



SOCIETY OF ACTUARIES

**Health Pricing Boot Camp
August 10- 11, 2009**

**Session 1a: Long-Term Care—
History and Major Participants**

[James M. Glickman, FSA](#)

HEALTH PRICING AND VALUATION BOOTCAMP

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Session 1a Long-Term Care History and Major Participants

Jim Glickman



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A Brief History of Long Term Care Insurance

- 1970s – Emergence of Nursing Home Care
- 1980s – Standalone Policies / Custodial Care
- 1989 to 1992 – NAIC Standards / Home Health Care
- 1993 to 1996 – Clinton Health Care / Pool of Money
- 1997 to 2001 – HIPAA Legislation Standardizes LTCi
- 2002 to 2006 – Rate Stabilization Paradigm Shift
- 2007 to 2009 – Inforce Rates Increased Industrywide



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1970s

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Emergence of Nursing Home Care

- Medicare includes a limited LTCi Benefit that pays the Skilled Nursing Benefit for 20 days plus all but the coinsurance (133.50/day-current level) for the next 80 days after a qualifying 3-day prior Hospital Stay
- MedSupp policies cover that 133.50 deductible
- MedSupp carriers added a rider that extended the 100 days to 6 months (covering the extra cost)
- Competition expanded the 6 months to 1 year and benefit expanded to Skilled and Intermediate Care



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1980s

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Standalone Products / Custodial Care

- Coverage expanded to include Custodial Care benefits (90%+ of the cost)
- Product now too expensive to be a rider; this led to the first Standalone LTCi Policies being marketed
- Benefit periods expanded up to four years
- Customer chooses amount of daily indemnity benefit
- Customer chooses 0, 20, or 100-day elimination



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1989 to 1992

NAIC Standards / Home Health Care

- NAIC develops minimum standards for LTCi including:
 - Prohibition of three-day prior hospital stay
 - Guaranteed Renewability
 - Required 5% Compound Inflation Protection Offer
 - Required Nonforfeiture Benefit Offer
 - Suitability Standards
- Companies expand coverage to include Home Health Care Riders and Standalone HHC Policies



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1993 to 1996

Clinton Health Care / Pool of Money

- Clinton Health Care proposes a national government health care program
- Long Term Care is excluded from the plan at an early stage, yet the national health care discussion “freezes” the LTCi industry for almost two years
- Industry develops the “Pool of Money” benefit to allow marketing of large maximum benefit amounts
- Indemnity payments (for facility care) replaced by reimbursement for all benefits under Pool of Money



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1997 to 2001

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HIPAA Legislation Standardizes LTCi

- Health Insurance Portability and Accountability Act (HIPAA) passed by Congress - September 1996
- Tax Qualified (TQ) benefit “trigger” restricted to 2 or 3 of 5 or 6 Activities of Daily Living (ADLs) or Severe Cognitive Impairment (eliminating medical necessity)
- Certification of a minimum 90 day stay by a health care practitioner also required
- Primary motivation is to prevent abuse of tax laws
- TQ Benefits not taxed nor subject to imputed income



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2002 to 2005

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Rate Stabilization - Paradigm Shift

- NAIC with LTCi Industry input and support develops and passes Rate Stabilization law
- Rate Stabilization uses “carrot and stick” approach by removing minimum loss ratios but applying retroactive 58% plus 85% on any rate increases
- “Moderately Adverse Experience” required in pricing
- New business premiums increase by average 40%
- Each company’s new policy filing spurs “fire sale”
- Inforce premiums not increased



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2007 to 2009

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Inforce Rates Increased Industrywide

- Prior to 2007, only inforce rate increases performed by companies in the “substandard” market or by companies with closed blocks of business
- During 2007 and 2008, the three largest carriers all announced their first inforce rate increases, opening the door for the rest of the industry to increase rates
- Rate increase needed (except in substandard market) almost exclusively due to low lapse rates



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Major Participants

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in the LTC Insurance Industry

- Genworth and John Hancock are the two largest players with over 45% of total sales
- MetLife is next largest with another 10% of sales
- The rest of the top ten (Northwestern Mutual, New York Life, Bankers L&C, Prudential, MassMutual, Allianz Life, and State Farm) produce almost 30% of sales
- Approximately 20 other companies generate the remaining 15% of industrywide sales



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