Society of Actuaries Drives Innovation in the Long-Term Care Market; Conceptualizes New, Low-Risk Products That Could Help Ease Industry Challenges

OVERVIEW

Leading the charge to bring innovative thinking to the long-term care insurance market, the Society of Actuaries (SOA) convened a group of leading long-term care insurance experts for a collaborative Think Tank. The Think Tank's goal was to spark impactful ideas to make the financing and delivery of long-term care services more practical, affordable and effective for both consumers and the industry at large.

Taking ideas from the Think Tank, the SOA initiated an extensive effort to formulate two new long-term care product concepts. These concepts were then market tested with panels of representative consumer purchasers via four focus groups (24 participants) and an online survey (800 respondents). In addition to consumer testing, the SOA modeled the projected US market and initial 5-year sales forecast for the product concepts, as well as potential government savings.

Both product concepts demonstrate strong consumer interest and potential for addressing current market issues. However, while the two product concepts are consumer tested and actuarially modeled, they cannot be introduced into the long-term care insurance marketplace until certain regulatory and tax code changes are enacted.

LONG-TERM CARE PRODUCT CONCEPTS: LIFE-STAGE PROTECTION AND RETIREMENT PLUS

The two product concepts, along with consumer reaction to their potential introduction in the long-term care marketplace include:

Life-Stage Protection

An insurance policy that starts as term life insurance during prime income-earning years and then switches to long-term care insurance during later years. The product concept offers **long- term care benefit levels** ranging from $100,000 to $300,000 with monthly premiums from $63 to $186. These premium levels are for males ages 43-47, with other levels varying based on age and gender.

+ **Top Consumer-Rated Feature:** The ability to lock in long-term care insurance early and at lower premium levels – allowing consumers to afford larger benefit levels – was the most desirable feature among 74% of consumers.
+ **57%** of consumers consider this product concept a good fit for their future long-term care needs.
+ **49%** of surveyed consumers are extremely likely to investigate the product further.
+ Life-Stage Protection scored well on clarity and uniqueness – 67% and 59%, respectively.

Retirement Plus

A flexible retirement plan like a 401(k)/IRA, but with long-term care insurance directly built into the product. The product concept offers **long-term care insurance benefit levels** ranging from $100,000 to $200,000 with minimum monthly contributions ranging from $119 to $225. These minimum contribution levels are for males ages 43-47, with other levels varying based on age and gender.

+ **Top Consumer-Rated Feature:** Access to additional funds to pay for long-term care needs in case of exhausting savings and investment accounts was a desirable feature for 75% of consumers. The ability to transfer retirement funds to beneficiaries upon death was also attractive for 75% of consumers.
+ **61%** of consumers consider this product concept to be a good fit for their future long-term care needs.
+ **48%** of surveyed consumers are extremely likely to investigate the product concept further.
+ Retirement Plus also scored well on clarity and uniqueness—69% and 58%, respectively.

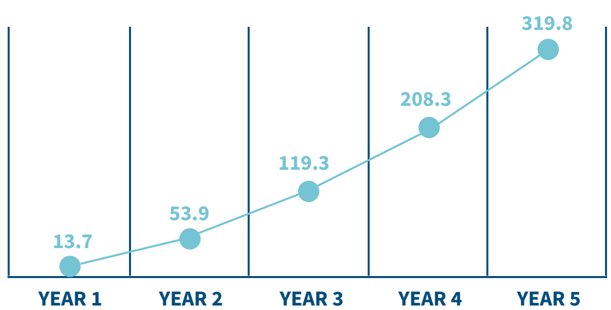
PROJECTED MARKET DEMAND, POLICYHOLDERS AND REVENUE FORECAST

The SOA also commissioned a market demand forecast to assess the market viability of the concepts. The forecast first surveyed consumers on their purchase intent, and then adjusted those responses to reflect actual purchase behavior (respondents' purchase intent in a survey setting tends to be more optimistic than in actual experience).

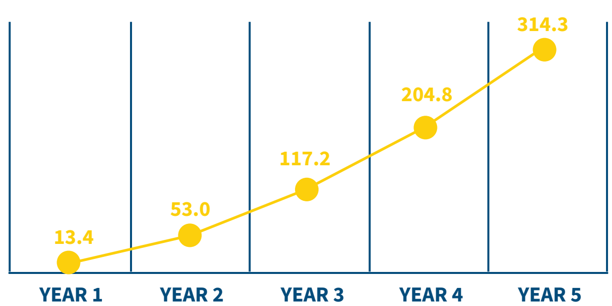
This translated into **LifeStage Protection yielding a 21% purchase interest,** and **Retirement Plus a 20% purchase interest.** Both product concepts score above average in purchase interest for concepts with this proposed price point as compared to other products in financial services categories. As a point of comparison, the adjusted purchase interest trial scores for other financial planning and insurance product concepts tested in the past several years – using a similar methodology – typically fall within the range of high single digits to the mid-twenties.

Based on these assumptions, a realistic model estimate for the number of policyholders for LifeStage Protection is 13,700 in Year 1 and 319,800 in Year 5. The number of projected policyholders for Retirement Plus is 13,400 in Year 1 and 314,300 in Year 5. The charts below illustrate the projected progression from Years 1 through 5.

LifeStage Protection (thousands)



Retirement Plus (thousands)



Based on these models, a realistic estimate for premium revenue for LifeStage Protection is $9.2 million in Year 1 and $350.0 million in Year 5. The projected premium revenue for Retirement Plus is $1.7 million in Year 1 and $76.2 million in Year 5. The charts below illustrate the projected progression in premium revenue from Years 1 through 5.

LifeStage Protection (millions)

Retirement Plus (millions)

PROJECTED IMPACT ON MEDICAID SAVINGS

The SOA also sponsored research to model the potential impact of purchase of the product concepts on collected federal tax revenue and Medicaid expenditures. Estimates are based on a limited pilot of five years of sales, expected product penetration, and consumer research. The projection considered the regulatory and tax environment in 2017, as well as two alternative consumer-favorable tax scenarios.

The methodology for the current environment assumes that premiums or contributions are not eligible for tax deductions. The projected result is a **41.9 percent reduction in Medicaid spending for LifeStage Protection, and a 48.5 percent decline for Retirement Plus.** This translates to projected net savings in federal and state government spending of **$737.3 million for LifeStage Projection, and $823.1 million for Retirement Plus, over a projected 50-year horizon.**

Under a more favorable tax scenario, a portion of the LifeStage premium would be eligible for tax deductions and Retirement Plus could receive pre-tax contributions. Finally, under the preferred scenario, the entire LifeStage premium would be a tax deduction, and contributions from Retirement Plus would be pre-tax. And, any distributions from the product concept used to cover long-term care would not be taxable. The projections are:

Net Impact ($ Millions)						
	LifeStage Protection			Retirement Plus		
	Less Favorable Tax Treatment	Favorable Treatment	Preferred Treatment	Less Favorable Tax Treatment	Favorable Treatment	Preferred Treatment
Years 1-10	0.0	21.7	46.3	-98.5	30.9	37.3
Years 11-20	-4.4	49.2	78.4	-139.4	33.5	47.8
Years 21-30	-155.2	-66.0	-56.2	-164.3	-96.3	-64.5
50 Year PV*	-737.3	-590.4	-548.6	-823.1	-584.6	-507.3
% Change	-41.9%	-33.6%	-31.2%	-48.5%	-34.5%	-29.9%

*All present values are calculated using a discount rate of 3.5%, which is consistent with current statutory valuation interest rates.

PROJECTED IMPACT ON TAX REVENUE

The SOA-commissioned model also estimated federal tax revenue for each product concept. Federal tax revenue changes when an individual purchases long-term care coverage and is then able to claim some portion of the cost for that coverage as a deduction. **For the current 2017 tax revenue scenario, premium contributions are not deductible, so there is no lost tax revenue.** However, there is potential tax revenue impact under alternative scenarios shown below:

Impact of Federal Tax Revenue ($ Millions)						
	LifeStage Protection			Retirement Plus		
	Less Favorable Tax Treatment	Favorable Treatment	Preferred Treatment	Less Favorable Tax Treatment	Favorable Treatment	Preferred Treatment
Years 1-10	0.0	21.7	46.3	0.0	129.4	135.9
Years 11-20	0.0	53.6	82.8	0.0	172.8	187.1
Years 21-30	0.0	89.3	99.1	0.0	68.0	99.8
50 Year PV*	0.0	146.9	188.7	0.0	238.5	315.9
% Change	0.0%	8.4%	10.7%	0.0%	14.1%	18.6%

*All present values are calculated using a discount rate of 3.5%, which is consistent with current statutory valuation interest rates.

For additional information about the SOA's long-term care research and methodology, please go to:
https://www.soa.org/research-reports/2018/ltc-middle-market/