



#ACTUARIES2019

© 2019 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Long-Term Care



Panel

Vincent Bodnar, Partner, Oliver Wyman

Michael Faulkender, Asst. Sec. for Economic Policy, Treasury

Bruce Saul, Sr. Regulatory Analyst, Federal Insurance Office

Bruce Stahl, Chair, Academy LTC Reform Subcommittee

Moderator

Al Schmitz, Chair, Academy LTC /Disability Subcommittee

Agenda

- Industry and National Association of Insurance Commissioners' (NAIC's) LTC Innovation (B) Subgroup Perspective
- Treasury Task Force and Federal Perspective
- Academy Perspective

Industry and National Association of Insurance Commissioners' (NAIC's) LTC Innovation (B) Subgroup Perspective



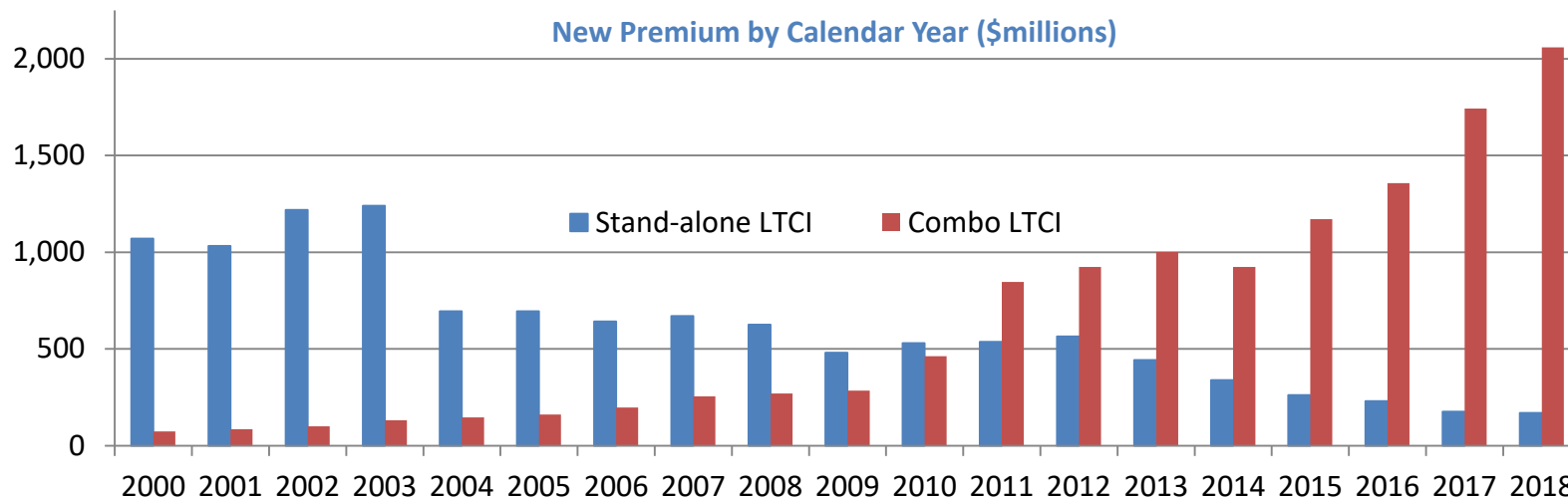
State of the LTC insurance industry

- 6.5 million people are currently covered by stand-alone LTC policies:¹
- This number is declining each year as new sales are not enough to replace the number of lapses and deaths of covered lives¹
- Top 3 reasons people don't purchase LTC insurance:²
 - Costs too much (81%)
 - Might not cover the services I need in the future (55%)
 - Might have premium rate increases in the future (54%)
- Top 3 factors that would make non-buyers more interested:²
 - If I could deduct premiums from income tax (91%)
 - If I were certain that premiums would not increase in the future (86%)
 - If the government paid for my care after I used up the benefits (81%)

¹NAIC Long Term Care Experience Reporting Form 1, as of December 31, 2018

²Who Buys Long Term Care Insurance?, AHIP, January 2017

Stand-alone vs. combo LTCI sales



- Sales for these two product segments have moved in opposite directions since 2000
 - 57,000 stand-alone policies sold in 2018, compared to 404,000 combo policies
 - Stand-alone sales decreased due to premium rate increases and carrier exits
- Note: Premiums for single premium combo products are divided by 10 here; unadjusted sales for 2018 were \$4.3 billion

Sources: 2001-2014 *Broker World Surveys* and LIMRA's *LTC and Individual Life Combo Products Annual Reviews*

NAIC's LTC Innovation (B) Subgroup

Federal policy changes raised by various stakeholders

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 use of HSAs for LTC expenses and premiums
3. Remove the HIPAA requirement to offer 5% compound inflation with LTCI policies and remove the requirement that 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
5. Allow products that combine LTC coverage with various insurance products (including products that “morph” into LTCI)

NAIC's LTC Innovation (B) Subgroup (cont.)

Federal policy changes raised by various stakeholders

6. Support innovation by improving alignment between federal law and NAIC models
7. Create a more appropriate regulatory environment for Group LTCI and worksite coverage (HIPAA and DRA)
8. Establish more generous federal tax incentives (e.g., full deduction of premiums, permit as a cafeteria plan, allow deduction for shorter benefit duration products)
9. Explore adding a home care benefit to Medicare or Medicare Supplement and/or Medicare Advantage plans
10. Federal education campaign around retirement security and the importance of planning for potential LTC needs

Treasury Task Force and Federal Perspective



Academy Perspective



Essential Criteria for Long-Term Care Financing Reform Proposals

- Level of Coverage and Attributes
- Comprehensiveness of Benefits
- Quality of Care
- Understandability and Choice
- Affordability
- Risk Management and Cost Control
- Financial Soundness and Sustainability

Evaluating the criteria for specific reform proposals will often rely on three activities

- Adequate education of the consumer
- Awareness of any alignment or misalignment between the interests of consumers in the program and the interests of those financing the program, and
- Sensitivity testing (testing the impact of alternative assumptions).

Four members of the committee presented comments to the Interagency Task Force

- Regulatory hurdles seem to be a deterrent to innovation
- Discussion of inflation options in LTCI policies (emphasis on NAIC Option 3)
- Discussion on combination products (NAIC Option 5)

Questions

For more information

- American Academy of Actuaries
 - Subcommittee Members Comment to Federal Interagency Task Force on LTCI
 - https://www.actuary.org/sites/default/files/2019-08/Academy_Comments_Federal_LTCI_Task_Force_083019.pdf
 - Essential Criteria for Long-Term Care Financing Reform Proposals
 - https://www.actuary.org/sites/default/files/files/publications/Essential_Criteria_for_Long-Term_Care_Financing_Reform_Proposals_112916.pdf
- Other resources
 - Federal Insurance Office; Annual Report on the Insurance Industry
 - https://www.treasury.gov/initiatives/fio/reports-and-notice/2019_FIO_Annual_Report.pdf