LONG-TERM CARE INSURANCE – HOW BIG OF A RISK

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Chairperson, LTC/DI Committee
American Academy of Actuaries
Agenda

- Sales and Premium Increase Data
- Understanding Premium Rate Increases
- Essential Criteria in LTC Reform
LTC Insurance Sales
(Stand-alone market)

New Annual Premium Issued ($ Millions)

Source: 2008 – 2017 Broker World Surveys
Carrier Ranking by 2016 Annualized Premium ($ Millions)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Carrier</th>
<th>2016 Sales</th>
<th>2015 Sales</th>
<th>2014 Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Northwestern</td>
<td>$56.2</td>
<td>$61.8</td>
<td>$57.2</td>
</tr>
<tr>
<td>2</td>
<td>Mutual of Omaha</td>
<td>$43.0</td>
<td>$39.1</td>
<td>$31.1</td>
</tr>
<tr>
<td>3</td>
<td>New York Life</td>
<td>$18.7</td>
<td>$16.2</td>
<td>$15.2</td>
</tr>
<tr>
<td>4</td>
<td>LifeSecure</td>
<td>$16.7</td>
<td>$9.5</td>
<td>$11.1</td>
</tr>
<tr>
<td>5</td>
<td>Transamerica</td>
<td>$16.5</td>
<td>$24.7</td>
<td>$15.5</td>
</tr>
<tr>
<td>6</td>
<td>John Hancock</td>
<td>$15.8</td>
<td>$21.9</td>
<td>$32.3</td>
</tr>
<tr>
<td>7</td>
<td>Genworth</td>
<td>$12.1</td>
<td>$33.0</td>
<td>$89.6</td>
</tr>
<tr>
<td>8</td>
<td>Thrivent</td>
<td>$11.5</td>
<td>$9.7</td>
<td>$9.6</td>
</tr>
<tr>
<td>9</td>
<td>MassMutual</td>
<td>$11.1</td>
<td>$11.3</td>
<td>$10.2</td>
</tr>
<tr>
<td>10</td>
<td>Bankers Life &amp; Casualty</td>
<td>$5.0</td>
<td>$7.0</td>
<td>$11.5</td>
</tr>
<tr>
<td></td>
<td>Total Industry</td>
<td>$220.5</td>
<td>$258.0</td>
<td>$317.0</td>
</tr>
</tbody>
</table>

Source: 2017 Broker World Survey
Premium Rates Trends
- 90 Day Elimination / Three-Year Benefit Period
- $100/day, Single Insured*

Source: 2004 – 2017 Broker World Surveys
*2017 premium weighted 60% Female / 40% Male
Premium Rates Trends
- 90 Day Elimination / Three-Year Benefit Period
- $100/day, Male & Female Couple the Same Age

Source: 2004 – 2017 Broker World Surveys
Individual Long-Term Care Solutions

- Sales for 2016 are estimated at over 340,000 new lives for the LTC solutions market. Life combination products account for the majority of new lives covered.

LIMRA 2016 report
## Summary of Historical Rate Increase Filings

### Nationwide Rate Increase Filings

<table>
<thead>
<tr>
<th>Year Requested</th>
<th>Number of Approved Increases</th>
<th>Number of Disapproved Increases</th>
<th>Number of Pending Increases</th>
<th>Number of Unknown Status</th>
<th>Average Increase Requested</th>
<th>Average Increase Approved</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>4,106</td>
<td>27</td>
<td>0</td>
<td>79</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>2008</td>
<td>2,910</td>
<td>46</td>
<td>0</td>
<td>91</td>
<td>26%</td>
<td>21%</td>
</tr>
<tr>
<td>2009</td>
<td>4,034</td>
<td>190</td>
<td>0</td>
<td>62</td>
<td>28%</td>
<td>21%</td>
</tr>
<tr>
<td>2010</td>
<td>4,465</td>
<td>94</td>
<td>0</td>
<td>295</td>
<td>27%</td>
<td>23%</td>
</tr>
<tr>
<td>2011</td>
<td>3,178</td>
<td>186</td>
<td>13</td>
<td>172</td>
<td>26%</td>
<td>19%</td>
</tr>
<tr>
<td>2012</td>
<td>3,322</td>
<td>193</td>
<td>5</td>
<td>221</td>
<td>42%</td>
<td>26%</td>
</tr>
<tr>
<td>2013</td>
<td>2,789</td>
<td>100</td>
<td>12</td>
<td>293</td>
<td>38%</td>
<td>25%</td>
</tr>
<tr>
<td>2014</td>
<td>2,786</td>
<td>68</td>
<td>121</td>
<td>445</td>
<td>56%</td>
<td>32%</td>
</tr>
<tr>
<td>2015</td>
<td>3,501</td>
<td>191</td>
<td>177</td>
<td>621</td>
<td>39%</td>
<td>22%</td>
</tr>
<tr>
<td>2016</td>
<td>1,256</td>
<td>27</td>
<td>401</td>
<td>828</td>
<td>46%</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>32,978</td>
<td>1,127</td>
<td>729</td>
<td>3,119</td>
<td>34%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: [https://www.insurance.ca.gov/01-consumers/105-type/95-guides/05-health/01-ltc/](https://www.insurance.ca.gov/01-consumers/105-type/95-guides/05-health/01-ltc/)
## Summary of Requested and Approved Rate Increases 2007-2012

### Nationwide Rate Increase Filings - 2007 - 2012

<table>
<thead>
<tr>
<th>Requested Range</th>
<th>Number of Requested Rate Increases</th>
<th>Number of Approved Rate Increases</th>
<th>Average Rate Increase Requested</th>
<th>Average Rate Increase Approved</th>
<th>Percent Approved</th>
<th>Distribution of Requested Rate Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10%</td>
<td>1,235</td>
<td>1,175</td>
<td>8%</td>
<td>8%</td>
<td>95%</td>
<td>5%</td>
</tr>
<tr>
<td>10.1-20%</td>
<td>6,777</td>
<td>6,522</td>
<td>17%</td>
<td>16%</td>
<td>96%</td>
<td>29%</td>
</tr>
<tr>
<td>20.1-30%</td>
<td>8,771</td>
<td>8,084</td>
<td>25%</td>
<td>21%</td>
<td>92%</td>
<td>37%</td>
</tr>
<tr>
<td>30.1-40%</td>
<td>3,823</td>
<td>3,408</td>
<td>38%</td>
<td>26%</td>
<td>89%</td>
<td>16%</td>
</tr>
<tr>
<td>40.1-50%</td>
<td>1,438</td>
<td>1,359</td>
<td>45%</td>
<td>33%</td>
<td>95%</td>
<td>6%</td>
</tr>
<tr>
<td>50.1-60%</td>
<td>524</td>
<td>480</td>
<td>56%</td>
<td>38%</td>
<td>92%</td>
<td>2%</td>
</tr>
<tr>
<td>60.1-70%</td>
<td>75</td>
<td>73</td>
<td>64%</td>
<td>31%</td>
<td>97%</td>
<td>0%</td>
</tr>
<tr>
<td>70.1-80%</td>
<td>646</td>
<td>580</td>
<td>76%</td>
<td>50%</td>
<td>90%</td>
<td>3%</td>
</tr>
<tr>
<td>80.1-90%</td>
<td>233</td>
<td>187</td>
<td>89%</td>
<td>49%</td>
<td>80%</td>
<td>1%</td>
</tr>
<tr>
<td>90.1-100%</td>
<td>34</td>
<td>34</td>
<td>95%</td>
<td>60%</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>&gt;100%</td>
<td>133</td>
<td>113</td>
<td>148%</td>
<td>38%</td>
<td>85%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23,689</strong></td>
<td><strong>22,015</strong></td>
<td><strong>29%</strong></td>
<td><strong>22%</strong></td>
<td><strong>93%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: https://www.insurance.ca.gov/01-consumers/105-type/95-guides/05-health/01-ltc/*
Summary of Requested and Approved Rate Increases
2013 - 2016

<table>
<thead>
<tr>
<th>Requested Range</th>
<th>Number of Requested Rate Increases</th>
<th>Number of Approved Rate Increases</th>
<th>Average Rate Increase Requested</th>
<th>Average Rate Increase Approved</th>
<th>Percent Approved</th>
<th>Distribution of Requested Rate Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10%</td>
<td>684</td>
<td>634</td>
<td>9%</td>
<td>9%</td>
<td>93%</td>
<td>5%</td>
</tr>
<tr>
<td>10.1-20%</td>
<td>3,504</td>
<td>2,869</td>
<td>17%</td>
<td>15%</td>
<td>82%</td>
<td>26%</td>
</tr>
<tr>
<td>20.1-30%</td>
<td>1,792</td>
<td>1,419</td>
<td>25%</td>
<td>20%</td>
<td>79%</td>
<td>13%</td>
</tr>
<tr>
<td>30.1-40%</td>
<td>1,712</td>
<td>1,277</td>
<td>36%</td>
<td>26%</td>
<td>75%</td>
<td>13%</td>
</tr>
<tr>
<td>40.1-50%</td>
<td>1,170</td>
<td>878</td>
<td>46%</td>
<td>27%</td>
<td>75%</td>
<td>9%</td>
</tr>
<tr>
<td>50.1-60%</td>
<td>1,846</td>
<td>1,285</td>
<td>57%</td>
<td>34%</td>
<td>70%</td>
<td>14%</td>
</tr>
<tr>
<td>60.1-70%</td>
<td>399</td>
<td>286</td>
<td>65%</td>
<td>27%</td>
<td>72%</td>
<td>3%</td>
</tr>
<tr>
<td>70.1-80%</td>
<td>811</td>
<td>502</td>
<td>76%</td>
<td>33%</td>
<td>62%</td>
<td>6%</td>
</tr>
<tr>
<td>80.1-90%</td>
<td>378</td>
<td>272</td>
<td>87%</td>
<td>36%</td>
<td>72%</td>
<td>3%</td>
</tr>
<tr>
<td>90.1-100%</td>
<td>776</td>
<td>616</td>
<td>98%</td>
<td>58%</td>
<td>79%</td>
<td>6%</td>
</tr>
<tr>
<td>&gt;100%</td>
<td>541</td>
<td>291</td>
<td>136%</td>
<td>68%</td>
<td>54%</td>
<td>4%</td>
</tr>
<tr>
<td>Total</td>
<td>13,616</td>
<td>10,332</td>
<td>44%</td>
<td>26%</td>
<td>76%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: https://www.insurance.ca.gov/01-consumers/105-type/95-guides/05-health/01-ltc/
Factors Affecting LTC Premium Rate Increases

- Projections 50 years into future
- Mortality
- Voluntary lapses
- Interest rates
- Morbidity
  - Incidence, length of claim (recoveries / deaths), cost of services

Uncertainty

- Service providers
- Medical practice
- Family composition
- Mortality or morbidity improvement
- Others

Source: American Academy of Actuaries, Issue Brief June 2016
Understanding Premium Rate Increases on Private LTCI

Differences Between Current and Past LTCI Policies

- New business pricing levels
- Risk of future rate increase lower for new policies
  - Lower downside of assumptions
  - More experience data
  - Increased margins for adverse experience

*Source: American Academy of Actuaries, Issue Brief June 2016*
Understanding Premium Rate Increases on Private LTCI

Determining the Need for LTC Rate Increases

- Policies sold under minimum loss ratio requirements vs. rate stability certifications
  - Loss ratio policies – rate increase if lifetime loss ratio exceeds greater of 60% or original priced for loss ratio
  - Rate stabilization – rate increase if past and projected experience exceeds original or previously approved moderately adverse margin (MAE), subject to 58/85 requirements and future MAE certifications

- Credibility of data
- Time period from sale of policy to claims is significant

Filing and Approval Process

- Different amounts and timing by state
- Larger rate increase impacts

Source: American Academy of Actuaries, Issue Brief June 2016
Essential Criteria for Long-Term Care Financing Proposals

- Why LTC Reform?
  - The need for LTC financing is on the rise as the baby boomer generation ages
  - Private LTC insurance only accounts for 5% of the LTC financial sources in America today
  - Financial burden will fall increasingly on individual income and assets and on the Medicaid system

Source: American Academy of Actuaries, Issue Brief, November 2016
Essential Criteria to Consider in Long-Term Care Reform

- Coverage
  - Number of people enrolled with coverage
  - Subsets have varying needs and ability to afford
  - System type: largest driver of level / make-up of coverage
  - Design elements to address mix by population attributes

- Comprehensiveness of Benefits
  - Location of care
  - Eligibility of care
  - Level of care
  - Limits of total coverage

Source: American Academy of Actuaries, Issue Brief, November 2016
Essential Criteria to Consider in Long-Term Care Reform

- Understandability and Choice
  - Must balance ease of understanding with flexibility
  - Recognize that needs of individuals / families vary widely
  - Simpler reform designs?
  - Complex reform designs?
  - Education
  - Controls
  - Consumer options

Source: American Academy of Actuaries, Issue Brief, November 2016
Essential Criteria to Consider in Long-Term Care Reform

- **Affordability**
  - Individual vs. family unit purchaser
  - Working years vs. retirement
  - Taxes and other expenditures
  - Guarantees / limits
  - Program required payment structure
  - Perceived value of coverage

- **Quality of Care**
  - Quality measurement and assessment framework
  - Quality incentives
  - Quality awareness

*Source: American Academy of Actuaries, Issue Brief, November 2016*
Essential Criteria to Consider in Long-Term Care Reform

- **Cost Control and Risk Management**
  - A risk evaluation system should be developed prior to program implementation.
  - Cost controls should be established that allow for alignment of interests of all stakeholders.
  - Performance of the program should be evaluated based on the predefined criteria, and cost controls should be modified as needed.

*Source: American Academy of Actuaries, Issue Brief, November 2016*
7. Financial Soundness / Sustainability

- Can consumers be confident that the program will indeed deliver what was promised?
- Is the program too complex or too simplistic?
- Does the financial program make appropriate use of the funds invested?
- Can the designers ensure that the program interacts well with existing private insurance and public programs?

Source: American Academy of Actuaries, Issue Brief, November 2016
Reform Discussions

- Bipartisan Policy Center
- Center for Long-Term Care Reform
- Leading Age
- Long-Term Care Financing Collaborative
- Mercatus Center George Mason University
- MN Department of Human Services
- National Association of Life Underwriters
- National Association of Insurance Commissioners
- Scan Foundation
- Society of Actuaries
- WA State