

CIPR Program:

The State of Long-Term Care Insurance

As a fundamental concern of the NAIC is ensuring that policyholders receive the benefit of their insurance policies when they need it, addressing issues surrounding the market stability of long-term care insurance (LTCI) is a key priority of the organization for 2019 and moving forward. The goal of this Center for Insurance Policy and Research (CIPR) educational program is to examine the LTCI market challenges along with the work of individual state insurance regulators, the NAIC, and industry in addressing these issues. This will be accomplished through three distinct but integrated panel discussions.

Here we provide some brief background material on each of our three panels.

Panel 1: The Current State of the LTCI Market¹

What is LTCI?

LTCI is one important option for financing the non-medical long-term services and supports (LTSS) associated with taking care of yourself later in life.² LTCI coverage supplements, but it is not included in, traditional insurance policies and incorporates numerous LTSS alternatives. These services and supports include home health care; respite care; hospice care; personal care in the home; and services provided in assisted living facilities, adult day care centers, and other community facilities. Policies generally pay benefits when the insured is unable to perform two activities of daily living (e.g., bathing, dressing or eating). Once this defined benefit trigger is met, qualified services are covered up to a daily maximum benefit amount. Outside of private LTCI coverage, the majority of LTSS would be paid through either one's personal savings or public insurance programs, such as Medicaid or Medicare, which also cover certain long-term care (LTC) services.³

LTCI is important for two key reasons:

1. Given longer-expected lifespans and other socio-demographic changes occurring within the U.S. society, LTSS are becoming more necessary.
2. The costs of care are rising.

The U.S. population is aging quickly. By 2030, all of the baby boomers will have reached retirement age, doubling the number of Americans who need LTC to an estimated 27 million by 2050. In the U.S., 10,000 people turn 65 every day. Increasingly, people are living into their 80s and 90s. This aging population needs increasing amounts of LTC services,⁴ and these services are expensive. In 2017, the average nursing home cost was about \$97,452 per year, more than double the annual income of many middle-class seniors.⁵ A one-bedroom unit in assisted living costs about \$45,000 a year, while a year of adult day services costs roughly \$18,200. Elders and their families pay more than half of these costs out of pocket.

Although LTC may have originally been conceptualized as skilled nursing care, services have changed. An increased emphasis on keeping older adults in their own homes means that home care now comprises as much as 60% of costs.⁶ Technology innovations are helping people stay at home. However, providing home health care extracts a personal cost from caregivers, including their own decreased ability to save for future care. Further, families are increasingly geographically dispersed, making "cheap" caregivers less available.

Unfortunately, few Americans have saved enough money to pay for outside help during their retirement. The average retiree aged 65–74 only has about \$95,000 in assets and \$81,000 in home equity.

People think that Medicaid and Medicare will cover their LTC, but: ⁷

- To qualify for Medicaid help paying for LTC, a consumer must spend almost all of their assets.
- Medicaid was designed to help the poor, not substitute for middle class retirement saving.
- The large number of aging people will strain the Medicaid system, perhaps to the breaking point.
- Medicaid care choices are extremely limited, and the quality is lower than private options.
- Medicare Advantage provides only modest home- and community-based benefits.

Thus, a viable insurance product is needed to help offset these necessary and increasing costs.

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Furthermore, LTCI has been shown to have value, providing a more cost-effective way to pay for LTC services than relying on personal savings. For example, to pay for the same amount of services covered by insurance, costing \$188 a month, a 60-year-old person would have to have put aside \$1,666 per month for 22 years. Compared to those without LTCI, insured people reduce their out-of-pocket LTC costs by between \$3,000 and \$5,000 a month, depending on the service setting.⁸

Unfortunately, the traditional LTCI market has issues⁹

The LTCI market has evolved significantly since its introduction in the 1960s. In the past decade, the market has grown from covering less than three million lives to now covering more than seven million lives. And policies are issued such that premiums are age rated with premiums intended to be maintained at the same level over the life of the policy. Despite a growing need, stand-alone individual LTCI policies have fallen from 372,000 in 2004 to just under 70,000 in 2017. This dynamic translates into fewer new policies supporting an increasing cost of care from existing policies. Additionally, for the new policies being issued, there is an upward pressure to increase premiums, which of course further constricts the demand. Likewise, the number of insurers offering the coverage has diminished from slightly over 100 to about a dozen today. Less than half of a percent of employers offer LTCI. With relatively less competition, remaining carriers have refined their pricing with less incentive to keep new premiums low, and it can also restrict product offerings. These combined factors result in premium rates for newly issued policies having risen dramatically. Between 1990 and 2015, average annual premium rates rose from \$1,071 to \$2,772,¹⁰ though vast rate inconsistency exists among the states.

Panel 2: New Innovations in LTCI

Due to the challenges facing the traditional LTCI industry, an innovative transformation is taking place. This includes the development of new products that are more affordable and flexible to meet the coverage needs of consumers, as well as LTC financing policies developed in partnership among insurance industry stakeholders, along with state and federal agencies.

For data from 2015, nearly twice as many hybrid products were sold than the traditional LTCI product, with carriers entering the market instead of leaving it.

Hybrid LTCI products¹¹

Hybrid LTCI products are offered with many forms of premium structures, but many are funded through a single premium, which eliminates the risk of future premium increases but requires considerable liquid assets to pay the premium. Hybrids give the consumer the option to receive benefit dollars for necessary LTC services and, to the extent not used for LTC benefits, as death benefits or withdrawal/surrender benefits. Life/annuity LTC hybrid products may be either reimbursement or indemnity products. Consumers can also purchase life/annuity products with a “chronic illness” benefit feature, which provides the acceleration of death benefits or other benefit enhancements. These products may provide a consumer with important benefits, but they do not provide bona fide LTCI benefits.

Single Premium Permanent Life Insurance Policies

A single premium permanent (whole or universal) life insurance policy is often sold with an LTC acceleration rider and an LTC extension rider. The acceleration rider will allow the policyowner to access the death benefit, typically in level monthly amounts over a 20- to 50-month period, in order to pay for qualified LTC services. The extension rider can continue such payments for a set period after the acceleration rider has exhausted the death benefit. The life insurance-LTC hybrid products available today generally have more stringent underwriting requirements than annuity-LTC hybrids; and as a result, they may offer greater LTC benefits per dollar of premium compared to annuity-LTC hybrids.

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Annuity-LTC Hybrids

A single premium deferred annuity allows penalty-free withdrawals from the account value (i.e., the accumulation of premiums plus interest, net of expense charges, and cash withdrawals) for qualified LTCS. As with life insurance hybrids, claim payments continue after the exhaustion of the account value if the consumer has purchased an extension rider. This type of product generally has less stringent underwriting requirements than the life insurance-LTC hybrid and, as a result, may not offer quite as much LTC value per dollar of premium compared to life-LTC hybrids.

Impaired-Risk Payout Annuities

Impaired-risk (substandard, as determined by medical underwriting) single-premium immediate annuities (SPIAs) have long been available, primarily for the retirement income market. The impaired-risk product could be of particular interest to an individual who retired early owing to disability, where higher periodic income payments can be anticipated in comparison to a standard-risk SPIA. However, the larger market segment appears to be directed toward achieving tax-efficient wealth transfer goals.

Life Settlements

Seniors may use life settlements, the sale of an in-force life insurance policy for a market-based settlement value in excess of the cash surrender value—i.e., the account value less any surrender charge—to generate resources to pay for their LTC needs. Some elder care providers and professional advisors recommend that their clients consider using life settlement proceeds to fund an account with a bank and trust company to make monthly payments directly to a designated LTC provider. Upon death, in addition to a modest reserve to defray final expenses, any remaining balance in the account is paid to a designated beneficiary.

In addition to product innovations, other innovations are being developed to address more private financing options.

Federal policy options

The NAIC's recently disbanded Long-Term Care Innovations (B) Subgroup released a draft of potential federal policy changes that could help address some of the issues with private LTCI.¹² These options include:

- 1) Permit retirement plan participants to make a distribution from 401(k), 403(b), or Individual Retirement Account (IRA) to purchase LTCI with no early withdrawal tax penalty.
- 2) Allow creation of LTC savings accounts, similar to Health Savings Accounts (HSAs) and/or enhance the use of HSAs for LTC expenses and premiums.
- 3) Remove the Health Insurance Portability and Accountability Act (HIPAA) requirement to offer 5% compound inflation with LTCI policies and remove the requirement that Division of Regulatory Affairs (DRA) Partnership policies include inflation protection and allow the states to determine the percentage of inflation protection.
- 4) Allow flexible premium structures and/or cash value beyond return of premium (HIPAA and DRA).
- 5) Allow products that combine LTC coverage with various insurance products (including products that “morph” into LTCI).
- 6) Support innovation by improving alignment between federal law and NAIC models (HIPAA and DRA).
- 7) Create a more appropriate regulatory environment for group LTCI and worksite coverage (HIPAA and DRA).
- 8) Establish more generous federal tax incentives.
- 9) Explore adding a home care benefit to Medicare or Medicare Supplements and/or Medicare Advantage plans.
- 10) Federal education campaign around retirement security and the importance of planning for potential LTC needs.

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Federal Interagency Task Force on LTCI¹³

The Federal Interagency Task Force on Long-Term Care Insurance (FITF) was convened by the U.S. Department of the Treasury (Treasury Department) following the Treasury Department's October 2017 Report on Asset Management and Insurance, which identified the challenges of financing LTC as a matter of national interest, requiring a coordinated response from the federal government. The FITF was directed to develop policies at the federal level to complement reforms at the state level relating to the regulation of LTCI. The FITF was also directed to coordinate with state insurance regulators and the NAIC. To date, the FITF has reviewed proposals to reform federal laws and regulations relating to regulation of LTCI, including federal policy options presented to the U.S. Congress (Congress) by the NAIC in April 2017.

Panel 3: LTCI Regulatory Initiatives

In LTCI markets, insurers and state insurance regulators have been challenged by unknowns. Longevity and persistency actuarial assumptions on early LTCI products have been proven inaccurate.¹⁴

What happened?

- Insurers underestimated how long people would live. When actuarial longevity estimates were wrong, insurers raised rates.
- Actuaries assumed more people would drop their coverage, but lapse rates have been extremely low.¹⁵
- Length of claims is increasing, in part because people with cognitive memory disorders, such as Alzheimer's disease, can live a very long time but require extensive care.

Regulatory initiatives

State insurance regulators are working to enact protections related to changes in product design and facilitate innovative product offerings. They are also working to respond cohesively to historical problems related to insurer reserve adequacy and solvency.¹⁶

NAIC groups working on regulatory initiatives

Recognizing the gravity of the threat posed by the current LTCI environment, both to consumers and our state-based system of insurance regulation, the NAIC has designated LTCI as one of its top priorities for 2019. As such, a new working group was formed and several longstanding NAIC working groups have been asked to study and provide guidance on the issue based on their expertise.

The Long-Term Care Insurance (EX) Task Force, formed in 2019, has been asked to:

- 1) Develop a consistent national approach for reviewing LTCI rates that result in actuarially appropriate increases being granted by the states and eliminate cross-state rate subsidization.
- 2) Identify options to provide consumers choices regarding modifications to LTCI contract benefits where policies are no longer affordable due to rate increases.
- 3) Deliver the proposal to the Executive (EX) Committee by the 2020 Fall National Meeting.
- 4) Report to the Long-Term Care Insurance (E/B) Task Force to ensure coordination between the two task forces.

The Long-Term Care Insurance (E/B) Task Force aims to:

- 1) Evaluate the sufficiency of actuarial valuation standards.
- 2) Evaluate the sufficiency of current financial reporting.
- 3) Assess regulatory considerations on rate increase requests on blocks of business to identify common elements for achieving greater transparency and predictability.
- 4) Consider product innovations and potential state and federal solutions for stabilizing the LTCI market.

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The Senior Issues (B) Task Force looks broadly at changes in the LTCI market and developed documents:

- 1) A list of federal policy changes that Congress could consider in order to increase private LTC financing consumer options.
- 2) A list of private market options for financing LTC services to provide state insurance regulators, consumers, and others.
- 3) Updates to the NAIC's A Shopper's Guide to Long-Term Care Insurance.

The Long-Term Care Valuation (B) Subgroup developed Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51)

Adopted in 2017, AG 51 clarifies requirements for the calculation of LTCI reserves. Ongoing losses, typically driven by adverse reserve development and possible solvency impairments to blocks of LTCI policies have been concerning state insurance regulators. AG 51 was a regulatory response to regulatory concerns regarding the lack of specificity and uniform practice in the LTCI reserve adequacy tests. For more information, see the NAIC's CIPR website.¹⁷

CIPR Research

LTCI will continue to be a priority within the NAIC for the foreseeable future. Accordingly, CIPR will conduct further research to build on the existing knowledge base.^{18,19} Visit <https://naic.org/cipr> for more information about the topics in this panel discussion and stay up to date on the latest reports.



¹ https://www.naic.org/documents/cipr_current_study_160519_ltc_insurance.pdf?12

² <https://longtermcare.acl.gov/costs-how-to-pay/what-is-long-term-care-insurance/>

³ https://content.naic.org/cipr_topics/topic_long_term_care_insurance.htm

⁴ <https://www.aarp.org/ppi/info-2018/disrupting-the-marketplace-the-state-of-private-long-term-care.html>

⁵ <https://bidenforum.org/americans-are-aging-lets-make-sure-we-can-afford-it-8e3c9fde3baf>

⁶ https://www.naic.org/meetings1904/be_ltc_tf.pdf

⁷ https://www.naic.org/documents/cmte_e_miwg_related_state_of_ltc_industry.pdf

⁸ The Benefits of Long-Term Care Insurance and What They Mean for Long-Term Care Financing <https://www.ahip.org/the-benefits-of-long-term-care-insurance-and-what-they-mean-for-long-term-care-financing>

⁹ https://content.naic.org/cipr_topics/topic_long_term_care_insurance.htm

¹⁰ https://content.naic.org/sites/default/files/inline-files/cipr_current_study_160519_ltc_insurance.pdf

¹¹ https://content.naic.org/sites/default/files/inline-files/cmte_b_senior_issues_related_privatemkt_options_ltc_svc_0.pdf_

¹² https://www.naic.org/meetings1904/be_ltc_tf.pdf

¹³ <https://home.treasury.gov/policy-issues/economic-policy/economic-policy-reports-and-notice/federal-interagency-task-force-on-long-term-care-insurance>

¹⁴ https://content.naic.org/cipr_topics/topic_long_term_care_insurance.htm

¹⁵ <https://www.aarp.org/ppi/info-2018/disrupting-the-marketplace-the-state-of-private-long-term-care.html>

¹⁶ https://content.naic.org/cipr_topics/topic_long_term_care_insurance.htm

¹⁷ https://content.naic.org/cipr_topics/topic_long_term_care_insurance.htm

¹⁸ https://www.naic.org/documents/cipr_current_study_160519_ltc_insurance.pdf?12

¹⁹ https://naic.org/cipr_newsletter_archive/vol20_ltc_pricing.pdf