

Report: Long-Term Care Think Tank Session: *"LTCi: From Hope to Change"*

March 17, 2010 | Sheraton New Orleans Hotel



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Introduction and Background

On March 17, 2010, within the context of a stagnant market and a looming health care reform bill, a group of 65 key thought leaders in long-term care met in New Orleans to discuss the future of long-term care insurance. This "Think Tank" session was co-sponsored by the Society of Actuaries (SOA) Long-term Care (LTC) Insurance Section and the Intercompany Long-term Care Insurance Conference (ILTCI), and was chaired by Steve Schoonveld, past chairperson for the SOA LTCi Section.

The goals of the meeting were to:

- a. have an open and interactive discussion on the major issues facing the industry, and
- b. come away with clear action items and initiatives that can help the industry move ahead.

The impetus for this meeting was to provide a meaningful and more highly focused follow-up to a prior "Think Tank" in July of 2005, held in Washington DC; and to continue the discussion on enhancing the solutions that the industry provides to consumers. Thirty-nine LTC executives participated in that earlier event, and five "Big Ideas" emerged from the 2005 Think Tank as stated in the report:

1. Medicaid reform to take out the "loan" on home value;
2. A short-term insurance product, supplemented by government catastrophic coverage;
3. Medicare/Medicaid benefits repackaged as "Medicare Part E";
4. Tax incentives for Long-term Care insurance; and
5. Long-term Care finance reform/National LTC incentive

Members of the organizing committee for the session were:

Steve Schoonveld, LTC Think Tank Chair

Mark Costello, 2010 SOA LTC Section Chair

David Benz, 2010 SOA LTC Section Vice-chair

David Kerr, 2010 SOA LTC Section Track coordinator

Sara Teppema, SOA Staff Fellow

Additional support was provided by Jill Leprich and Roger Loomis.

Questions about the 2010 LTC Think Tank can be directed to Sara Teppema, SOA Staff Fellow for the Long-Term Care Insurance section at steppema@soa.org.

Executive Summary

The ability and willingness of consumers to address their long-term care financing risks has generally been limited. The reasons are many and include a lack of consumer awareness of the risks and costs of needing care, the misunderstanding that Medicare covers long-term care services, regulatory restrictions on product design, a highly concentrated and undersized distribution force for long-term care insurance, and consumer uncertainty of product provisions. The purpose of the Long-Term Care Think Tank was to identify issues facing the industry and develop action steps to overcome them so that ultimately more consumers can be protected.

It is often said that current and future demographic shifts will provide a vast opportunity for long-term care insurance sales. There has been a feeling that "if you build it, they will come". However, this sense of hope has not transformed in to reality for most of the last decade. The organizing committee sub-titled the Think Tank session "LTCi: From Hope to Change" as it was clear that given the challenges facing the industry, hope alone will not meet the needs of consumers and industry change is essential.

It is critical for insurance carriers to understand the needs and levels of affordability within certain market segments. The introductory presentations of the session included a discussion of the segmentation of the market, in order to obtain a vision of the diverse types of consumers which the industry is seeking to reach. Two segments – "Middle Mass" and "Middle Affluent" - were defined based on a Society of Actuaries retirement study¹. The Middle Mass market represents 83% of households generally suited for a LTC insurance purchase. The average household income of this group (in the years leading up to retirement) is \$75,000 with average assets (net of the value of the home) at just over \$100,000. The Middle Affluent market represents the remaining 17%, with pre-retirement average annual income of \$132,000 and assets (net of home) of \$390,000. Consideration for the income and asset levels of the target consumer is necessary to build long-term care insurance products that meet the protection and affordability needs. However, while financial circumstances are important, the literature clearly defines that personal situation, beliefs, experiences and attitudes are even more important drivers of the purchase decision than are financial considerations.

The long-term care Insurance industry has faced many challenges over its 30-plus year history. Many in the industry feel that the recently passed CLASS Act is a major challenge now facing the industry, because it may give people the impression that their LTC needs are adequately covered with CLASS alone. There are also industry concerns about CLASS's lack of long-term sustainability. It has also been argued that CLASS came about not only because of the inflexibility of Medicaid programs but also because of the lack of consumer participation in the private insurance marketplace. However, the general customer base of the leading long-term care insurance producers and distributors is not the large Middle Mass market but the smaller Middle Affluent market. In general, CLASS may be with us today not due to the inability of existing carriers to reach their customer base but due to the limited number of carriers who address the needs of the Middle Mass market.

¹<http://www.soa.org/research/pension/research-post-retirement-needs-and-risks.aspx>

Further challenges to the long-term care insurance industry also include the consumer affordability of coverage, the limited breadth of product designs, and a shrinking distribution force. Think Tank participants came to the conclusion that there is a need to have an expanded market with LTCi carriers focused on Middle Mass households. It was evident, from the demographic data, that the affordability of the product is a key reason for lack of participation by Middle Mass focused carriers and distributors. The challenge to the industry is to work with regulators to enable product designs that are both meaningful and affordable. This may require products that are simplified or more flexible in order to meet the diverse and shifting needs of consumers. Finally, the size of the sales force is diminishing and poses a potential risk to future sales. Alternative sales channels, including the expanding group channel, should be considered as well as leveraging existing technologies to enable the sale to demonstrate product value and quicken the time to issue. For some potential buyers, the successful access to the middle mass market will be more about demonstrating value of the product relative to price than it is about designing a reduced price product. Both tasks are needed to address various segments within this market since "affordability" is defined differently by consumers.

These challenges present opportunities for the industry in the areas of Distribution, Product Design, and Public Perception. Within the area of distribution, there is opportunity to use new technologies to replace the kitchen table sale and to reduce the turn around time from application to issue of the policy. Products that meet the needs of a wider range of income brackets could be offered with regulatory modification and a wider carrier focus on this type of product and market segment. The institutional bias of most Medicaid programs has provided an audience for supporting the CLASS Act. The private market can offer a sustainable solution that encourages individual responsibility to address the financing need. Finally, adjusting the perception by the consumer requires a strong educational effort by the industry. The awareness should be centered around demonstrating the financial value of an insurance solution over reliance on Medicaid and/or self-funded approaches.

These challenges and opportunities lead to action items for the industry to pursue. The Think Tank participants discussed potential actions under the categories of efforts that are externally and internally focused. It is clear that an understanding of consumers and the market segments will lead to enhancing the solutions that the private industry offers. This can be done by promoting the efforts of third party thought leaders in the retirement space, academia, and other organizations outside of but with relevance to the LTC insurance industry.

With an eye on effecting industry change, the participants expressed a strong interest in follow-up so that the challenges facing the industry can be met. Such follow-up will involve discussing and prioritizing the action items brought forth so that the efforts of this Think Tank continue. An oversight committee was formed and the participants agreed to convene regularly to advance and enhance the action steps brought forth.

Think Tank Overview

The intent of the Think Tank was to a) identify issues facing the LTC industry; b) prioritize these issues; c) brainstorm solutions to these issues; and d) identify specific next steps. To accomplish these goals, a list of invitees was developed. Invitees were chosen based on their industry position and with an eye toward representing a wide spectrum of disciplines and perspectives—actuaries, underwriters, sales; insurance companies, consultants, vendors, distribution companies. Sixty-five invitees attended the event (See Appendix C).

In advance of the meeting, the survey attached in Appendix A was sent to all invitees. The survey responses are further discussed below, but in advance of the meeting, they were used to shape the agenda and to help provide content.

With the goals identified above and the survey responses in hand, the organizing committee drafted an agenda of presentations, discussions and resolutions towards identifying action items for the group.

At the Think Tank, participants were randomly assigned to a table; each table had several participants plus at least one facilitator affiliated with the LTCi Section Council. Each agenda item was followed by a period of time for discussions at the tables and then as a group. Attendees remained at their assigned table throughout the day.

At the conclusion of the Think Tank, two immediate next steps were identified. First, the Organizing Committee was assigned to produce this report. Second, an Oversight Committee was formed to determine how the LTCi Think Tank will proceed in order to move forward the resolutions identified.

SURVEY RESULTS

All invitees to the Think Tank were asked to complete a survey in the weeks prior to the Think Tank, to help prioritize the issues to be discussed, and to orient the group to what the larger industry is thinking. The survey had 79 respondents, with 52 of these planning to attend the Think Tank.

When asked "What issues should we explore?" respondents replied:

- "Discuss strategies for market growth - Product innovation and value proposition"
- "Understand the future of the government's role in LTCI – CLASS Act, Medicaid crowd-out, Regulators, HIPAA"
- "Help us better understand the Consumer – Individual financial needs and changing care needs"

Appendix A outlines the detailed survey responses. study design.

Industry Challenges

The Think Tank involved several small group discussions throughout the day as well as summarizing discussions by the entire group. At the beginning of the day, groups were asked to brainstorm, identify and rank the challenges facing the LTCI Market. The groups used the survey and an introductory presentation from Steve Schoonveld to identify six clear challenges within and to the industry. The challenges presented were consistent with the responses from the survey. This list served as the backdrop for discussion at the Think Tank meeting and as the focus for this report. Although these challenges overlap and are interrelated, they can be classified as follows, and are listed in priority order based on the survey responses received:

1. The perceptions of consumers and the public of their long-term care financing risks are limited. Education and awareness programs need to be enhanced and clarified to begin to discuss methods to mitigate the risks.
2. The long-term care insurance market should be broadened both with respect to insurer participation and product offerings such that the needs of consumers from different market segments can be met. A greater number of insurers with a broader appeal to these segments should be encouraged to enter the long-term care insurance market.
3. The range of products should include simpler and more flexible products that meet consumer needs and remain affordable as well as providing an appropriate level of protection for a wider range of consumers.
4. Long-term care insurance needs to be seen as having value for the premium price point – i.e. the need for demonstrating the value of the product to show that it is an affordable alternative to self-funding the risk is great.
5. Regulation and oversight as well as major public policy developments such as the CLASS Act may threaten the private LTCI market. The inflexibility of product regulation has diminished the industry's ability to provide innovative solutions to market segments. The impact of the CLASS program is highly uncertain (as are many aspects of its coverage and cost at this time). Some feel it may provide an added level of awareness and boost the market and others feel it may promote additional uncertainty and confusion among consumers causing them not to act at all with regard to long-term care protection.
6. LTCI carriers have consolidated and retreated from the market. Capital concerns remain. However, the marketplace would prefer more competition with a broader range of solutions.

Segmenting and Defining the LTC Market

LTCi, as it exists today, is perceived to be predominantly designed for and sold to upscale market segments. The industry lacks solid solutions for large segments of the population, leaving them dependent on family and the government to meet their long-term care needs. After identifying the challenges in the long-term care market, the group heard a presentation by Anna Rappaport (selected slides, as well as a link to the full presentation, are included in Appendix B).

Ms. Rappaport broke the market into multiple segments, presenting key characteristics of each segment. Think Tank participants were challenged to design long-term care protection solutions for a number of important Middle Market segments, where Middle Market was defined as ages 55-74 with a net worth of \$50,000 to \$1 million. This constitutes 60% of the households ages 55-74. Fewer than 20% of these households fall in the Middle Affluent group with remaining households falling in the Middle Mass market group.

The remainder of Ms. Rappaport's presentation discussed how people are currently managing post-retirement risks. More details about the presentation can be found in the slides in Appendix B or in the SOA reports referenced earlier.

Below are the results of the group's brainstorming on the types of long-term care solutions that would serve the four sub-segments considered.

Middle Affluent over age 65 - 40% of the Middle Affluent aged 55-74

- Combo products -- Annuity and/or life combined with long-term care
- Partnership
- Likely an individual product sale

Middle Mass over age 65 - 39% of the Middle Mass aged 55-74

- No good solution – Medicaid, limited benefit plan
- Reverse mortgages, but age is an issue since the minimum age for a reverse mortgage is 62.
- A high elimination period plan or a catastrophic level of coverage
- Partnership
- Some participants felt that some coverage is better than none while others questioned the value proposition of having affordable but less adequate coverage

Middle Affluent under age 65 - 60% of the Middle Affluent aged 55-74

- Group/Individual LTC, mingled with family care
- Combo or partial self insured – limited pay
- Combo, family

Middle Mass under age 65 - 61% of the Middle Mass aged 55-74

- Bare bones LTC – long elimination period, 1-2 year benefit
- Likely a worksite purchase
- \$100k partnership plan

Several studies were also identified to help understand the demographics of the target markets, including studies from Boston College Center for Retirement Research and the Urban Institute .

The group also raised the issue of LTC awareness. How can the industry promote the need for and the value of long-term care insurance, demonstrate the limitations of current public programs, and spread the risk of the costs of long-term care services by expanding the industry? This is especially important given the increasing changes and cuts to state programs.

²Boston College's Center for Retirement Research has done a considerable amount of research. More information is available on their website: <http://crr.bc.edu/>

³The Urban Institute has many published papers by their experts. More information is available on their Retirement Policy website: http://www.urban.org/retirement_policy/

Solutions for the LTC Market

A presentation by David Benz shifted the focus from issues to solutions. The Think Tank committee had identified four framework areas within which solutions could fit – distribution, products, market environment, and consumer perception. Using the market challenges and segments previously identified, the small groups brainstormed new ideas for these areas. The lists below present the results of this brainstorming effort and have not been edited for practicality, legality, or other considerations.

DISTRIBUTION

Embrace Technology. Sales made over the phone (30%) and via internet are increasingly being completed with success. With technology, one can often reach both spouses on the phone and even do a remote webinar to make a presentation. Technology also needs to accommodate customers who want to do their own research.

Diversify. The traditional producer and customer bases need to be enhanced:

- Selling specifically to women has been very successful and can be better facilitated by women producers. Women are key influencers in the purchase and both spouses are needed to make the sale.
- Affinity networks – cultural, ethnic, gender – can generate leads.
- Recruit new producers who are not necessarily LTCI specialists. The current sales market has become a specialist business. New producers – life, P&C, financial planners – must learn LTCI. Ensuring LTCI education is required for all producers (during licensing process) would help.
- Build connections with other organizations that have access to and affinity with the target market for long-term care insurance, such as AICPA, financial planners, and Medicare Advantage networks.

Understand the demographics. The conflicting priorities of the Boomer sandwich generation and the economic downturn present unique opportunities. The process must target the potential caregiver and be personal.

Use the Worksite. LTCI is "sold and not bought" at workplaces. Employer support can impact the bottom line. Educate benefit consultants to discuss LTCI with their employer client

Use Financial Planning. Financial advisers need to learn to include LTCI in the spectrum of solutions and use LTCI in the planning process.

Simplify the products in the mind of the producer. Products can be complicated and can impede the sales process. The *perception* that the products are complicated is even more of a barrier. Underwriting uncertainty also impedes sales and agent persistency.

PRODUCTS

Current products are not meeting the needs of all income segments (especially the lower income brackets). Several goals were identified:

- Make the products more mainstream, i.e. more accepted among consumers in all income segments
- Increase pursuit penetration in all segments
- Work toward less constrictive regulation that would allow new product designs
- Product providers (insurers) need to take some chances
- Sell a Middle Market product, to fit into a total solution and make it simple. Attributes of this product could include:
 - Account value
 - "Short & fat" structure – shorter benefit period with adequate daily benefit and breadth of coverage
 - Employer subsidy for a small amount of LTCI coverage with voluntary add on for increased benefits with employee paying the additional required premium

The groups discussed several other product-related ideas.

- Universal LTCI -- can reflect lifestyle changes of the insured population
- Attained age pricing -- would allow sales to be expanded to the under-age 75 market
- Cash value products
- Provide LTCI riders on other products (e.g. DI)
- Non-cancellable policies – may work if you can remove investment risk and just have the risk of morbidity & lapse
- Offer underwriting options – company gives up some underwriting rigor in exchange for limited benefits during initial period
- Make Partnership plans less restrictive (reduced benefits and lower premium) – this would get to the Middle Mass market
- Strip out assisted living and home care from the traditional products and make them optional buy ups. This might reduce the premium considerably.
- There needs to be a solution for the uninsurable that can address underwriting risk and adverse selection.

MARKET ENVIRONMENT

The public needs to be better educated and motivated about LTC. The responsibility of the individual citizen versus a public system is not clear and too many rely on Medicaid. Medicaid is generally too institutionally biased and not an effective solution for many. The need for broad public education of the LTC financial risks was widely shared by participants; it was suggested that the SOA LTCI Section could support the efforts of the industry towards meeting this goal, through research and communication of the issues.

The group debated whether or not a Federal Charter would be desirable. State regulations are inefficient, costly, confusing to both the customer and the agent, and inconsistent. A Federal Charter could enable greater speed to market, the ability to update plans as needs change, and might encourage more standardized plans which would be easier to sell and reduce consumer confusion.

Other environmental issues were discussed. These include technology, branding (does LTCI need a new name?), and future medical advances, such as changes in dementia occurrence or treatment.

PERCEPTION

Public awareness is a major issue. The industry should be using social media and other technologies. A product champion, such as a celebrity could help tremendously by showing the plight of the caregiver. The testimonial angle could introduce tools and ideas and could specifically target women. Public awareness could be enhanced by campaigns such as "Own Your Future" or "Three in Four Need More".

Public awareness could be broadened.

- Call out tax deductibility opportunities on tax preparation forms and software.
- Employers could be encouraged to auto-enroll employees in a plan or have employees sign a certification stating that they are taking care of the risk on their own.
- Employers could be responsible for mandating coverage.

Public perception also needs to move away from "nursing home insurance" and toward a more comprehensive concept of the product. Focusing on an outcome (independence, freedom, dignity) is much more effective for public perception than focusing on the care to be provided. This is true for both agents and consumers. Scare tactics, such as the possibility of the loss of the safety net, can be used but it is better to focus on the positive outcomes that LTCI can provide. The value of the product could be better publicized, by addressing the "use it or lose it" issue and by presenting the product value through personal (real) stories that show both the financial and the emotional value of having coverage.

Resolutions and Actions

In small group discussions, and then in the larger forum, the participants developed a list of action items to pursue in the coming months. These were grouped into activities external to the industry, and activities internal to the industry. The list of action items will be further discussed in follow-up sessions towards a set of resolutions to provide to the industry for consideration.

EXTERNAL INDUSTRY POTENTIAL ACTIONS

Revisit the NAIC Model Act to enable product innovation that can expand the market solutions for additional consumers. The need to provide affordable and meaningful products to the middle mass market is clear. The requirements within the NAIC model regulation as adopted by a majority of states limit the potential solutions that the industry can offer.

Encourage the Federal Charter option. How will we do this? By illustrating the positive aspects of this, and enhancements that can be made.

Create a "Partnership Light" program. The affordability of Partnership programs may be a hindrance for the Middle Mass market to purchase. Reducing some of the high cost requirements of the Partnership program can enable an affordable program and provide meaningful cost savings to Medicaid programs. This can be done by emphasizing shorter coverage durations or allowing more flexibility with respect to self-funding the inflation risk.

Create Medicare Plan E or L. Differences in product provisions may contribute to confusion in the market. An industry endorsed standardized plans, a.k.a. Medicare plan E or L, can enable standard plan designs to reduce confusion and enable comparisons to be made.

Create a national reciprocal Partnership program. There is some state variation between Partnership programs that may cause confusion with consumers. The industry should continue to encourage a complete national reciprocity program.

Lobby for awareness. Pursue the items in the perception section of this report.

Encourage mandatory training of producers on LTCI product lines. Licensing requirements for all life and annuity producers should include LTCI training, especially considering the emergence of combination products. Encouraging carriers to require long-term care training for all agents and producers will increase the sales force and enable the producers to fully serve their clients.

Address provider issues. Given the expected demographic shifts, the supply of providers will be challenged in the coming years. Long-Term Care insurance product designs should consider the potential for a limited provider pool.

Restore regulator confidence in the product. Continue to use the conferences and scholarships to invite regulators to participate in discussions that will enable the industry to grow.

Provide an industry promoted solution to the public safety net, Medicaid, program. The CLASS Act is a response to an institutionally biased program. The industry should promote and encourage managed Medicaid programs that remove this institutional bias and demonstrate how a private industry solution can supplement this public safety net. Furthermore the industry can promote the savings that private insurance would have on such Medicaid programs.

Internal Industry Potential Actions

Promote third-party thought leadership. Bring in more involvement from academia, the SOA, and other organizations to enable a broader understanding of the market segments and their needs to promote industry solutions that broaden coverage. A comprehensive look at the retirement and pre-retirement needs by income groups is necessary to understand the affordability and suitability issues and to design meaningful products.

Develop products that are simple and affordable. Revise the policy forms to make them shorter and simpler -- i.e. a one-page policy. Develop products that are affordable to the middle market consumers and meet their asset protection and risk needs.

Increase distribution. Utilize women producers to facilitate joint sales between LTCI specialists and other financial advisers.

Engage a spokesperson or mascot. Long-term care insurance might benefit from an identifying spokesperson. Support by the industry for a program to position the product as an alternate to self-funding or ignoring the risk can be brought by the industry participants. This, along with a strong value demonstration of the product in one's retirement planning approaches, can define a "got milk" campaign for long-term care insurance.

Work on the industry trust issue. Past industry challenges have focused on claim approvals and rate increases. The industry should be prepared with support from research studies to demonstrate the solid performance by carriers.

Increase the number of carriers selling LTCI. As perceptions of LTCI improve, new carriers will enter/re-enter the market. To facilitate the participation by carriers who focus on the middle mass market, the involvement by government as a LTC reinsurer through an adjusted Medicaid program can encourage participation by carriers and consumers.

Sponsor research. Research on Partnerships, especially identifying if they can demonstrate Medicaid savings, would be very well received and improve perceptions.

Show the value proposition. The long-term care insurance product should continue to be viewed as an asset protection product. The industry should demonstrate how the purchase of an insurance solution can increase retirement success and enable consumers to reduce the risk of impoverishment by a long-term care episode. A holistic view of the risk trade-offs within long-term care and retirement planning is necessary as consumers plan similarly.

Sell LTCI to fill the gaps under the CLASS Act. As the CLASS Act evolves, the program may indeed provide carriers an opportunity to supplement the provided benefits.

Create a nonprofit LTC information and data company (similar to MIB). Similar to the life insurance industry, the use of an information bureau during the application process to provide underwriting information to limit the potential for over-coverage and adverse selection.

Provide cheaper training. More volume, government investment would be helpful.

NEXT STEPS

The Think Tank participants acknowledged that the list of action items above are ambitious, and that there needs to be some type of continuous review to evaluate these options, prioritize them and focus attention as necessary. An oversight committee was identified at the event, and will be involved in an ongoing effort to move forward the issues identified at the Think Tank, and reporting to the attendees as well as to the industry.

Participants were also in agreement regarding the need to re-convene via webcast, teleconference, social media means or face to face in order to advance the action items identified. The Oversight Committee, with assistance from the sponsors, the SOA Long-Term Care insurance Section Council and the ILTCi Conference Committee, will provide a forum to continue the discussion with the likelihood of reconvening at the 2011 ILTCi conference.

OVERSIGHT COMMITTEE:

Jodi Anatole

Dave Benz

Jay Bushey

Mark Costello

John Cutler

Jim Glickman

Mark Goldberg

Dave Kerr

Steve Schoonveld

Eileen Tell

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Appendices

APPENDIX A: DETAILED SURVEY RESULTS

All Think Tank invitees were asked to take a survey that would maximize the value of the Think Tank session. The survey was open from February 26-March 12, 2010.

The results of the survey are below, and written responses are shown verbatim. These responses served both as talking points during the meeting as well as determining the direction of the meeting.

What issues should we explore?

Discuss strategies for market growth

- Product innovation
- "Value proposition"

Understand the future of the government's Role in LTCI

- Especially the CLASS Act
- Also Medicaid crowd-out
- Regulators, HIPAA

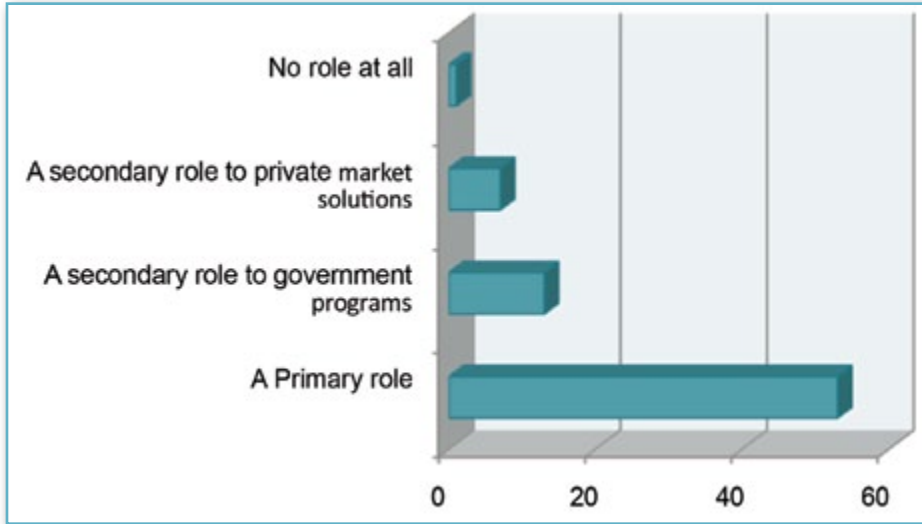
Better understanding of the Consumer

- Individual financial needs
- Changing care needs

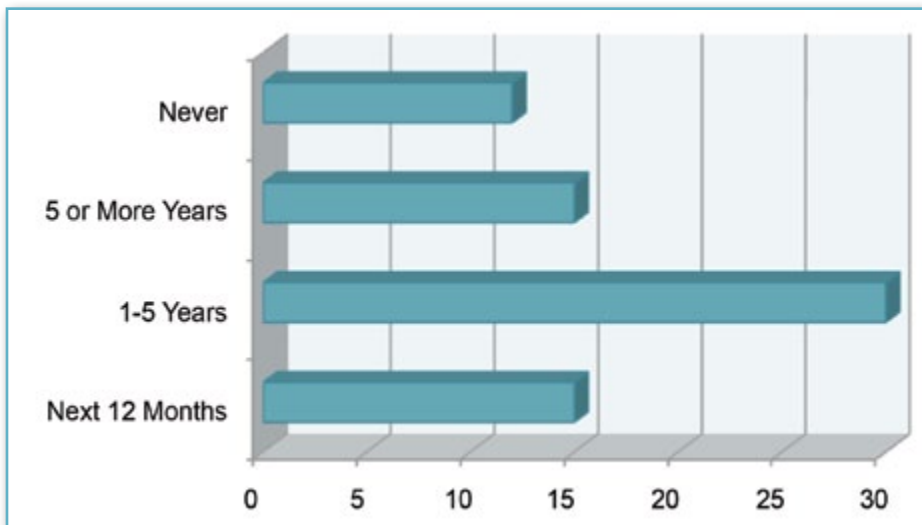
What are the primary objectives for the Think Tank? (In order of Importance)

- Brainstorming Session to propose growth solutions
- Discussion on how the industry may influence LTC Public Policy
- Open forum to allow for various industry viewpoints
- Stronger understanding of Consumers and their hesitancy to purchase LTCi

What role should LTCi play in addressing the nation's LTC financing issues?



A bill containing some form of US Federal government-provided LTCi is likely to be passed in the next...



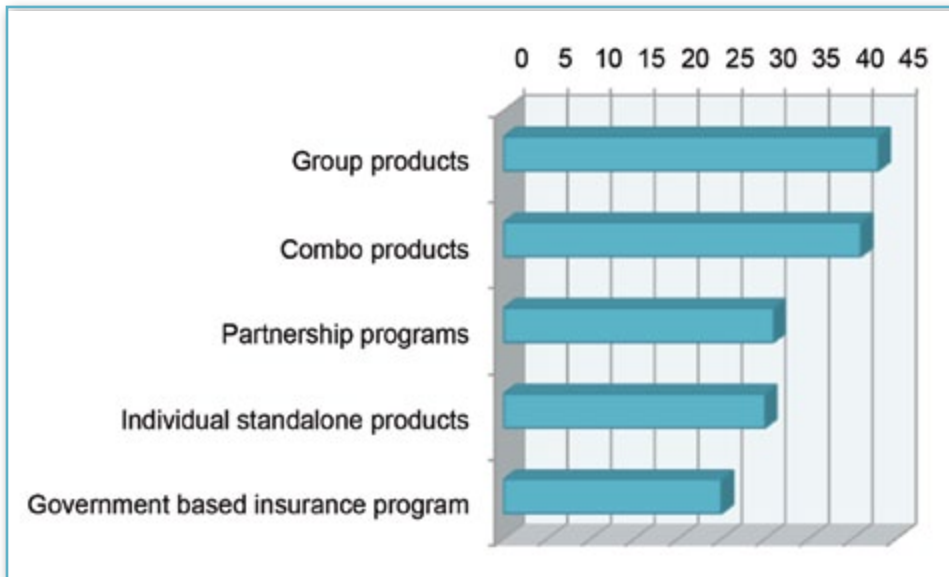
Current ILTCi products:

- Satisfactorily address consumer need (neutral)
- Are viable from a **carrier's** perspective (neutral)
- Are viable from a **producer's** perspective (neutral)

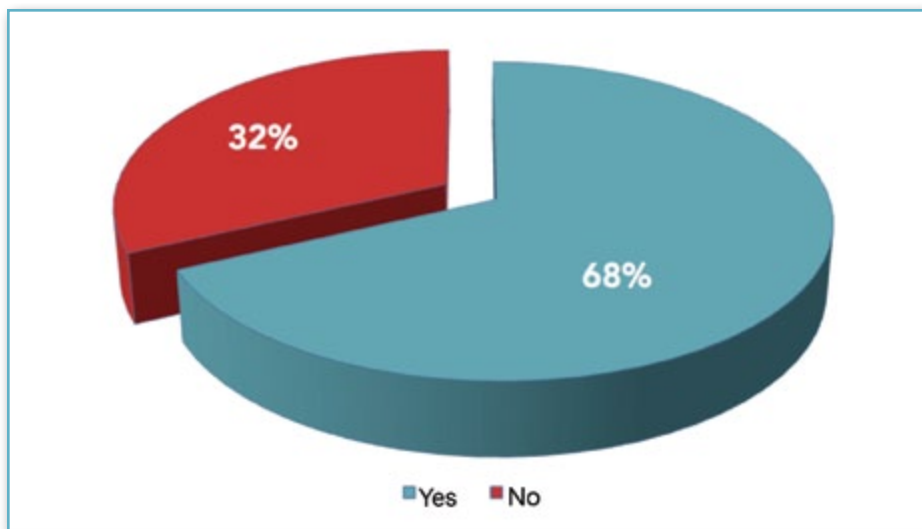
A primary obstacle in selling new policies is:

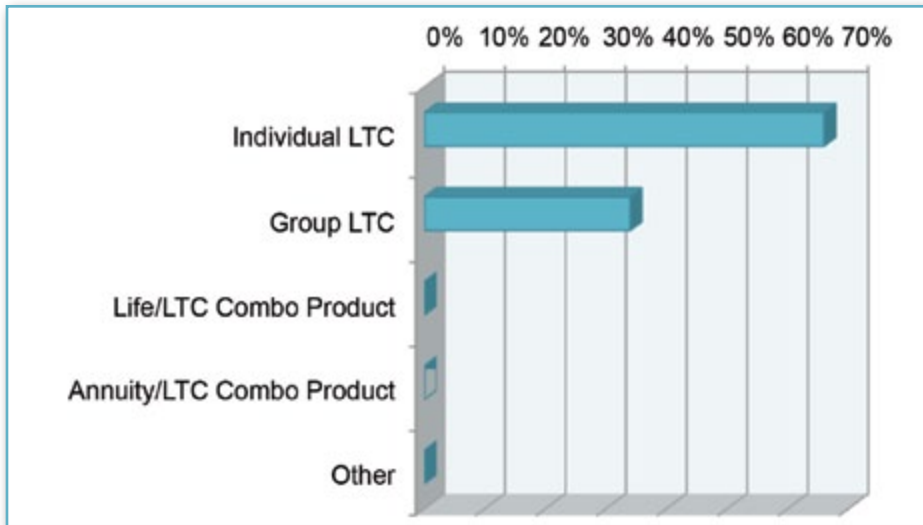
- Perceived Consumer Responsibility (Agree)
- Price (Agree)
- Industry history (neutral)
- Distribution System (neutral)
- Benefit Design (neutral)

Important drivers of growth over the next 5 years



Do you own a LTC policy? (half of these are employer-sponsored)





Consider the long-term care risk from the [producer's] [consumer's] [carrier's] viewpoint. In creating an insurance product to address that risk, what are the most important features to include?

Producer's Viewpoint

Simplicity

- Flexibility (esp. at claim time)
- Fair compensation
- Affordable and Stable Premiums

Consumer's Viewpoint

- Affordable and Stable Price
- Flexibility (benefits)
- Simplicity
- Benefits:
 - Inflation
 - Cash

Carrier's Viewpoint

- Risk mitigation
- Stable price
- Market expansion
- Profitability
- Contract language
 - Regulatory constraints

In a sentence or two, please provide the single most important challenge for the LTC insurance market in each of the following areas: Product development, Distribution, Public Policy, Public Awareness, Government intervention.

Product Development

- Need for simple yet flexible products
- Need for Innovation
- Need for actuarial soundness
- Regulatory environment
- Pricing pressures

Distribution

- Need new producers
- Education/Training/licensing
- Shrinking demand
- Affordability
- Need for product innovation

Public Policy

- Decisions made without industry input
- CLASS act and fit for supplemental policies
- Medicaid reliance/crowd out
- Increase need for services over time
- Lack of tax incentives

Public Awareness

- Government role
- Risk
- Overcome "sins of the past"
- Need to overcome media negativity

Government Intervention

- CLASS Act
- State regulations
- Oversight instead of support

Features to Address Risks:

Producer's Viewpoint:

- Product simplicity
- Product flexibility - especially at claim time (where care can be received, who can be paid, etc.)
- Fair compensation
- Affordable and stable premiums

Consumer's Viewpoint:

- Price stability/Affordability
- Benefit flexibility
- Easy to use and understand/Simple product
- Inflation benefits
- Cash benefits
- Home care
- Lifetime benefits
- Simple claims processing
- Carrier financial strength
- Strong benefits
- Comprehensive coverage for all levels of care (NH, HHC, ALF)
- Medicare/Medicaid coordination
- Nonforfeiture/cash value

- Consumer protection
- Ease of purchasing
- Non-can product
- Participating dividends
- Partnership product
- Pool of money
- Portability
- ROP
- Tax-qualified benefit

Carrier's Viewpoint:

1. Risk mitigation
 - a. Via product design
 - i. No lifetime
 - ii. Self insurance (copay/deductible)
 - b. Via underwriting
 - c. Reinsurance
 - d. Ability to adjust rates
2. Price stability
 - a. Realistic/conservative pricing assumptions
 - b. Attained age rates
 - c. Benefits tied to risk/expense
3. Expand distribution/market
 - a. Agent training
4. Profitability
 - a. ROI
 - b. Address capital requirements
 - i. Attained age rating?
5. Contract language
 - a. Clarity
 - b. Clarity in benefit qualification

- c. Clarity in payment provisions (fraud/billing creep)
- 6. Accounting for and working within regulatory/health care constraints
- 7. Ease of administration/simplicity of product
- 8. Consumer value/service

The most important challenges to the market

Product development:

- Desires:
 - Simple, yet flexible products
 - Innovation (though what this really means was not spelled out)
 - Actuarially sound pricing over long-term
- Concerns:
 - Regulatory environment
 - mandated benefits make product price too high
 - state approval process stifles innovation
 - response time unwieldy leading to long delays in getting products to market and obtaining rate increases
- Pricing => Will declining sales put pressure to price products too low, do we fully understand tail risk, can we balance feature attractiveness and price stability and affordability?

Distribution:

- Need to expand distribution to other types of producers/recruiting new talent/shrinking distribution due to age-out or opt-out
- Education/Training/Certification/Licensing - LTCi, partnership, government programs
- Overcoming shrinking demand from consumers - convince consumers private insurance is better than government programs
- Product affordability/high prices and rate increases
- Simpler/more innovative products (e.g. electronic apps, internet purchasing, direct to consumer distribution)
- Combo products - training/licensing annuity/life producers
- Complicated for the casual seller
- Greater product understanding
- Tough training requirements

- Abusive telemarketing by partnership agents
- Adequate compensation
- Carrier stability
- Competition between independent specialists and carrier captive distribution
- Defining/clarifying the risks of not containing costs at a younger age
- Expanding group/worksites sales
- Getting the application approved most of the time
- Improving communication with industry - overcoming mixed messages
- Need to increase advertising of existence and nature of various policy offerings
- Non-uniform commission structures
- Plan designs not favored by casual agents
- Product flexibility
- Proper/adequate disclosure to consumer
- Removing commissions on rate increases
- Crowding out of private LTCi from Medicaid due to consumer's ability to hide/transfer assets

Public Policy:

1. Public Policymakers will adjust and develop approaches without considering the LTC insurance industry
 - a. Due to a weak private insurance industry
 - i. Need for clear boundaries between consumer expectations and reality when coordinating with a public plan
 - ii. Educating consumers of the need to plan ahead
 - iii. The confusing messages from Washington have a significant impact on a weak private industry
 - iv. Lack of realistic pricing that result in implementation of multiple rate increases over time.
 - v. Can this product even survive (much less thrive) without significant government intervention? (e.g. partnership expansion, federal LTC plan, tax incentives)
 - b. The challenge of increasing the private industry's role in effecting public policy
 - i. Largest challenge is demonstrating to policy makers and the public that the private sector is indeed the stronger solution
 - ii. Private industry wasted an opportunity to affect public policy around LTC.
 - iii. Private industry's ability to encourage partnership programs in all states
 - iv. Educate Regulators
 - c. To demonstrating the positive impacts that the industry has had

2. The CLASS Act and public policy
 - a. Demonstrate that a supplemental program to CLASS can be successful
 - i. Ability to gain regulatory approval given the uncertainties
 - ii. Ability to compete on a level playing field between a full private plan and a public/private plan
 - iii. Providing a minimum benefit while providing incentives for private market solutions.
3. The Medicaid challenge continues
 - a. Limited state success on discouraging the reliance on Medicaid
 - b. Poor industry public relations has increased regulatory intervention and increased limitations on the evolution of the product
 - c. Medicaid has not provided a strong solution to the uninsurable outside of the CLASS Act quasi social program with an insurance product face
4. The challenge of an ever increasing need for services
 - a. The accelerating need, both from a social policy perspective and an individual financial perspective.
 - b. Indecision throughout those who debate public policy on how to cope with the demographics and the provision for long-term care services
 - c. The simple lack of public awareness
 - d. And the devastating impact it will have on Medicaid programs, on the availability of providers and an unprepared public
5. In securing tax incentives for LTCi
 - a. The above the line deduction, the ability to purchase through FSA or cafeteria plan
 - b. Recognition through the use of Income Tax Offsets
 - c. From achieving full deductibility of employer contributions to subsidizing Tax Qualified LTC insurance

Public Awareness:

1. Address, specify, educate what is provided for/paid for by government
2. Address, specify, educate the nature, magnitude of the risk
3. Address and remediate the sins of the past—claim practices, rate increases
4. Understand the media and the audience; create an industry-wide program to address 1 & 2


Government Intervention:

1. The CLASS Act
 - a. The impact of an unsustainable CLASS Act product
 - i. The inclusion of current disabilities into this "insured" risk pool
 - ii. Government recognition of the role of private insurance

- iii. Effect on Partnership products, Medicaid
- iv. The impact on taxpayers of another government sponsored entitlement
- v. A likely CLASS bailout with a tax on private LTCi carriers
- b. Coordination with CLASS
 - i. Development of Med Supp like products to coordinate with CLASS
 - ii. Building a marketing campaign to take advantage of the CLASS "got milk" campaign
- c. Impact of current uncertainty
 - i. The Washington Message is creating a delay in the minds of consumers
 - ii. Still waiting on tax incentives with bite
 - iii. Can the private LTCi market survive without a CLASS Act?
- 2. Regulatory – At the State level
 - a. Regulation simplification
 - i. Standardize products
 - ii. Ease the entry "expense" to encourage stronger and greater competition
 - iii. Getting 50+ jurisdictions working similarly
 - iv. Rate increase approval process is broken
 - b. Oversight
 - i. Of mis-behaving carriers that continue to "underprice"
 - c. Medicaid
 - i. Eliminate loopholes to discourage the reliance on Medicaid for those the program is not intended to assist
 - ii. Limited public awareness campaigns for private solutions and partnership plans to reduce the burden on Medicaid
 - iii. Limited acceptance and coordination of alternative Medicaid programs
 - d. A lack of a holistic approach/view by regulators
 - i. limits the ability of carriers to help consumers and stifles innovation
 - ii. restricts policy designs and limits rating approaches
- 3. Miscellaneous
 - a. Fraud prevention & intervention has been very poor
 - b. A strong need for government to support private/public solutions such as the Partnership. The challenge is to encourage regulators and legislators to focus. The regulation has been strong and valuable yet much more on the oversight side rather than support for the good of constituents.


APPENDIX B: MARKET SEGMENTATION BACKGROUND

Selected slides from Anna Rappaport's presentation on segmentation of the over-age 55 market are shown below. The entire presentation can be found on the SOA website at this link: <http://www.soa.org/files/pdf/lc-2010-rappaport.pdf>.



Perspectives on Solutions/Research

- Ten years of experience with Post-Retirement Risk
- Lot of research, but very hard to find solutions
 - No agreement on right answers
 - Seeking wholistic solutions
 - Issues are complex and interacting
 - Involve trade-offs
- Biggest decisions for many people
 - When to claim Social Security
 - Housing
- Using research results often not easy
 - Challenge: focus on longer term



Who are we?

Committee on Post-Retirement Needs and Risks

- **Focus is on understanding and mechanisms to assist in the distribution phase of retirement**
- **Work includes**
 - Developing Consumer Profiles for the Middle Market
 - Managing Post-Retirement Risks
 - Risks and Process of Retirement Surveys
 - 2001, 2003, 2005, 2007 and 2009
 - Select issues for special focus
 - Study of Retirement Planning Software



Research results: themes

- Relatively short term planning horizon
- Gaps in knowledge about post-retirement risk
- Gaps in action – knowledge does not spell action – hard to get people to act
- Employer is important
- Not too much change over time
- Reluctance to use financial products to manage risk
- People more influenced by immediate/recent events than longer term
- Pre-retirees more concerned about risk than retirees
- Not unusual for people to be more optimistic than justified
- Software not well aligned to solutions



Segmenting the Middle Market

Total Middle Market Households: 32,209 (Ages 45 to 74; \$50k to \$1,000k Net Worth; 25th to 85th percentile of all households)

Six segments profile the "Middle Mass" households

Total "Middle Mass" Households: 26,841 (25th to 75th percentile of all households) **Six segments profile the "Middle Affluent" households:**

Total "Middle Affluent" Households: 5,368 (75th to 85th percentile of all households)



"Middle Mass" Segments

	<u>55 to 64 year-olds</u>		
	<i>Married (#1)</i>	<i>Single Female(#2)</i>	<i>Single Male(#3)</i>
# households	5.2 Million	2.5 Million	1.4 Million
Avg. Income	\$75,000	\$28,000	\$41,000
Assets	\$348,000	\$111,000	\$125,000

	<u>65 to 74 year-olds</u>		
	<i>Married (#4)</i>	<i>Single Female(#5)</i>	<i>Single Male(#6)</i>
# households	3 Million	1.9 Million	0.9 Million
Avg. Income	\$45,000	\$18,000	\$25,000
Assets	\$285,000	\$130,000	\$130,000



"Middle Affluent" Segments

	<u>55 to 64 year-olds</u>		
	<i>Married (#1)</i>	<i>Single Female(#2)</i>	<i>Single Male(#3)</i>
# households	1.0 Million	0.5 Million	0.3 Million
Avg. Income	\$132,000	\$58,000	\$79,000
Assets	\$1,300,000	\$415,000	\$465,000

	<u>65 to 74 year-olds</u>		
	<i>Married (#4)</i>	<i>Single Female(#5)</i>	<i>Single Male(#6)</i>
# households	0.6 Million	0.4 Million	0.2 Million
Avg. Income	\$93,000	\$43,000	\$54,000
Assets	\$1,100,000	\$480,000	\$490,000

APPENDIX C: MEETING ATTENDEES

<i>Loida Abraham</i>	<i>Ronald Franzluebbbers</i>	<i>Shawna Meyer</i>
<i>Jodi Anatole</i>	<i>Richard Garner</i>	<i>Stephen Moses</i>
<i>Margie Barrie</i>	<i>Howard Gleckman</i>	<i>Amy Pahl</i>
<i>David Benz</i>	<i>James Glickman</i>	<i>Mike Rafalko</i>
<i>Winona Berdine</i>	<i>Bob Glowacki</i>	<i>Anna Rappaport</i>
<i>Bill Bigelow</i>	<i>Mark Goldberg</i>	<i>Marie Roche</i>
<i>Vincent Bodnar</i>	<i>Carroll Golden</i>	<i>Jonas Roeser</i>
<i>Marc-Andre Brunet</i>	<i>Ronald Hagelman, Jr.</i>	<i>Allen Schmitz</i>
<i>Rober Bua</i>	<i>Kathleen Hamby</i>	<i>Steve Schoonveld</i>
<i>Jason Bushey</i>	<i>Dawn Helwig</i>	<i>Phyllis Shelton</i>
<i>Dan Cahn</i>	<i>Art Jetter</i>	<i>Jnet Soppe</i>
<i>Andronico Castillo</i>	<i>Laurel Kastrup</i>	<i>Tony Stratidis</i>
<i>Dan Cathcart</i>	<i>David Kerr</i>	<i>Peter Sutton</i>
<i>Malcolm cheung</i>	<i>Miriam Krol</i>	<i>Mary Swanson</i>
<i>Marc Cohen</i>	<i>Jill Leprich</i>	<i>Eileen Tell</i>
<i>Mark Costello</i>	<i>Brad Linder</i>	<i>Sara Teppema</i>
<i>John Cutler</i>	<i>Denise Liston</i>	<i>Brian Vestergaard</i>
<i>Deanna Defrank</i>	<i>Mike Lynch</i>	<i>Mark Whitford</i>
<i>Jeffrey Drake</i>	<i>Amanda Matthiesen</i>	<i>Tyree Wooldridge</i>
<i>Jay Drucker</i>	<i>Michael Mazur</i>	<i>Robert Yee</i>
<i>Etienne Dupourque</i>	<i>Hunter McKay</i>	<i>Ali Zaker-Shahrak</i>
<i>Brock Fay</i>	<i>Mark Meiners</i>	