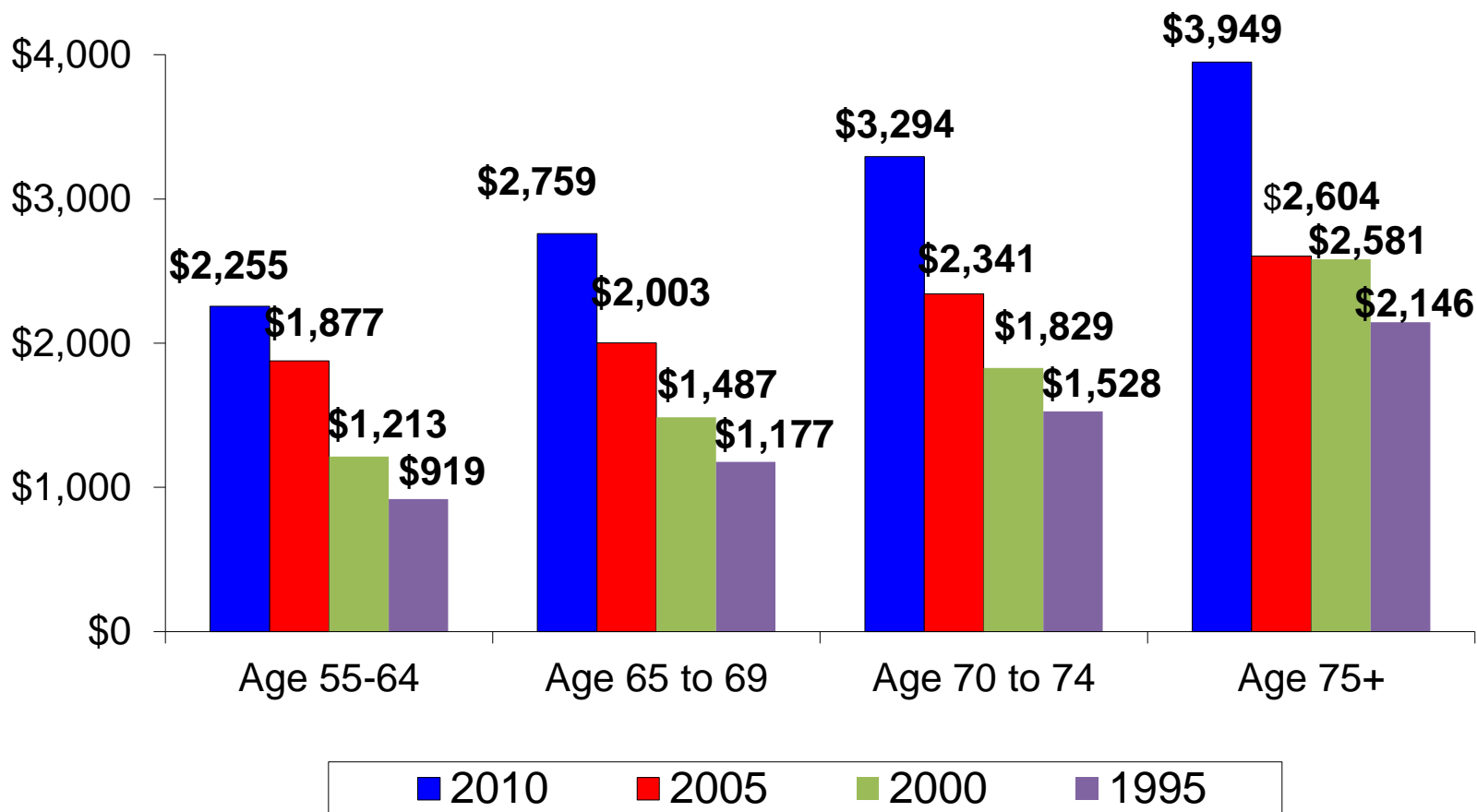
 - ◆ Care management provided to help at claim time.

 - ◆ Average premiums differ by market:
 - Individual Market: about \$189 per month (average age 59)
 - Group Market: about \$ 57 per month (average age 46)

Policies are becoming more comprehensive, greater benefits, and average premiums are increasing

Policy Characteristics	Average for 2010	Average for 2005	Average for 2000	Average for 1995	Average for 1990
Policy Type					
Nursing Home Only	2%	3%	14%	33%	63%
Nursing Home & Home Care	92%	90%	77%	61%	37%
Home Care Only	6%	7%	9%	6%	---
Daily Benefit Amount for NH Care	\$154	\$142	\$109	\$85	\$72
Daily Benefit Amount for Home Care	\$153	\$135	\$106	\$78	\$36
Nursing Home Only Elimination Period	86 days	80 days	65 days	59 days	20 days
Integrated Policy Elimination Period	89 days	81 days	47 days	46 days	-----
Nursing Home Benefit Duration	4.8 years	5.4 years	5.5 years	5.1 years	5.6 years
Percent Choosing Inflation Protection	92%	76%	41%	33%	40%
Annual Premium	\$2,268	\$1,918	\$1,677	\$1,505	\$1,071

Across all ages premiums are rising, but largest increase is at younger ages



Premium Increase: 1995-2010: age 55-64: 145%; age 65-69: 134%; age 70-74: 115%; age 75+: 84%

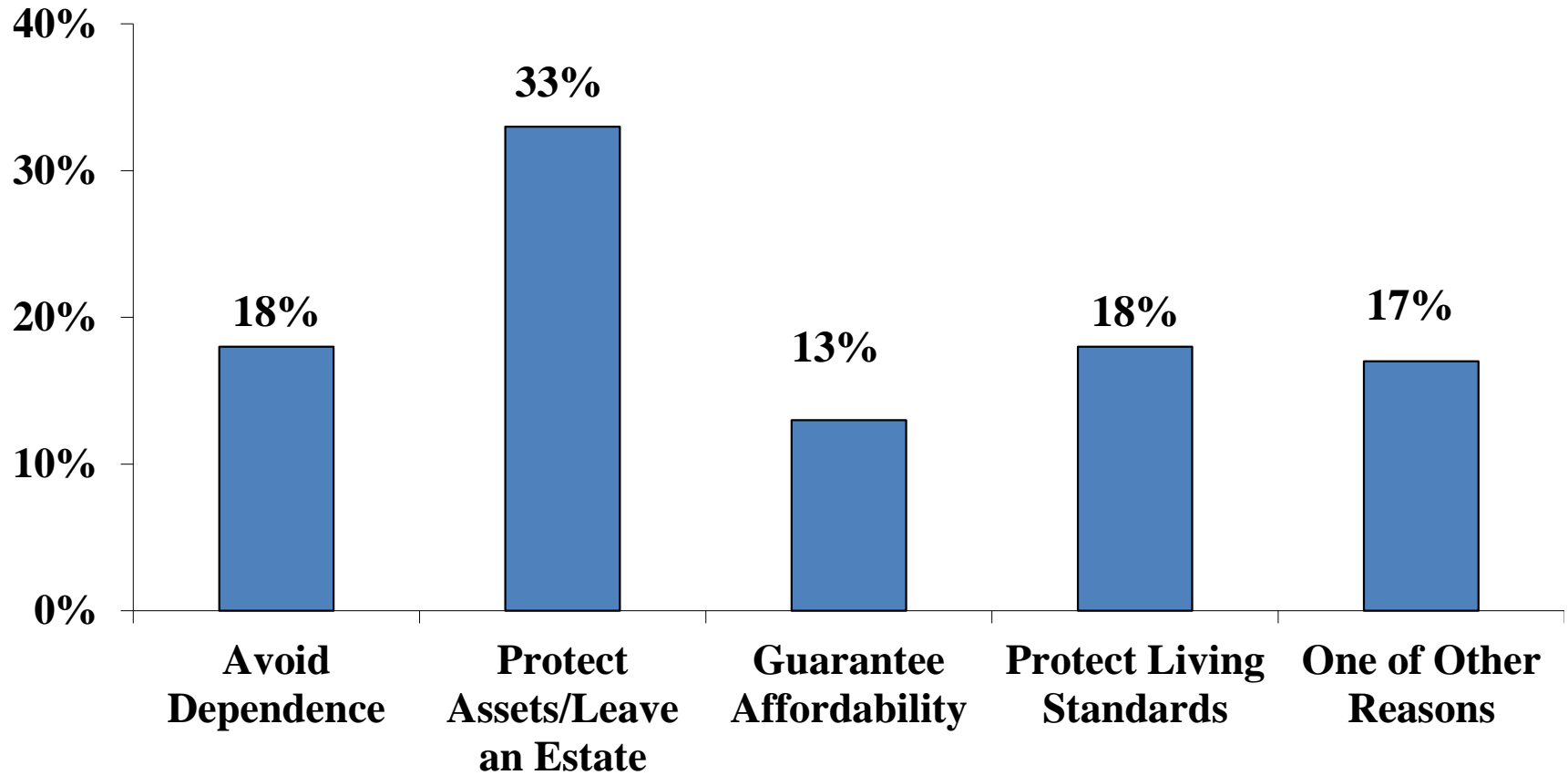
Source: AHIP, 2011

Younger, wealthier and employed individuals are buying policies

Characteristic	2010	2005	2000	1995	1990
Average Age	59 years	61 years	65 years	69 years	68 years
% > 70	8%	16%	40%	49%	42%
% Married	69%	73%	70%	62%	68%
Median Income	\$87,500	\$62,500	\$42,500	\$30,000	\$27,000
% > \$50,000	77%	71%	42%	20%	21%
Median Assets	\$325,000	\$275,000	\$225,000	\$87,500	N.A.
% > \$75,000	82%	83%	77%	49%	53%
% College Educated	71%	61%	47%	36%	33%
% Employed	69%	71%	35%	23%	N.A.

Source: AHIP, 2011

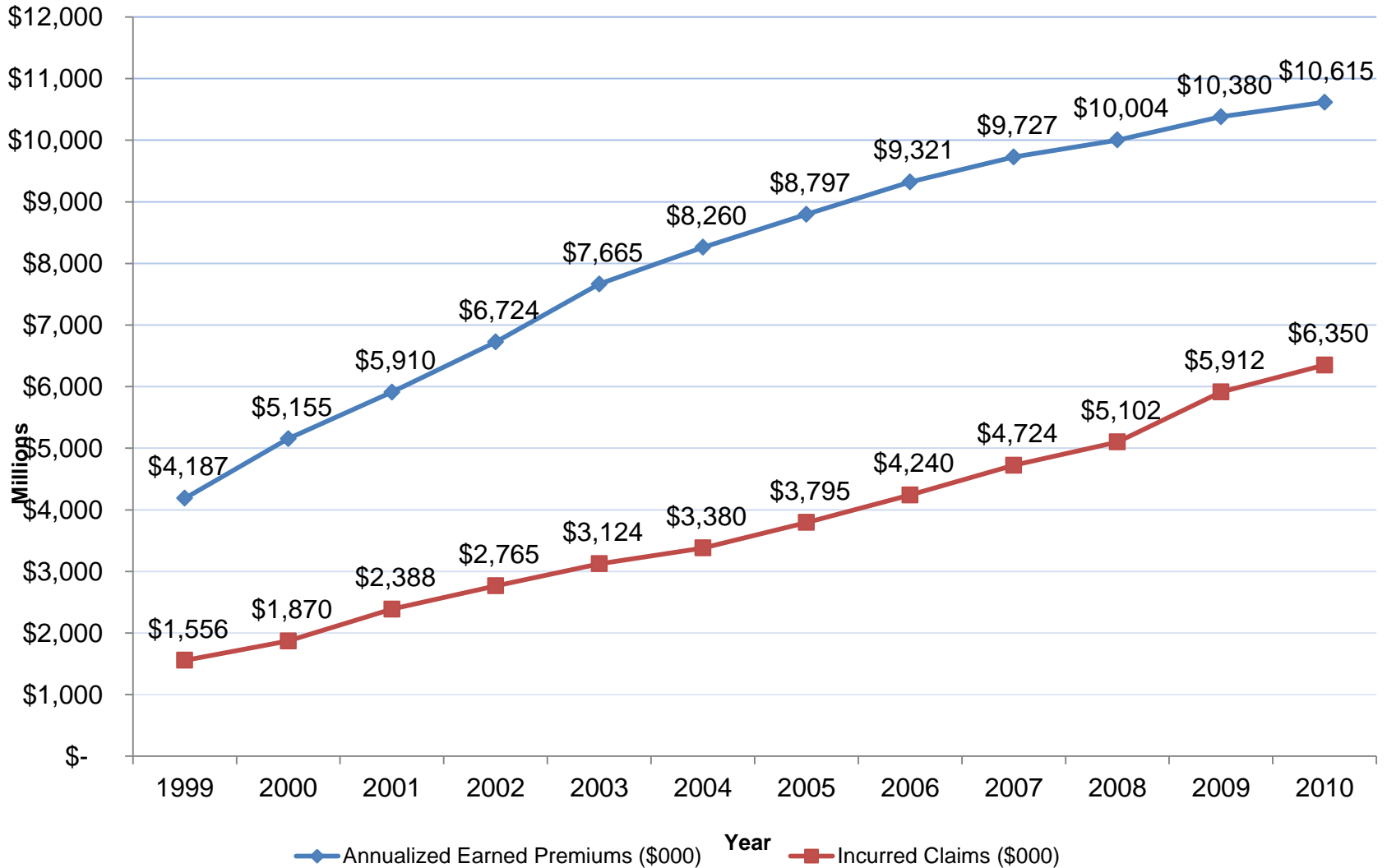
Most people buy policies to maintain lifestyle and consumption and not just to protect assets (2010)



Source: AHIP, 2011



Incurred claims are growing more quickly than annualized premium as the policyholder base ages and sales of new policies decline



Source: NAIC, 2011



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

- ◆ More than \$35 billion paid in claims and now >\$4 billion per year
- ◆ Data suggests that roughly 95% of all claims are paid.
- ◆ Of people receiving claims payments, 94% had no disagreement with the insurer and 3% had a disagreement that was resolved satisfactorily.
- ◆ Vast majority of claimants indicate that policy benefits met their care needs; 90% felt their policy provided flexibility in service choice.
- ◆ The insurance covers a significant percentage of the daily costs of care -- (between 72% and 98%).
- ◆ Half of claimants felt that in the absence of their policy, they would have to seek institutional care or would not be able to afford service levels.
- ◆ Most people have no disagreement with their company at claim time (94%), and the majority (77%) of do not find it difficult to file a claim (77%) .



RECENT TRENDS:

SIGNIFICANT MARKET EXIT

AMONG MAJOR CARRIERS

Study of Market Exit



◆ Purpose

- To understand what are the primary reasons why companies who actively marketed LTC insurance policies ceased selling such policies
- How has the industry changed over the last 15 to 20 years in terms of key aggregate market characteristics and performance indicators

◆ Method

- Data from the National Association of Insurance Commissioners (NAIC) Long-Term Care Experience Reports for 2000, 2009 and 2010
 - Sizing the market
 - Key industry performance variables
- Development and administration of a survey to key executives in 26 companies

◆ Support

- Funded in part by the Assistant Secretary of Planning and Evaluation Office of Aging, Disability and Long-Term Care, Department of Health and Human Services
- In-kind support from the Society of Actuaries

**Roughly a dozen companies are still selling a meaningful numbers of policies;
in 2002, AHIP reported 102 companies selling policies**

Currently Selling

Genworth Life Insurance Company/ Genworth Life Insurance Company of NY

John Hancock (Individual Policies)

Bankers Life & Casualty Company
Transamerica Life Insurance Company

State Farm Mutual Auto Insurance Company

New York Life Insurance Company

Northwestern Long Term Care Insurance Company

Mutual of Omaha Insurance Company

Massachusetts Mutual Life Insurance Company

Medamerica Insurance Company/ Medamerica Insurance Company of NY

Knights of Columbus

Thrivent Financial For Lutherans

Closed Blocks

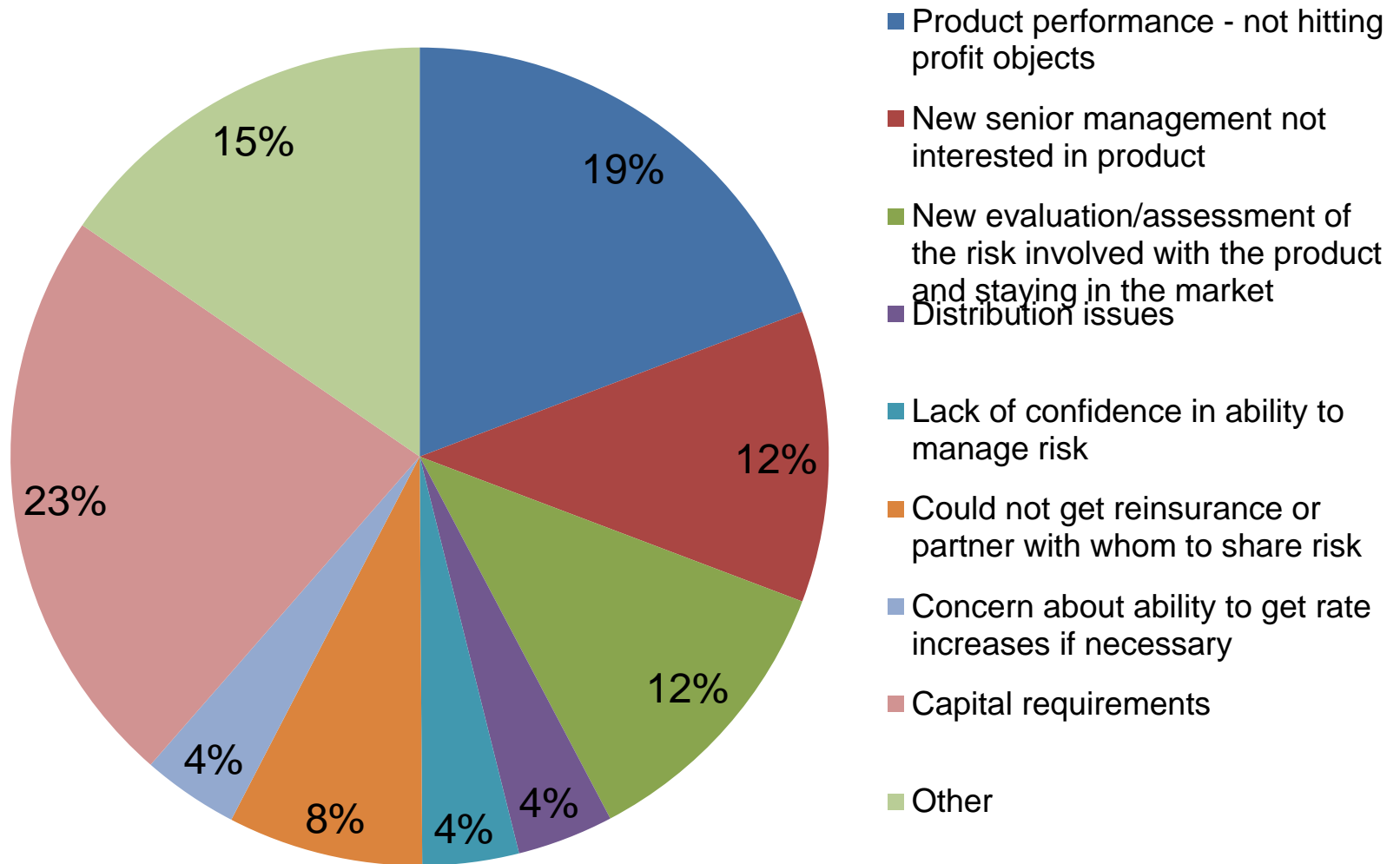
Unum Life Insurance Company of America
First Unum Life Insurance Company
Metropolitan Life Insurance Company
John Hancock Group
Metlife Insurance Company of CT
Continental Casualty Company
Prudential Insurance Company of America
RiverSource Life Insurance Company
Allianz Life Insurance Company of North America
Senior Health Insurance Company of PA
Penn Treaty
Aetna Life Insurance Company
Lincoln Benefit Life Company
Union Security Insurance Company
Time Insurance Company
Ability Insurance Company
United Teacher Assoc Insurance Company
American Family Life Assurance Company of Colorado
Monumental Life Insurance Company
Kanawha Insurance Company
CUNA Mutual Insurance Society
Physicians Mutual Insurance Company
Provident Life & Accident Insurance Company
WEA Insurance Corp
Guarantee Trust Life Insurance Company
Southern Farm Bureau Life Insurance Company
WEA Insurance group is still marketing a small number of Partnership policies.

The inability to hit profit objectives, concern about rate relief and high capital requirements have driven companies from the market

Selected Reasons	Percent	Responses
Product performance - not hitting profit objectives	69%	18
Concern about ability to get rate increases if necessary	62%	16
Capital requirements	54%	14
Reputation risk	23%	6
Distribution issues	23%	6
New regulatory requirements	19%	5
Unfavorable public policy	4%	1

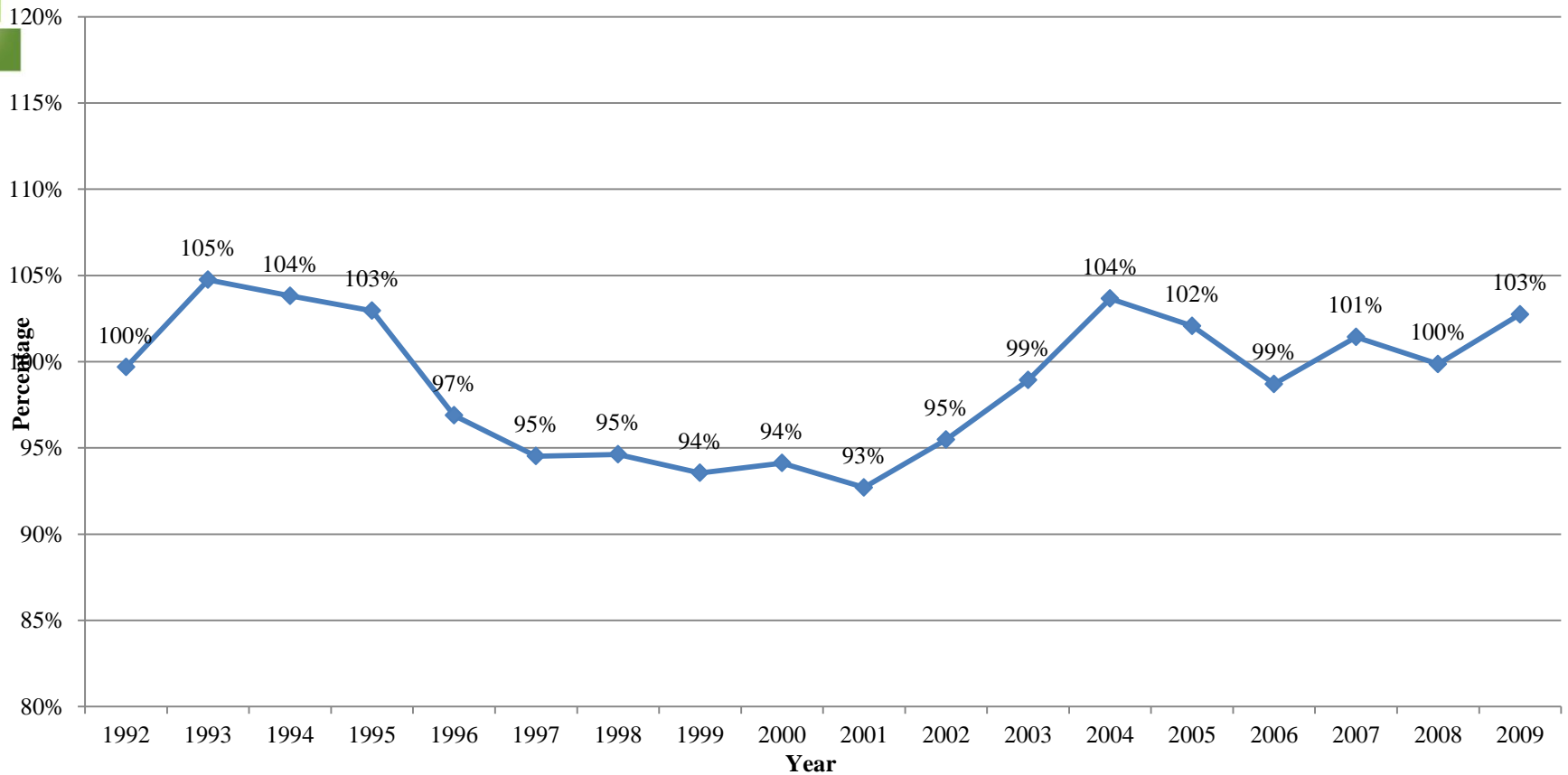
Note: Table does not include all reasons given.

Single most Important Reason that the Company left the Market: Capital Requirements

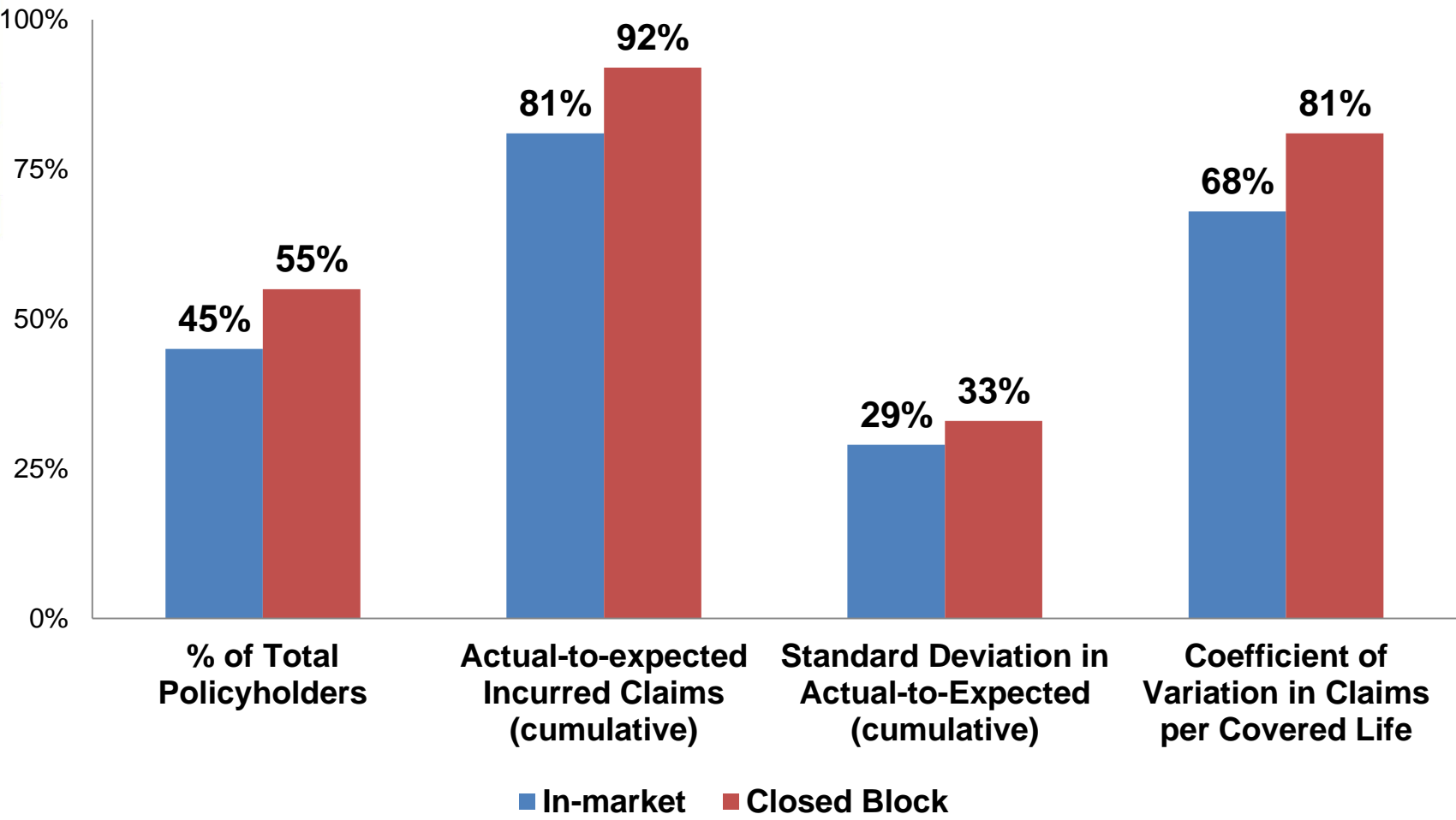
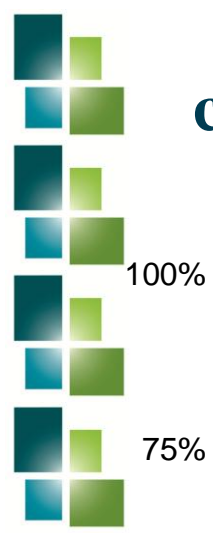


Recent performance in the market also deteriorated somewhat: In four of the last six years the actual-to-expected loss experience has been over 100%

Individual Year Cumulative Countrywide Experience Actual Losses to Expected Losses

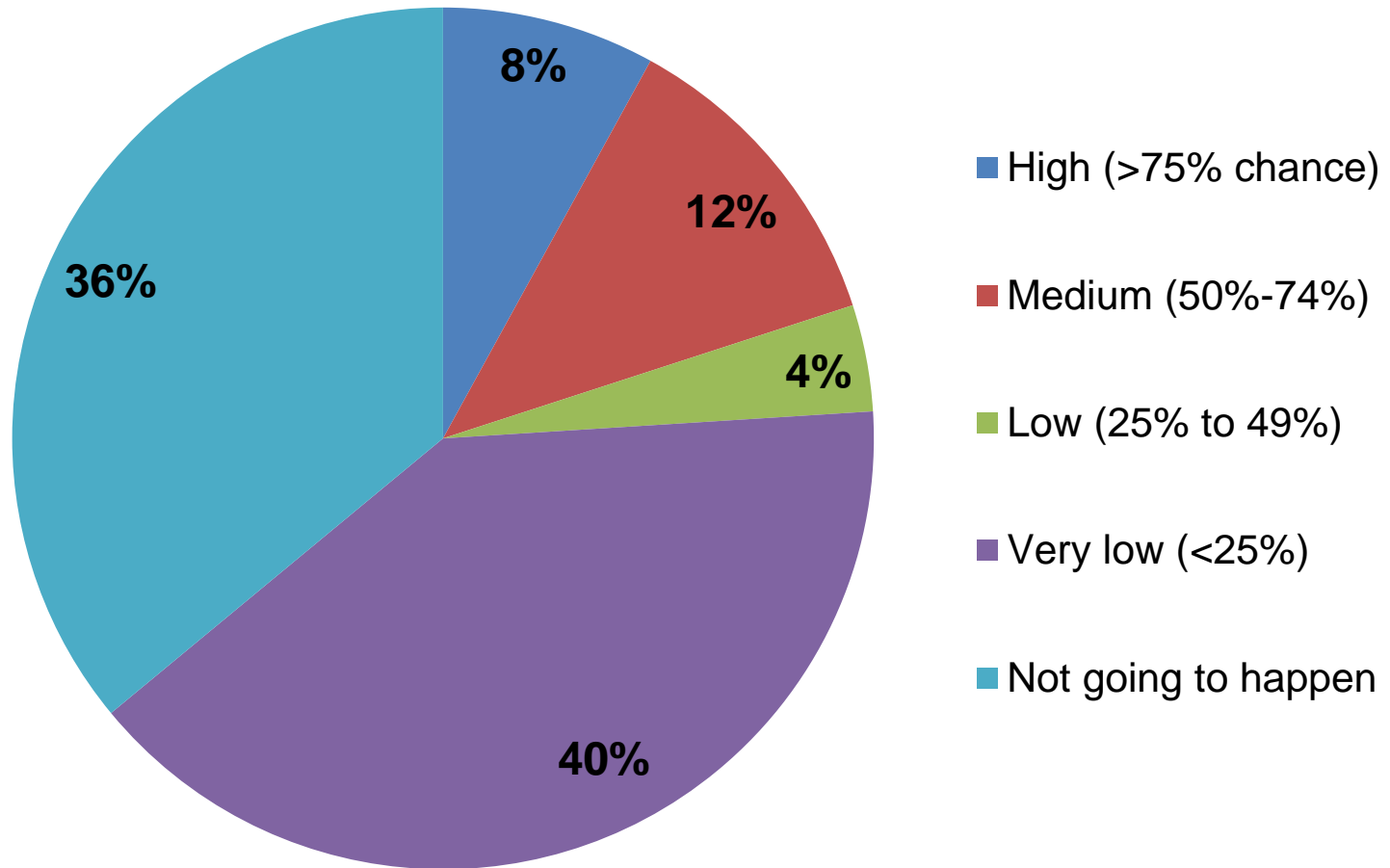


Performance of companies who have exited and have closed blocks is less favorable than those still in market

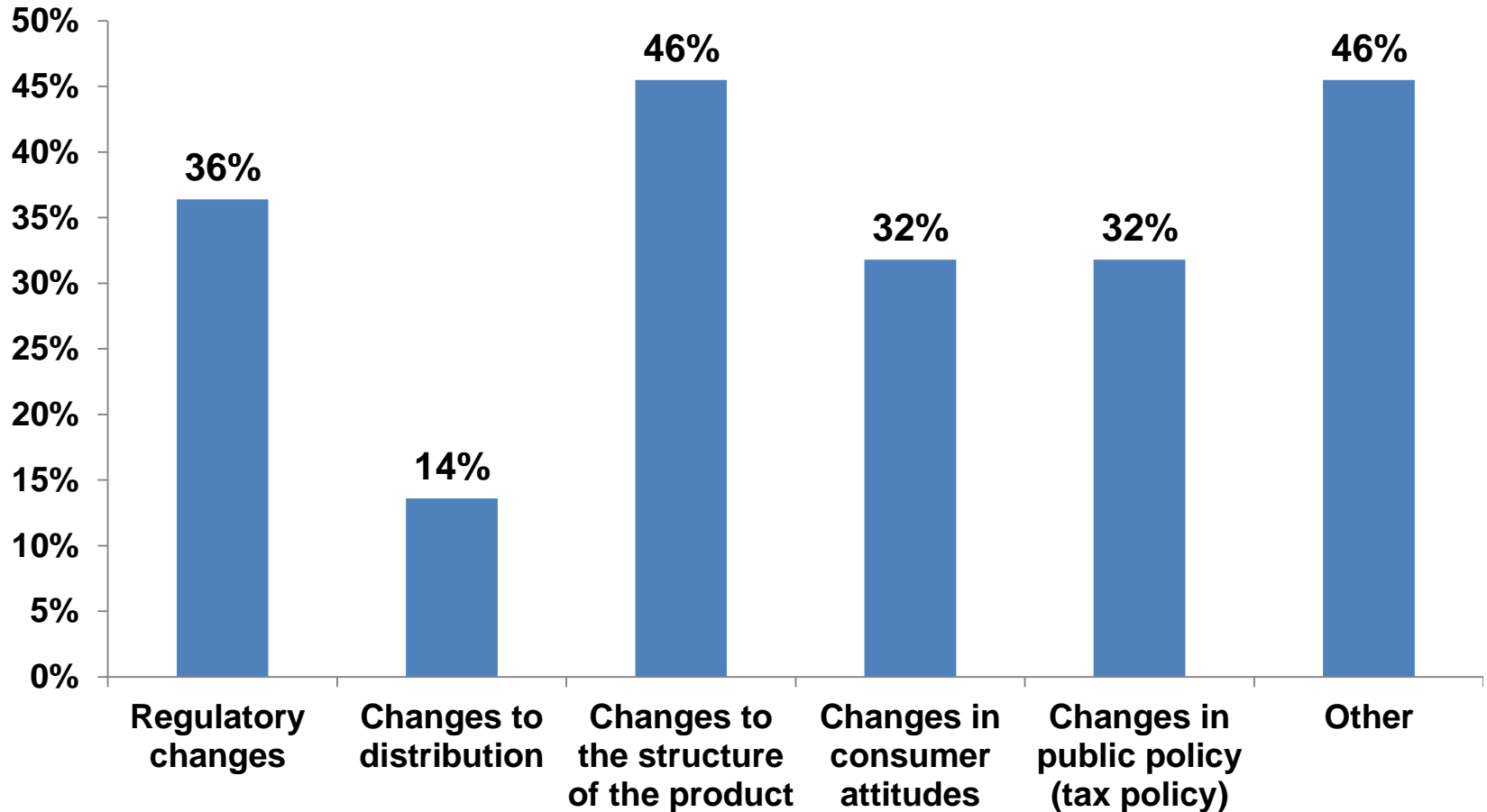


Source: LifePlans Analysis of NAIC Experience Reports, 2011

Most companies indicate they are very unlikely to return to the market



Circumstances under which Company would consider re-entering Market



Selected Factors Potentially Influencing the Decision to Reenter the Market

Selected Changes	Definitely	Maybe	No
Ability to file multiple sets of new-business premium rates the use of which is automatically determined by an external interest-rate index.	4%	32%	60%
The ability to file multiple sets of new-business premium rates the use of which is automatically determined by an external interest-rate index for new-business premium rates <u>and</u> in-force premium rates.	4%	36%	56%
Allowing stand-alone LTC and/or combination-products to be funded with pre-tax dollars.	8%	25%	62%
Being able to offer other combination products (for example, disability income with LTC, or critical illness with LTC rather than just life and annuity combination products.	4%	28%	68%
Being able to offer a Universal LTC policy design so that like Universal Life, it would allow for premium flexibility, interest crediting, cash values, age and/or duration adjusted insurance charges (current and guaranteed) for LTC, and surrender charges.	8%	20%	64%

Note: Only listed are those changes that received >25% response of “Maybe” or “Definitely” *LifePlans* 24



Conclusions

- ◆ By all measures private market is not meeting initial expectations
- ◆ Public policy and regulatory approaches should be designed to help the industry “Re-set”:
 - Lower the cost of policies,
 - Allow greater product funding-flexibility,
 - Support new forms of combination-products,
 - Encourage strategies that help to minimize risks outside of the control of companies to “de-risk “to lower capital requirements
- ◆ Important to provide companies with more certainty around rate relief regulatory policy
- ◆ Large number of policyholders in “closed blocks” poses challenges to carriers, consumers and regulators.