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Long-Term Care Meeting Needs through Product Flexibility

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EXECUTIVE SUMMARY

Companies in the individual long-term care insurance (LTCI) market have learned much since the introduction of their first wave of products. Today's LTCI products feature a combination of premium enhancements, cost containment efforts and product flexibility that ensure that coverage sold today will balance consumer value and increased cost certainty for the carrier.

At the same time, sales of permanent life insurance with an LTC accelerated death benefit (ADB) rider have taken hold, registering sales growth even through the financial crisis. Could such hybrid or "combo" products portend a new wave of life-cycle type products?

A relatively new and significant development in the diagnosis and management of Alzheimer's disease is the identification of a genetic marker, apolipoprotein E (APOE), which can predict the risk of developing Alzheimer's disease as much as seven years earlier than currently available tests. A blood test is expected to be available to researchers and physicians in the next year. The test is an improvement over previous tests, which require expensive imaging techniques or invasive extractions of spinal fluids.

Earlier diagnosis allows individuals to plan for the future and take preventive measures. However, if the test results are part of the client's medical records, purchasing long-term care insurance (LTCI) may become more expensive or unavailable as carriers would have to rate such applicants.

The Genetic Information Nondiscrimination Act (GINA) of 2008 prohibits the use of genetic information for underwriting or setting health insurance premiums. The Act does not currently apply to life insurance, disability, or long term care. Insurers cannot require genetic testing, but if the results become part of the medical records, the insurer may reflect this in their decision to provide insurance.

As APOE is a relatively new marker, we don't know how credible the test is or how a positive result translates into mortality or morbidity. Still, it provides an opportunity for the life insurance industry to revisit the challenges in providing older-age products.

Figure 1
Alzheimer's Disease in Brief

Accounts for 60%-80% of all dementia cases
5.2 million diagnosed cases, including over 200,000 under age 65
500,000 deaths annually
Affects women by a 2:1 ratio (68% of cases)
17.7 billion hours of unpaid caregiving annually, from more than 15.5 million caregivers
Annual cost to economy about $220 billion
Codependency issues – higher incidence of stress and depression among caregivers
(Source: Alzheimer's Disease Facts and Figures, 2014. Alzheimer's Association)

LEARNING FROM THE PAST

LTCI came to market in the early 1980s, but product pricing missed the mark in a big way. Many insurers still have in-force blocks on their books and continue to face losses. Most companies left the individual LTCI market completely: By 2013, according to LIMRA, about 36 companies offered individual LTCI, and five accounted for nearly 75% of new business.

Still, the underlying need for these products is growing, and insurers understand that this market presents a real opportunity for organic growth. Companies currently in the market have introduced significant design changes and higher rates. They have tied benefit triggers more closely to need – replacing the activities of daily living (ADL) trigger with the more challenging independent activities of daily living (IADL) – and eliminated lifetime benefits in favor of shorter benefit periods. Lastly, they have moved to a per-diem compensation approach, one that encourages the insured to seek an affordability/level-of-care balance. While underwriting experience continues to develop, companies have learned much about how to classify an applicant, and the Alzheimer's test mentioned above may be helpful in the future.

Product changes and premium hikes have caused new business to fall, with premiums falling 30% in 2013 to $406 million. There was relatively no change in terms of lives covered on an inforce basis from 2012 to 2013 (U.S. Individual Long-Term Care Insurance: Annual Review 2013. LIMRA International, 2014.).

REINSURER INVOLVEMENT

Reinsurer participation in the LTCI market was limited over the first wave of products, as many companies lacked sufficient experience to properly assess the products' performance. Recently, however, reinsurers have begun to enter this market.

MOVING TO A LIFE-CYCLE APPROACH

One of the challenges associated with the current wave of LTCI policies is the relatively high premium. A promising development has been the introduction of accelerated death benefit (ADB) riders to permanent life insurance policies with payouts that mimic LTCI. These so-called "combo" products come at a small additional premium and transform the underlying life insurance policy into something more akin to a life-cycle policy. Benefits are triggered and paid similarly to current LTCI products. Total benefits available are a percentage of the life insurance policy's face amount and vary by company (Figure 2). Some companies offer an extension of benefit rider which pays out additional LTC benefits once the payouts from the ADB have been exhausted. A monthly benefit is elected and a benefit period is selected. One company offers a lifetime benefit period on the rider, which is the most comprehensive option available to the consumer.

While growth in stand-alone individual LTCI policies has fallen, interest in such combo products has been robust. According to LIMRA's "Individual Life Combination Products 2013 Annual Review," 2013 marked the fifth consecutive year of double-digit growth in such plans, even through the heart of the financial crisis. About 98,000 policies were issued, with new-business premium of more than $2.6 billion – six times the premium income from stand-alone LTCI products in the same year. Average face amount for recurring-premium policies was $350,000, with an average annual premium of about $8,850. By far the most popular chassis for this rider is universal life, though variable life policies saw the highest new business growth rate in 2013 (128%).

REINSURER INVOLVEMENT

Life reinsurers have demonstrated varying degrees of participation in combo products. Depending on the structure of the

Figure 2
Benefits Structure

John Smith, a 70 y/o N/S Male, applies for $1 million of permanent life insurance with a chronic illness rider. John's chronic illness benefits provide for 2.5% of the face amount per month. Subsequent obligations are dependent on the type of rider he chooses. At age 83, John suffers a stroke and is unable to perform two ADLs, qualifying for the chronic illness benefit. (Note: for illustrative purposes only)			
	Discounted Death Benefit	Policy Lien	Rider Premium
Premium	Standard premium for underlying policy	Standard premium for underlying policy	Standard premium for underlying policy, plus premium for Chronic Illness Rider
Rider Benefit at Time of Claim (Age 83)	$300,000/year ($1m*.025*12), until discounted death benefit is depleted	$300,000/year, until the death benefit is reached	$300,000/year or IRS maximum LTC per diem disbursement, whichever is less, until death benefit is depleted
Repayment schedule	Policies with such riders usually include a waiver-of-premium (WP) provision, triggered by the first disbursement; no repayment	Continued premium payment (unless WP provision, then zero). Will be required to repay loan according to repayment schedule	Policies with such riders usually include a WP provision, triggered by the first disbursement; no repayment
Resulting Death Benefits	Any remaining face amount available at time of death	The life insurance policy's death benefit, less outstanding loan principal	Any remaining face amount available at time of death

Figure 3
Top Causes of Long-Term Care

Dementia/Alzheimer's disease	~25%
Stroke	9%
Arthritis	9%
Injury/Accident	9%
Cancer	8%
Nervous disorders (e.g., Parkinson's disease)	6%
Respiratory diseases	5%
(Source: American Association for Long-Term Care Insurance)	

ADB, a reinsurer may prefer to reinsure the rider alone, the underlying mortality (but not the rider) or the product as a whole.

All of these products incorporate a waiver-of-premium (WP) provision if the ADB is triggered. As a result, the difference between assuming the underlying mortality risk or the product risk as a whole is small. Because of the WP provision, we assume full death benefits will eventually be paid. The key difference, then, amounts to a cash flow issue. The face amount will be paid in its entirety. For pure mortality coverage, the reinsurer pays under terms similar to any other pure life reinsurance coverage. If the reinsurer participates on the rider it may pay out some portion of the death benefits early (per treaty terms), with the remaining balance paid upon death – just as the direct writer pays. The math comes in, then, by estimating the number of insureds who will file for the ADB and the time-value-of-money impact on claims payments.

CONCLUSION

Today's combo products are simpler than the first generation of LTCI policies and, if attached to a life insurance policy's death benefits, help the insurer more accurately quantify its risk. At the same time, this simpler product helps meet an important consumer and growing societal need. It is in effect a life-cycle product, providing valuable benefits while the insured is alive, and ensuring that premature death also is covered. As the number of Baby Boomers retiring continues to increase each year, the market is ripe for such a product, and sales figures seem to confirm this point. ■

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